

OJSC Volga TGC

**Consolidated Financial Statements
for the year ended 31 December 2011**

Contents

| | |
|--|----|
| Independent Auditors' Report | |
| Consolidated Statement of Comprehensive Income | 5 |
| Consolidated Statement of Financial Position | 6 |
| Consolidated Statement of Cash Flows | 8 |
| Consolidated Statement of Changes in Equity | 10 |
| Notes to the Consolidated Financial Statements | 12 |



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Independent Auditors' Report

Board of Directors of
OJSC Volga TGC

We have audited the accompanying consolidated financial statements of Open Joint Stock Company Volga TGC (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO KPMG

ZAO KPMG

11 May 2012

OJSC Volga TGC
Consolidated Statement of Comprehensive Income for the year ended 31 December 2011
(in thousands of Russian roubles)

| | Note | 2011 | 2010 |
|---|------|------------------|------------------|
| Revenue | 8 | 66,936,970 | 58,587,250 |
| Operating expenses | 9 | (67,424,876) | (54,194,388) |
| Other operating income | | 188,972 | 499,833 |
| Operating (loss)/profit | | (298,934) | 4,892,695 |
| Finance income | 10 | 631,370 | 987,196 |
| Finance costs | 10 | (80,089) | (60,152) |
| Profit before income tax | | 252,347 | 5,819,739 |
| Income tax expense | 11 | (483,704) | (1,065,189) |
| (Loss)/profit for the year | | (231,357) | 4,754,550 |
| Other comprehensive income | | | |
| Net change in fair value of available-for-sale financial assets (net of income tax) | | (28,979) | 13,389 |
| Other comprehensive income for the year, net of income tax | | (28,979) | 13,389 |
| Total comprehensive income for the year | | (260,336) | 4,767,939 |
| Profit attributable to: | | | |
| Owners of the Company | | (234,314) | 4,754,550 |
| Non-controlling interests | | 2,957 | - |
| (Loss)/profit for the year | | (231,357) | 4,754,550 |
| Total comprehensive income attributable to: | | | |
| Owners of the Company | | (263,293) | 4,767,939 |
| Non-controlling interests | | 2,957 | - |
| Total comprehensive income for the year | | (260,336) | 4,767,939 |

Earnings per share

| | | | |
|----------------------------------|----|---------|-------|
| Basic earnings per share (RUB) | 21 | (0.008) | 0.158 |
| Diluted earnings per share (RUB) | 21 | (0.008) | 0.158 |

These consolidated financial statements were approved by management of the Group on 11 May 2012 and were signed on its behalf by:

Director on Economics and Finance of CJSC "IES"



T.E. Kuprianova

General director of LLC "UFS"



I.G. Troshkin

OJSC Volga TGC
Consolidated Statement of Financial Position as at 31 December 2011
(in thousands of Russian roubles)

| | Note | 2011 | 2010 |
|---------------------------------|------|-------------------|-------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 12 | 48,181,370 | 46,452,708 |
| Intangible assets | 13 | 1,791,502 | 933,864 |
| Investments | 14 | 48,231 | 78,077 |
| Deferred tax assets | 15 | 39,953 | 787 |
| Other non-current assets | 16 | 213,943 | 2,356,012 |
| Total non-current assets | | 50,274,999 | 49,821,448 |
| Current assets | | | |
| Inventories | 17 | 2,501,019 | 1,816,305 |
| Current tax assets | | 579,791 | 34,660 |
| Trade and other receivables | 18 | 12,479,547 | 8,678,760 |
| Investments | 14 | 4,863,453 | 4,753,615 |
| Cash and cash equivalents | 19 | 3,032,881 | 5,008,436 |
| Other currents assets | 20 | 652,410 | 559,504 |
| Total current assets | | 24,109,101 | 20,851,280 |
| Total assets | | 74,384,100 | 70,672,728 |

OJSC Volga TGC
Consolidated Statement of Financial Position as at 31 December 2011
(in thousands of Russian roubles)

| | Note | 2011 | 2010 |
|---|------|------------|------------|
| EQUITY AND LIABILITIES | | | |
| Equity | 21 | | |
| Share capital | | 30,011,860 | 30,011,860 |
| Additional capital | | 8,718,488 | 8,718,488 |
| Available-for-sale investments revaluation reserve | | (32,789) | (3,810) |
| Retained earnings | | 14,005,911 | 14,243,353 |
| Equity attributable to owners of the Company | | 52,703,470 | 52,969,891 |
| Non-controlling interests | | 5,593 | - |
| Total equity | | 52,709,063 | 52,969,891 |
| Non-current liabilities | | | |
| Loans and borrowings | 22 | 3,590,276 | 750 |
| Deferred tax liabilities | 15 | 3,833,842 | 3,826,138 |
| Employee benefits | 23 | 1,280,081 | 1,325,322 |
| Other non-current liabilities | | 5,431 | 8,387 |
| Total non-current liabilities | | 8,709,630 | 5,160,597 |
| Current liabilities | | | |
| Loans and borrowings | 22 | 6,610,535 | 4,802,847 |
| Trade and other payables | 25 | 5,522,436 | 7,408,550 |
| Provisions | 24 | 804,654 | 201,738 |
| Current tax liabilities | | 27,782 | 129,105 |
| Total current liabilities | | 12,965,407 | 12,542,240 |
| Total liabilities | | 21,675,037 | 17,702,837 |
| Total equity and liabilities | | 74,384,100 | 70,672,728 |

OJSC Volga TGC
Consolidated Statement of Cash Flows for the year ended 31 December 2011
(in thousands of Russian roubles)

| | 2011 | 2010 |
|---|------------------|------------------|
| OPERATING ACTIVITIES | | |
| Profit before income tax | 252,347 | 5,819,739 |
| <i>Adjustments for:</i> | | |
| Depreciation and amortisation | 3,310,422 | 3,235,585 |
| Allowance for bad and doubtful debts | 1,892,084 | 563,641 |
| (Decrease)/increase in liability for defined benefit plans | (45,241) | 6,267 |
| Loss on disposal of property, plant and equipment and intangible assets | 114,613 | 184,607 |
| Impairment of goodwill | 666,072 | - |
| Finance income | (631,370) | (987,196) |
| Finance costs | 80,089 | 60,152 |
| Net loss from sale of trade receivables | - | 222,579 |
| Write-off of trade receivables | 3,050 | 107,981 |
| Accrual of provisions | 602,916 | 99,833 |
| Other loss/(income) | 81,137 | (104,395) |
| Operating profit before changes in working capital and income tax paid | 6,326,119 | 9,208,793 |
| (Increase)/decrease in inventories | (684,714) | 318,227 |
| Increase in trade and other receivables | (4,351,830) | (2,324,340) |
| Increase/(decrease) in trade and other payables | 1,599,613 | (550,434) |
| (Increase)/decrease in other current assets | (92,906) | 252,674 |
| Cash flows from operations before income taxes and interest paid | 2,796,282 | 6,904,920 |
| Income taxes paid | (1,064,160) | (1,285,504) |
| Interest paid | (439,933) | (273,471) |
| Cash flows from operating activities | 1,292,189 | 5,345,945 |

OJSC Volga TGC
Consolidated Statement of Cash Flows for the year ended 31 December 2011
(in thousands of Russian roubles)

| | 2011 | 2010 |
|--|--------------------|--------------------|
| INVESTING ACTIVITIES | | |
| Proceeds from disposal of investments | 44,834 | 18,297 |
| Proceeds from sale of property, plant and equipment | 12,833 | 33,469 |
| Acquisition of property, plant and equipment and intangible assets | (6,178,834) | (6,422,929) |
| Placement of bank deposit | - | (1,000) |
| Withdrawal of bank deposit | - | 57,000 |
| Acquisition of investments | - | (16,162) |
| Loans issued | - | (2,500) |
| Interest received | 83,207 | 302,317 |
| Repayment of loans issued | - | 442,630 |
| Dividends received | 354 | - |
| Cash and cash equivalents of acquired companies | 194,021 | - |
| Prepayment for acquisition of shares (see Note 16) | - | (2,128,442) |
| Cash flows utilized by investing activities | (5,843,585) | (7,717,320) |
| FINANCING ACTIVITIES | | |
| Proceeds from borrowings | 27,421,073 | 17,925,419 |
| Repayment of borrowings | (24,838,523) | (17,074,237) |
| Dividends paid | (6,709) | (141) |
| Cash flows from financing activities | 2,575,841 | 851,041 |
| Net decrease in cash and cash equivalents | (1,975,555) | (1,520,334) |
| Cash and cash equivalents at beginning of year | 5,008,436 | 6,528,770 |
| Cash and cash equivalents at end of year (note 19) | 3,032,881 | 5,008,436 |

| | Attributable to equity holders of the Company | | | | | |
|---|---|--------------------|---|-------------------|--------------------------|--------------|
| | Share capital | Additional capital | Fair value reserve for available-for-sale investments | Retained earnings | Non-controlling interest | Total equity |
| Balance at 1 January 2010 | 30,011,860 | 8,718,488 | (17,199) | 9,504,967 | - | 48,218,116 |
| Total comprehensive income for the year | | | | | | |
| Profit for the year | - | - | - | 4,754,550 | - | 4,754,550 |
| Other comprehensive income | | | | | | |
| Net change in fair value for available –for-sale financial assets (net of income tax) | - | - | 13,389 | - | - | 13,389 |
| Total other comprehensive income, net of income tax | - | - | 13,389 | - | - | 13,389 |
| Total comprehensive income for the year | - | - | 13,389 | 4,754,550 | - | 4,767,939 |
| Transactions with owners, recorded directly in equity | | | | | | |
| Other movements | - | - | - | (16,164) | - | (16,164) |
| Total transactions with owners | - | - | - | (16,164) | - | (16,164) |
| Balance at 31 December 2010 | 30,011,860 | 8,718,488 | (3,810) | 14,243,353 | - | 52,969,891 |

OJSC Volga TGC
Consolidated Statement of Changes in Equity for the year ended 31 December 2011
(in thousands of Russian roubles)

| | Attributable to equity holders of the Company | | | | | Total equity | |
|--|---|--------------------|---|-------------------|------------|--------------|--------------------------|
| | Share capital | Additional capital | Fair value reserve for available-for-sale investments | Retained earnings | Total | | Non-controlling interest |
| Balance at 1 January 2011 | 30,011,860 | 8,718,488 | (3,810) | 14,243,353 | 52,969,891 | - | 52,969,891 |
| Total comprehensive income for the year | - | - | - | (234,314) | (234,314) | 2,957 | (231,357) |
| Profit for the year | | | | | | | |
| Other comprehensive income | | | | | | | |
| Net change in fair value for available-for-sale financial assets (net of income tax) | - | - | (28,979) | - | (28,979) | - | (28,979) |
| Total other comprehensive income, net of income tax | - | - | (28,979) | - | (28,979) | - | (28,979) |
| Total comprehensive income for the year | - | - | (28,979) | (234,314) | (263,293) | 2,957 | (260,336) |
| Transactions with owners, recorded directly in equity | | | | | | | |
| Other movements | - | - | - | (3,128) | (3,128) | - | (3,128) |
| Acquisition of subsidiary with non-controlling interest | - | - | - | - | - | 3,489 | 3,489 |
| Dividends paid | - | - | - | (3,128) | (3,128) | (853) | (492) |
| Total transactions with owners | - | - | - | (3,128) | (3,128) | 2,636 | (492) |
| Balance at 31 December 2011 | 30,011,860 | 8,718,488 | (32,789) | 14,005,911 | 52,703,470 | 5,593 | 52,709,063 |

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 12 to 60.

1 Background

(a) The Group organisation and its operations

Open Joint Stock Company Volga Territorial Generating Company (OJSC Volga TGC, or the "Company") was established on 1 August, 2005 within the framework of the Russian electricity sector restructuring.

The Group Volga TGC (the "Group") comprises 17 thermoelectric power stations, 5 heat networks and 2 regional state power stations. The Group consists of OJSC Volga TGC and 13 subsidiaries, presented in Note 31. The Group's major subsidiary is Open Joint Stock Company Orenburg Heat Generating Company (hereinafter Orenburg TGC).

The Company's shares are traded on the OJSC MICEX-RTS.

The Group's principle activity is electricity and heat generation.

The Company's registered office is 15, Mayakovskogo str., 443100, Samara, Russia.

(b) Relations with the State and its influence on the Group's activities

As at 31 December 2011 the following shareholders owned OJSC Volga TGC: OJSC INTER RAO UES (18.04%), CJSC INTER RAO Capital (6.95%), Integrated energy systems ("IES") group companies (44.20%) ("Main Shareholder"), other minority shareholders (30.81%).

None of these shareholders was the ultimate controlling party of the Group as at 31 December 2011 (31 December 2010: IES group).

Among the consumers of electricity and heat power of the Group are key entities controlled by, or related to, the state. Furthermore, the state controls a number of the Group's fuel and other materials suppliers (see Note 30).

The government of the Russian Federation directly affects the Group's operations through regulation by the Federal Service on Tariffs (FST), with respect to its wholesale energy sales, and by the regional services on tariffs (RSTs), with respect to its retail electricity and heat sales.

Tariffs which the Group may charge for sales of electricity and heat are governed both by regulations specific to the electricity and heat industry and by regulations applicable to natural monopolies.

2 Basis of preparation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that financial investments classified as available-for-sale are stated at fair value. Property, plant and equipment was revalued to determine deemed cost as part of the adoption of IFRSs.

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian ruble (“RUB”), which is functional currency of the Company and its subsidiaries and the currency in which these consolidated financial statements are presented. All financial information presented in Russian rubles has been rounded to the nearest thousand.

(d) Use of estimates and judgments

Management has made a number of judgments, estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with IFRSs. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

- Note 12 – *Property, Plant and Equipment* in respect of determination of deemed cost, impairment and useful economic lives of Property, Plant and Equipment;
- Note 18 and 26(a) – *Trade and other receivables* in respect of determination of allowance for doubtful debts;
- Note 15(a)– *Deferred tax assets and liabilities*;
- Note 23– *Employee benefits*;
- Note 29 – *Contingencies*.

(e) Changes in accounting policies and presentation

With effect from 1 January 2011, the Group changed its accounting policies in disclosure of information about related parties.

From 1 January 2011 the Group has applied revised IAS 24 Related Party Disclosures (2009). As the Group is a government-related entity it applies the exemption on disclosure of information about transactions with entities that are related parties because the Government of Russian Federation has control, joint control or significant influence both over them and the Group.

The Group discloses a share of sales to government-related entities and share of key purchases from such entities as quantitative indications of related-parties transactions.

The comparative disclosures were changed retrospectively as if new policies had been applied since the beginning of the earliest period presented. As this change affected disclosures only, there were no any changes in earnings per share.

3 Significant accounting policies

Significant accounting policies that have been applied in the preparation of the consolidated financial statements are described in Note 3(a) to 3(w). These accounting policies have been consistently applied except as explained in Note 2 (e), which addresses changes in accounting policies.

(a) Basis of consolidation

(i) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

The Group measures goodwill at the acquisition date as:

- The fair value of the consideration transferred; plus
- The recognised amount of any non-controlling interests in the acquiree; less
- The net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Transaction costs that the Group incurs in connection with a business combination are expensed as incurred.

(ii) Accounting for acquisitions of non-controlling interests

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result. Adjustments to non-controlling interests arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

(iii) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

(iv) Transactions among entities under common control

A business combination involving entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party both before and after the business combination, and that control is not transitory.

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Company are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are restated. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the entity's IFRS financial statements. The components of equity of the acquired entities are added to the same components within Group equity except that any share capital of the acquired entities is recognised as part of retained earnings. Any cash paid for the acquisition is recognised directly in equity.

Any gain/loss on disposals involving entities or businesses under common control is recognised directly in equity.

(v) *Associates (equity accounted investees)*

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Associates are accounted for using the equity method. The consolidated financial statements include the Group's share of the income and expenses of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date when significant influence commences until the date when significant influence ceases. When the Group's share of losses exceeds its interest in an associate, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued, except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(vi) *Transactions eliminated on consolidation*

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) *Foreign currency transactions*

Transactions in foreign currencies are translated to Russian rubles at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to Russian rubles at the exchange rate at that date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to Russian rubles at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments.

(c) *Non-derivative financial instruments*

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Cash comprises cash in hand and cash deposited on demand at banks. Cash equivalents comprise short-term high liquid investments that are readily convertible into cash and have a maturity of three months or less from the date of acquisition and are subject to insignificant changes in value.

Held-to-maturity investments

If the Group has the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held-to-maturity financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held-to-maturity financial assets are measured at amortised cost using the effective interest method, less any impairment losses.

Gains and losses through the amortisation process are recognised in profit or loss as finance income and finance expenses.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see note 3(j)(i)) and foreign currency differences on available-for-sale equity instruments (see note 3(b)), are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised or impaired, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

Financial assets at fair value through profit or loss

An instrument is classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Upon initial recognition attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

Loans and receivables

Loans given, trade and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term loans and receivables when the recognition of interest would be immaterial.

Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses. Investments in equity securities that are not quoted on a stock exchange and where fair value cannot be estimated on a reasonable basis by other means are stated at cost less impairment losses.

(d) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment, except for land, are measured at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment at 1 January 2005, the date of transition to IFRSs, was determined by reference to its fair value at that date ("deemed cost").

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Furthermore, borrowing costs that are directly attributable to the acquisition or production of qualifying assets and purchased software that is integral to the functionality of the related equipment are capitalised as part of these assets. Repair and maintenance expenses are charged to profit or loss as incurred.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are recognised net within "Other operating income" in profit or loss.

Social assets are not capitalized as they are not expected to result in future economic benefits to the Company. Costs associated with fulfilling the Company's social responsibilities are expensed as incurred.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Items of property, plant and equipment which have been valued at 1 January 2005 are depreciated over the remaining useful lives determined as of that date. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

| | |
|---------------------------|-------|
| • Buildings | 10-40 |
| • Machinery and equipment | 10-40 |
| • Transport | 3-20 |
| • Electricity network | 20-40 |
| • Water supply networks | 10-40 |
| • Gas network | 10-40 |
| • Heating network | 5-20 |
| • Other | 3-20 |

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

(e) Intangible assets

(i) Goodwill

Goodwill that arises on the acquisition of subsidiaries is included in intangible assets. For the measurement of goodwill at initial recognition, see note 3(a)(i).

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. In respect of equity-accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the equity-accounted investee.

(ii) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new technical knowledge and understanding, is recognized in profit or loss when incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalized includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognized in profit or loss when incurred.

Capitalized development expenditure is measured at cost less accumulated amortization and accumulated impairment losses.

(iii) Other intangible assets

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortization and accumulated impairment losses.

(iv) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

(v) Amortization

Amortisation is recognised in the statement of comprehensive income on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

| | |
|---------------------------------|------|
| • Computer software | 3-10 |
| • Licenses | 2-5 |
| • Capitalized development costs | 1-5 |

(f) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's balance sheet.

(g) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories includes all actual acquisition costs and other costs incurred to bring inventories to their existing condition and location. The cost of fuel is determined using the weighted average cost method. The cost of other inventories is determined using the actual cost method.

Net realizable value is the estimated selling price in the ordinary course of business, less selling expenses.

Allowances are recorded against slow moving and obsolete inventories.

(h) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, is net of any tax effects, and is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to / from retained earnings.

(i) Borrowings

Borrowings are recognised initially at their fair value. Fair value is determined using the prevailing market rate of interest for similar instruments, if significantly different from the transaction price. In subsequent periods, borrowings are stated at amortised cost using the effective interest rate; any difference between the fair value of the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss as a finance cost over the period of the debt obligation.

(i) Impairment

(i) *Financial assets*

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in other comprehensive income and presented in the fair value reserve in equity is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised in other comprehensive income.

(ii) *Non-financial assets*

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

The Group's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the cash generating unit to which the corporate asset belongs.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(k) Dividends payable

Dividends are recognised as a liability in the period in which they are authorised by the shareholders. Dividends are disclosed in financial statements when they are declared after the balance sheet date, but before the financial statements are authorized for issue.

(l) Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a non-state pension fund and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans, including Russia's State pension fund, are recognised in profit or loss when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(ii) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and any unrecognised past service costs are deducted. The discount rate is the yield at the reporting date on Russian government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the net total of any unrecognised past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised in statement of comprehensive income on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in profit or loss.

Actuarial gains or losses arising from experience adjustments and changes in actuarial assumptions in excess of greater of 10% of the value of plan assets or 10% of the defined benefit obligations are charged or credited to profit or loss over the employees' expected average remaining working lives.

(iii) Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed using the projected unit credit method. Any actuarial gains or losses are recognised in profit or loss in the period in which they arise.

(iv) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or unused vacations if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(m) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Future operating costs are not provided for. The unwinding of discount is recognised as finance cost.

(n) Environmental obligations

Liabilities for environmental remediation are recorded in accounting in the presence of such obligations, when the payment is probable and reliable estimates exist.

(o) Revenue

Revenue is recognised on the delivery of electricity and heat, and provision of services. Revenue amounts are presented exclusive of VAT. Revenue on the regulated market segment is based on the application of authorized tariffs for electricity and heat as approved by the Federal Service on Tariffs and the Regional Energy Commission.

(p) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the contingency no longer exists and the lease adjustment is known.

(q) Social expenditure

To the extent that the Group's contributions to social programs benefit the community at large and are not restricted to the Group's employees, they are recognised in profit or loss as incurred.

(r) Finance income and costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), gains on the disposal of available-for-sale financial assets, foreign currency gains, unwinding of the discount on trade and other receivables and the effect of discounting of borrowings and accounts payable. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, finance lease interest cost and the effect of discounting of trade and other receivables, foreign currency losses, losses on disposal of available for sale financial assets and impairment losses recognised on financial assets (except for accounts receivable). All borrowing costs are recognised in profit or loss using the effective interest method, except for borrowing costs related to qualifying assets, which are recognised as part of the cost of such assets.

Foreign currency gains and losses are reported on a net basis.

(s) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences

when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

In determining the amount of current and deferred tax the Group takes into account the impact of uncertain tax positions and whether additional taxes, penalties and late-payment interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the tax expense in the period that such a determination is made.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

In accordance with the tax legislation of the Russian Federation, tax losses and current tax assets of a company in the Group may not be set off against taxable profits and current tax liabilities of other Group companies. In addition, the tax base is determined separately for each of the Group's main activities and, therefore, tax losses and taxable profits related to different activities cannot be offset.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(t) Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

(u) Seasonality

Demand for electricity and heat is influenced both the season of the year and the relative severity of weather. Revenues from heating are concentrated within the months of October to March. A similar, through less severe, concentration of electricity sales occurs within the same period. The seasonality of electricity and heat production has a corresponding impact of the usage of fuel and the purchase of power.

Furthermore, during the periods of lower production from April to September, there is an increase in the expenditures on repairs and maintenance. This seasonality does not impact the revenue or cost recognition policies of the Group.

(v) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the chief operating decisions maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the chief operating decisions maker include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly head office revenue, EBITDA, assets and liabilities.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment.

Inter-segment pricing is determined on an arm's length basis.

(w) New financial reporting standards

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2011, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective.

- IAS 19 (2011) *Employee Benefits*. The amended standard will introduce a number of significant changes to IAS 19. First, the corridor method is removed and, therefore, all changes in the present value of the defined benefit obligation and in the fair value of plan assets will be recognised immediately as they occur. Secondly, the amendment will eliminate the current ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss. Thirdly, the expected return on plan assets recognised in profit or loss will be calculated based on the rate used to discount the defined benefit obligation. The amended standard shall be applied for annual periods beginning on or after 1 July 2013 and early adoption is permitted. The amendment generally applies retrospectively.
- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2015. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during 2012. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Group does not intend to adopt this standard early.
- IFRS 10 *Consolidated Financial Statements* will be effective for annual periods beginning on or after 1 January 2013. The new standard supersedes IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 introduces a single control model which includes entities that are currently within the scope of SIC-12 *Consolidation – Special Purpose Entities*. Under the new three-step control model, an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with that

investee, has the ability to affect those returns through its power over that investee and there is a link between power and returns. Consolidation procedures are carried forward from IAS 27 (2008). When the adoption of IFRS 10 does not result a change in the previous consolidation or non-consolidation of an investee, no adjustments to accounting are required on initial application. When the adoption results a change in the consolidation or non-consolidation of an investee, the new standard may be adopted with either full retrospective application from date that control was obtained or lost or, if not practicable, with limited retrospective application from the beginning of the earliest period for which the application is practicable, which may be the current period. Early adoption of IFRS 10 is permitted provided an entity also early-adopts IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011).

- IFRS 12 *Disclosure of Interests in Other Entities* will be effective for annual periods beginning on or after 1 January 2013. The new standard contains disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The expanded and new disclosure requirements aim to provide information to enable the users to evaluate the nature of risks associated with an entity's interests in other entities and the effects of those interests on the entity's financial position, financial performance and cash flows. Entities may early present some of the IFRS 12 disclosures early without a need to early-adopt the other new and amended standards. However, if IFRS 12 is early-adopted in full, then IFRS 10, IFRS 11, IAS 27 (2011) and IAS 28 (2011) must also be early-adopted.
- IFRS 13 *Fair Value Measurement* will be effective for annual periods beginning on or after 1 January 2013. The new standard replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It provides a revised definition of fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurement that currently exist in certain standards. The standard is applied prospectively with early adoption permitted. Comparative disclosure information is not required for periods before the date of initial application.
- Amendment to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income*. The amendment requires that an entity present separately items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss. Additionally, the amendment changes the title of the statement of comprehensive income to statement of profit or loss and other comprehensive income. However, the use of other titles is permitted. The amendment shall be applied retrospectively from 1 July 2012 and early adoption is permitted.
- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2012. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Investments in equity securities

The fair value of available-for-sale financial assets is determined by reference to their weighted average quoted bid price on the most liquid market during the 3 months before the reporting date. Appropriate liquidity-related discounts are applied to arrive to the fair value. For available-for-sale investments, which are not publicly traded or listed on a stock exchange, fair value is estimated by reference to a variety of methods including those based on their earnings and those using the discounted value of estimated future cash flows.

(b) Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

(c) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

5 Financial risk management

(a) Overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and related parties' promissory notes.

(i) Trade and other receivables

Credit risks related to receivables are reviewed at each reporting date, to assess the need to create the allowance for impairment of receivables. Gross receivables less the allowance for impairment of receivables represent the maximum amount exposed to credit risk. Although collection of receivables can be influenced by economic factors, Group management believes that there is no significant risk of loss to the Group beyond the allowance for impairment of receivables already recorded.

(ii) Loans issued

The Group issues loans to related parties for financing and investing activities. Group management believes that the loans issued to related parties are fully recoverable.

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

(d) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group does not apply hedge accounting in order to manage volatility in profit or loss.

Foreign exchange risk

The Group is exposed to currency risk on borrowings that are denominated in a currency other than the Russian Rouble. The currencies in which these transactions primarily are denominated is EURO and USD.

The Group does not have formal arrangements to mitigate foreign exchange risks of the Group's operations.

Interest rate risk

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

Other market price risk

Equity price risk arises from available-for-sale equity securities held by the Group. The primary goal of the Group's investment strategy is to maximize investment returns in order to meet its future capital investment commitments. Material investments within the portfolio are managed on an individual basis and buy and sell decisions are approved by the Board of directors.

(e) Capital management

The Group's principal objective when managing capital risk is to sustain its creditworthiness and a normal level of capital adequacy for doing business as a going concern, in order to ensure returns for shareholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of borrowed capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

There were no changes in the Group's approach to capital management during the year.

The Company and its subsidiaries are subject to external capital requirements that require that their net assets as determined in accordance with Russian Accounting Principles must exceed their charter capital at all times.

6 Segment reporting

The Group has five reportable segments (31 December 2010: two), as described below, which are the Group's strategic business units. The strategic business units offer similar services representing generation and sale of electricity and heat but are managed separately.

CJSC IES performs functions of executive body in accordance with Agreement "On the assignment of authority of the sole executive body of the joint stock company to the management company and the provision of management services".

For each of the strategic business units, the chief operating decisions maker reviews internal management reports on at least a monthly basis.

Repair companies segment include six repair services units. Individually none of them meets any of the quantitative thresholds for determining reportable segments.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before interest expense, income tax, depreciation and amortisation and other expenses (EBITDA) (31 December 2010: segment profit before income tax), as included in the internal management reports that are reviewed by the chief operating decisions maker. EBITDA is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within this industry.

Segment reports are based on the information reported in statutory accounts. Reconciliation of items measured as reported to the chief operating decisions maker with similar items in these consolidated financial statements includes those reclassifications and adjustments that are necessary for financial statements to be presented in accordance with IFRS.

Effective 1 January 2011 the chief operating decisions maker started to analyze internal management report related to three reorganised divisions (Samara division, Saratov division, Ulianovsk division). In 2010 the Company was considered as one component as financial results were analysed for the Company as a whole and were not available in respect of separate divisions. Accordingly, no segment information is restated as at 31 December 2010 as the information is not readily available and the cost to develop it would be excessive.

(i) Information about reportable segments (as included into internal management reports)

| | Orenburg TGC | Samara division | Saratov division | Ulianovsk division | Repair companies | Total |
|---|--------------|-----------------|------------------|--------------------|------------------|-------------|
| Revenues | 13,857,955 | 36,220,519 | 13,254,734 | 7,861,614 | 4,888,711 | 76,083,533 |
| Inter-segment revenue | (2,637) | (107,239) | (79,119) | - | (4,686,179) | (4,875,174) |
| Earnings before income tax adjusted for interest expense, depreciation and amortisation and other expenses (EBITDA) | 1,891,571 | 3,360,082 | (475,951) | 997,244 | 75,054 | 5,848,000 |
| Reportable segment assets | 9,052,337 | 36,039,790 | 9,295,397 | 6,587,420 | 4,381,809 | 65,356,753 |
| Capital expenditure | 309,225 | 4,214,669 | 463,079 | 137,752 | 240 | 5,124,965 |
| Reportable segment liabilities | 1,355,437 | 4,633,364 | 1,017,209 | 398,111 | 3,920,763 | 11,324,884 |

(ii) Reconciliations of reportable segment revenues, profit or loss, assets and liabilities and other material items

| | Orenburg TGC | Samara division | Saratov division | Ulianovsk division | Repair companies | Total |
|---|--------------|-----------------|------------------|--------------------|------------------|-------------|
| Revenues | | | | | | |
| Total revenue for reportable segments | 13,857,955 | 36,220,519 | 13,254,734 | 7,861,614 | 4,888,711 | 76,083,533 |
| Elimination of inter-segment revenue | (2,637) | (107,239) | (79,119) | - | (4,686,179) | (4,875,174) |
| Elimination of revenue under free bilateral contracts | - | (2,897,669) | (797,344) | (641,725) | - | (4,336,738) |
| Unallocated amounts | - | - | - | - | - | 50,545 |
| Other adjustments | - | - | - | - | 14,804 | 14,804 |
| Consolidated revenue | 13,855,318 | 33,215,611 | 12,378,271 | 7,219,889 | 217,336 | 66,936,970 |

| | Orenburg TGC | Samara division | Saratov division | Ulianovsk division | Repair companies | Total |
|--|------------------|------------------|------------------|--------------------|------------------|------------------|
| EBITDA | | | | | | |
| EBITDA per internal management reports | 1,891,571 | 3,360,082 | (475,951) | 997,244 | 75,054 | 5,848,000 |
| Other adjustments | 44,605 | - | - | - | (3,494) | 41,111 |
| Total EBITDA for reportable segments | 1,936,176 | 3,360,082 | (475,951) | 997,244 | 71,560 | 5,889,111 |
| Unallocated amounts | - | - | - | - | - | (1,461,993) |
| Consolidated EBITDA | 11,184 | 1,814 | 82 | - | 668 | 13,748 |
| Interest income | - | - | - | - | (80,089) | (80,089) |
| Interest expense | - | - | - | - | - | - |
| Depreciation and amortisation of property, plant and equipment and intangible assets | (765,746) | (1,634,653) | (396,994) | (303,676) | (12,918) | (3,113,987) |
| Goodwill impairment | (666,072) | - | - | - | - | (666,072) |
| Unallocated amounts | - | - | - | - | - | 440,863 |
| Allowance for impairment of prepayments for property, plant and equipment | - | (514,577) | - | - | - | (514,577) |
| Other expenses | - | (254,657) | - | - | - | (254,657) |
| Consolidated profit before income tax | 515,542 | 958,009 | (872,863) | 693,568 | (20,779) | 252,347 |

Assets

| | |
|---|-------------|
| Assets for reportable segments | 65,356,753 |
| Property, plant and equipment deemed cost adjustment | 3,251,303 |
| Property, plant and equipment depreciation adjustment | (1,293,258) |
| Inter-segment elimination of investments | (2,128,452) |
| Goodwill | 811,730 |
| Inter-segment elimination of intra-group balances | (3,138,581) |
| Other adjustments | 421,164 |
| Unallocated amounts | 11,103,441 |
| Consolidated total assets | 74,384,100 |

Liabilities

| | |
|---|-------------|
| Liabilities for reportable segments | 11,324,884 |
| Adjustment for employee benefits | 1,280,081 |
| Adjustment for deferred taxes | 866,240 |
| Inter-segment elimination of intra-group balances | (3,138,581) |
| Other adjustments | (381,551) |
| Unallocated amounts | 11,723,964 |
| Consolidated total liabilities | 21,675,037 |

Unallocated items comprise mainly revenue, EBITDA, assets and liabilities of the head office.

7 Acquisition of subsidiaries

(a) Acquisition of subsidiaries

On 17 February 2011 the Group obtained control of six repair companies by acquiring the following percentages of equity shares in these companies.

| The Company | Percentage of interest acquired |
|---|------------------------------------|
| OJSC "Ulyanovskenergospetsremont" | 100% |
| OJSC "Saratovskoye proizvodstvennoe remontnoe predpriyatie" | 100% |
| OJSC "Samarskoye proizvodstvenno-remontnoe predpriyatie" | 100% |
| OJSC "Samaraenergospetcremont" | 100% |
| OJSC "Orenburgenergoremont" | 100% |
| OJSC "Engineering centre" | 75% |

Taking control of these companies will enable the Group to optimize its capital and current repair process. The Group also expects to reduce costs through economies of scale.

From the date of acquisition to 31 December 2011 the companies contributed revenue of RUB 213,453 thousand and loss of RUB 135,552 thousand. If the acquisition had occurred on 1 January 2011, management estimates that consolidated revenue would have increased by RUB 42,153 and consolidated loss for the year would have increased by RUB 99,224 thousand. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2011.

(i) **Identifiable assets acquired and liabilities assumed**

The identifiable assets acquired and the liabilities assumed were as follows:

| | OJSC Engineering centre | OJSC Orenburgener goremont | OJSC Samaranergos petcremont | OJSC Samskoye proizvodstvenn o-remontnoe predpriyatie | OJSC Saratovskoye proizvodstvenn oe remontnoe predpriyatie | OJSC Ulyanovskener gospetsremont | Total recognized fair values on acquisition |
|---------------------------------|-------------------------------|----------------------------------|------------------------------------|---|--|--|--|
| Non-current assets | | | | | | | |
| Property, plant and equipment | 2,692 | 41,921 | 36,069 | 48,412 | 231,494 | 11,244 | 371,832 |
| Investments | 25 | - | 5,648 | 30,263 | - | 1,300 | 37,236 |
| Deferred tax assets | 1,009 | 4,864 | 34,000 | 13,461 | - | 429 | 53,763 |
| Other non-current assets | - | 1,235 | - | 4,017 | 113 | - | 5,365 |
| Total non-current assets | 3,726 | 48,020 | 75,717 | 96,153 | 231,607 | 12,973 | 468,196 |
| Current assets | | | | | | | |
| Inventories | 187 | 48,805 | 22,491 | 282,061 | 43,837 | 18,174 | 415,555 |
| Income tax receivable | - | - | - | - | - | - | - |
| Trade and other receivables | 17,203 | 88,184 | 31,599 | 3,354,692 | 128,419 | 23,807 | 3,643,904 |
| Cash and cash equivalents | 2,348 | 1,057 | 17,876 | 145,371 | 25,591 | 1,778 | 194,021 |
| Other current assets | 35 | - | 1,133 | 54,737 | - | - | 55,905 |
| Other taxes receivable | - | - | 763 | 7 094 | - | 19 | 7 876 |
| Total current assets | 19,773 | 138,046 | 73,862 | 3,843,955 | 197,847 | 43,778 | 4,317,261 |

| | OJSC Engineering centre | OJSC Orenburgener goremont | OJSC Samarraenergos petcremont | OJSC Samarskoye proizvodstvennoe predpriyatie | OJSC Saratovskoye proizvodstvennoe remontnoe predpriyatie | OJSC Ulyanovskener gospetsremont | Total recognized fair values on acquisition |
|--|-------------------------------|----------------------------------|--------------------------------------|--|---|--|--|
| Non-current liabilities | | | | | | | |
| Loans and borrowings | - | (4,100) | (30,848) | (2,602,288) | (26,803) | - | (2,664,039) |
| Other non-current liabilities | - | - | - | (25,658) | - | - | (25,658) |
| Deferred tax liabilities | (14) | - | (10,975) | (1,916) | (32,278) | (47) | (45,230) |
| Total non-current liabilities | (14) | (4,100) | (41,823) | (2,629,862) | (59,081) | (47) | (2,734,927) |
| Current liabilities | | | | | | | |
| Income tax payable | - | (1,141) | (640) | (7,620) | - | - | (9,401) |
| Trade and other payables | (5,893) | (110,047) | (95,096) | (900,702) | (125,602) | (37,501) | (1,274,841) |
| Other current liabilities | (3,429) | (6,851) | (51) | (13,173) | (222) | (2,732) | (26,458) |
| Other taxes payable | (206) | (9,825) | (1,010) | (64,800) | (7,564) | (2,296) | (85,701) |
| Total current liabilities | (9,528) | (127,864) | (96,797) | (986,295) | (133,388) | (42,529) | (1,396,401) |
| Net identifiable assets and liabilities | 13,957 | 54,102 | 10,959 | 323,951 | 236,985 | 14,175 | 654,129 |

The trade and other receivables comprise gross contractual amounts due of RUB 3,672,499 thousand, of which RUB 28,595 thousand was expected to be uncollectable at the acquisition date.

(ii) Goodwill

Goodwill was recognised as a result of the acquisition as follows:

| | OJSC Engineering centre | OJSC Orenburgener goremont | OJSC Samaranergos petcremont | OJSC Samaraskoye proizvodstvenn o-remontnoe predpriyatie | OJSC Saratovskoye proizvodstvenn oe remontnoe predpriyatie | OJSC Ulyanovskener gospetsremont | Total |
|---|-------------------------------|----------------------------------|------------------------------------|--|--|--|------------------|
| Total consideration transferred | 27,608 | 373,936 | 63,765 | 1,233,241 | 311,695 | 118,197 | 2,128,442 |
| Fair value of identifiable assets | (13,957) | (54,102) | (10,959) | (323,951) | (236,985) | (14,175) | (654,129) |
| Non-controlling interests, based on their proportionate interest in the recognised amounts of the asset and liabilities of the acquiree | 3,489 | - | - | - | - | - | 3,489 |
| Goodwill | 17,140 | 319,834 | 52,806 | 909,290 | 74,710 | 104,022 | 1,477,802 |

The goodwill is attributable mainly to the skills of acquiree's work force and the benefits expected to be achieved from integrating the companies into the Group's existing business. None of the goodwill recognised is expected to be deductible for income tax purposes.

8 Revenue

| | 2011 | 2010 |
|--|-------------------|-------------------|
| Revenue from sales of electricity | 31,287,042 | 27,979,245 |
| Revenue from sales of heat | 32,019,178 | 27,391,941 |
| Revenue from sales of water supply and water drain | 2,366,977 | 2,613,495 |
| Revenue from services provided | 1,070,027 | 468,843 |
| Revenue from the rent | 193,746 | 133,726 |
| | <u>66,936,970</u> | <u>58,587,250</u> |

9 Operating expenses

| | 2011 | 2010 |
|---|-------------------|-------------------|
| Fuel cost | 39,011,795 | 33 140 642 |
| Wages and other benefits to employees and related taxes | 7,378,030 | 5 350 011 |
| Purchased heat and electricity | 4,805,718 | 2 379 203 |
| Depreciation and amortisation | 3,310,422 | 3 235 585 |
| Material expenses | 1,957,449 | 2 251 935 |
| Water | 1,514,352 | 565 213 |
| Allowance for impairment of accounts receivable | 1,377,507 | 563 641 |
| Repairs and technical maintenance | 1,142,845 | 2 141 284 |
| Management services | 700,596 | 433 948 |
| Impairment of goodwill | 666,072 | - |
| Other taxes and duties, except for income tax | 638,150 | 604 047 |
| License fee | 595,822 | 533 931 |
| Other third party services | 592,785 | 128,114 |
| Rent | 519,843 | 465 384 |
| Allowance for impairment of prepayments for property, plant and equipment | 514,577 | - |
| Transportation services | 491,703 | 279 496 |
| Security services | 288,228 | 216 874 |
| Consulting, legal and information services | 210,409 | 262 746 |
| Insurance expense | 209,194 | 150 124 |
| Gas transportation | 115,995 | 120,245 |
| Loss on disposal of property, plant and equipment and other assets | 114,612 | 361 518 |
| Charity expenses | 81,205 | 106,501 |
| Other payments to employees | 50,581 | - |
| Other expenses | 1,136,986 | 903,946 |
| | <u>67,424,876</u> | <u>54,194,388</u> |

10 Finance income and finance costs

| | 2011 | 2010 |
|---|-----------------|-----------------|
| Recognised in profit or loss | | |
| <i>Finance income</i> | | |
| Interest income | 603,493 | 822,223 |
| Foreign exchange gain, net | 7,093 | 142,815 |
| Effect of discounting | 20,430 | 22,158 |
| Dividend income on available for sale financial assets | 354 | - |
| | <u>631,370</u> | <u>987,196</u> |
| <i>Finance costs</i> | | |
| Interest expense | (80,089) | (60,152) |
| | <u>(80,089)</u> | <u>(60,152)</u> |
| | 2011 | 2010 |
| Recognised in other comprehensive income | | |
| Net change in fair value of available-for-sale investments, net of income tax | (28,979) | 13,389 |
| | <u>(28,979)</u> | <u>13,389</u> |

11 Income tax expense

The Group's applicable tax rate is the income tax rate of 20% (2010: 20%).

| | 2011 | 2010 |
|---|-----------------|------------------|
| <i>Current tax expense</i> | | |
| Current year | 510,158 | 1,477,030 |
| Adjustment for prior periods | (2,387) | (289,562) |
| | <u>507,771</u> | <u>1,187,468</u> |
| <i>Deferred tax benefit (expense)</i> | | |
| Origination and reversal of temporary differences | (24,067) | (122,279) |
| | <u>(24,067)</u> | <u>(122,279)</u> |
| | <u>483,704</u> | <u>1,065,189</u> |

Reconciliation of effective tax rate:

| | 2011 | % | 2010 | % |
|-----------------------------------|----------------|------------|------------------|-----------|
| Profit before income tax | 252,347 | 100 | 5,819,739 | 100 |
| Income tax at applicable tax rate | 50,469 | 20 | 1,163,948 | 20 |
| Non-deductible expenses | 435,622 | 173 | 190,803 | 3 |
| Adjustment for prior periods | (2,387) | (1) | (289,562) | (5) |
| | <u>483,704</u> | <u>192</u> | <u>1,065,189</u> | <u>18</u> |

12 Property, plant and equipment

| <i>Cost/Deemed cost</i> | Land | Electricity network | Water supply network | Heat network | Gas network | Buildings | Machinery and Equipment | Transport | Other | Construction-in-progress, including equipment to be installed and advances | Total |
|--|----------------------------------|---------------------|----------------------|--------------|-------------|------------|-------------------------|------------|-----------|--|------------|
| | Balance at 1 January 2010 | 6,369 | 19,028 | 113,114 | 7,894,749 | 208,637 | 22,581,737 | 13,196,889 | 338,877 | 725,276 | 8,370,003 |
| Additions | 4,140 | - | - | 34,748 | - | 106,298 | 25,327 | 479 | - | 9,050,977 | 9,221,969 |
| Disposals | (17) | - | - | (3,721) | - | (63,283) | (120,940) | (13,308) | (115,550) | (74,464) | (391,283) |
| Transfer | 25,314 | - | 1,811 | 1,145,087 | - | 891,841 | 1,775,748 | 10,394 | 9,604 | (3,859,799) | - |
| Balance at 31 December 2010 | 35,806 | 19,028 | 114,925 | 9,070,863 | 208,637 | 23,516,593 | 14,877,024 | 336,442 | 619,330 | 13,486,717 | 62,285,365 |
| Additions | - | - | - | - | - | - | - | - | - | 5,133,935 | 5,133,935 |
| Acquisitions through business combinations | - | - | 44 | 153,247 | 54 | 171,136 | 25,921 | 16,846 | 1,583 | 3,001 | 371,832 |
| Disposals | (16) | - | - | (1,639) | - | (11,506) | (35,063) | (17,462) | (3,936) | (70,666) | (140,288) |
| Transfer | 5,676 | 1,489 | 5,094 | 552,838 | 5,768 | 302,340 | 885,214 | 21,876 | 23,996 | (1,804,291) | - |
| Balance at 31 December 2011 | 41,466 | 20,517 | 120,063 | 9,775,309 | 214,459 | 23,978,563 | 15,753,096 | 357,702 | 640,973 | 16,748,696 | 67,650,844 |

OJSC Volga TGC
Notes to the Consolidated Financial Statements for the year ended 31 December 2011
(in thousands of Russian roubles)

| | Land | Electricity network | Water supply network | Heat network | Gas network | Buildings | Machinery and Equipment | Transport | Other | Construction-in-progress, including equipment to be installed and advances | Total |
|---|--------|---------------------|----------------------|--------------|-------------|-------------|-------------------------|-----------|-----------|--|--------------|
| | | | | | | | | | | | |
| Accumulated depreciation and impairment losses | | | | | | | | | | | |
| Balance at 1 January 2010 | - | (1,281) | (24,137) | (3,201,516) | (33,328) | (5,037,702) | (3,954,437) | (208,431) | (418,540) | - | (12,879,372) |
| Depreciation charge | - | (611) | (6,671) | (820,289) | (7,648) | (1,189,074) | (985,165) | (39,556) | (77,076) | - | (3,126,090) |
| Disposals | - | - | - | 314 | - | 19,227 | 86,292 | 9,470 | 57,502 | - | 172,805 |
| Balance at 31 December 2010 | - | (1,892) | (30,808) | (4,021,491) | (40,976) | (6,207,549) | (4,853,310) | (238,517) | (438,114) | - | (15,832,657) |
| Depreciation charge | - | (834) | (8,460) | (889,793) | (7,339) | (1,086,141) | (1,068,043) | (44,617) | (63,036) | - | (3,168,263) |
| Disposals | - | - | - | 266 | - | 5,099 | 21,048 | 15,856 | 3,754 | - | 46,023 |
| Impairment loss | - | - | - | - | - | - | - | - | - | (514,577) | (514,577) |
| Balance at 31 December 2011 | - | (2,726) | (39,268) | (4,911,018) | (48,315) | (7,288,591) | (5,900,305) | (267,278) | (497,396) | (514,577) | (19,469,474) |
| Carrying amounts | | | | | | | | | | | |
| At 1 January 2010 | 6,369 | 17,747 | 88,977 | 4,693,233 | 175,309 | 17,544,035 | 9,242,452 | 130,446 | 306,736 | 8,370,003 | 40,575,307 |
| At 31 December 2010 | 35,806 | 17,136 | 84,117 | 5,049,372 | 167,661 | 17,309,044 | 10,023,714 | 97,925 | 181,216 | 13,486,717 | 46,452,708 |
| At 31 December 2011 | 41,466 | 17,791 | 80,795 | 4,864,291 | 166,144 | 16,689,972 | 9,852,791 | 90,424 | 143,577 | 16,234,119 | 48,181,370 |

As at 31 December 2011 construction in progress includes prepayments for property, plant and equipment of RUB 235,607 thousand (as at 31 December 2010: RUB 1,090,104 thousand).

No equipment was pledged as collateral for bank loans as at 31 December 2011 (31 December 2010: RUB 3,104,128 thousand).

The amount of capitalized interest in 2011 was RUB 342,353 thousand (in 2010: RUB 212,249).

Impairment testing

Impairment testing in respect of property, plant and equipment was performed as at 31 December 2011. As a result of impairment testing no impairment loss has been recognised.

13 Intangible assets

| | Goodwill | Computer software | Licenses | Other | Total |
|---|------------------|--------------------------|-----------------|-----------------|--------------------|
| <i>Cost</i> | | | | | |
| Balance at 1 January 2010 | - | 1,116,368 | 4,090 | 109,745 | 1,230,203 |
| Additions | - | 133,251 | - | 7,595 | 140,846 |
| Disposals | - | 2,257 | (539) | (1,718) | - |
| Balance at 31 December 2010 | - | 1,251,876 | 3,551 | 115,622 | 1,371,049 |
| Additions | 1,477,802 | 205,025 | - | 3,389 | 1,686,216 |
| Reclassification | - | 3,343 | - | (3,343) | - |
| Disposals | - | (53,584) | (1,604) | (69,815) | (125,003) |
| Balance at 31 December 2011 | 1,477,802 | 1,406,660 | 1,947 | 45,853 | 2,932,262 |
| <i>Amortisation and impairment losses</i> | | | | | |
| Balance at 1 January 2010 | - | (234,412) | (1,987) | (91,291) | (327,690) |
| Amortisation charge | - | (108,694) | (696) | (105) | (109,495) |
| Reclassification | - | (2,114) | 341 | 1,773 | - |
| Balance at 31 December 2010 | - | (345,220) | (2,342) | (89,623) | (437,185) |
| Amortisation charge | - | (137,302) | (376) | (4,481) | (142,159) |
| Disposals | - | 33,815 | 1,603 | 69,238 | 104,656 |
| Impairment loss | (666,072) | - | - | - | (666,072) |
| Balance at 31 December 2011 | (666,072) | (448,707) | (1,115) | (24,866) | (1,140,760) |
| <i>Carrying amounts</i> | | | | | |
| At 1 January 2010 | - | 881,956 | 2,103 | 18,454 | 902,513 |

| | Goodwill | Computer software | Licenses | Other | Total |
|---------------------|----------|-------------------|----------|--------|-----------|
| At 31 December 2010 | - | 906,656 | 1,209 | 25,999 | 933,864 |
| At 31 December 2011 | 811,730 | 957,953 | 832 | 20,987 | 1,791,502 |

(a) Impairment testing of goodwill

For the purpose of impairment testing, goodwill is allocated to the Group's repair units which represent the lowest level within the Group at which the goodwill is monitored for internal management purposes.

The aggregate carrying amounts of goodwill allocated to each unit and the related impairment losses recognised are as follows:

| '000 RUB | Goodwill 2011 | Impairment 2011 |
|--|------------------|--------------------|
| OJSC "Samarskoye proizvodstvenno-remontnoe predpriyatie" | 909,290 | 642,859 |
| OJSC Orenburgenergoremont | 319,834 | 12,836 |
| OJSC Ulyanovskenergospetsremont | 104,022 | - |
| Units without significant goodwill | 144,656 | 10,377 |
| | 1,477,802 | 666,072 |

The recoverable amount of each unit was based on its value in use. The estimated recoverable amount of OJSC Ulyanovskenergospetsremont exceeds its carrying amount by approximately RUB 47 288 thousand. The carrying amounts of OJSC "Samarskoye proizvodstvenno-remontnoe predpriyatie" (hereinafter OJSC Samarskoye PRP) and OJSC Orenburgenergoremont were determined to be higher than the recoverable amounts and an impairment loss of RUB 642,859 thousand and RUB 12,836 thousand was recognised, respectively. The impairment loss was allocated fully to goodwill, and was included in operating expenses.

Value in use was determined by discounting the future cash flows generated from the continuing use of the units.

(b) Key assumptions used in discounted cash flow projections

Key assumptions used in the calculation of recoverable amounts are discount rates, terminal value growth rates and EBITDA margins. These assumptions are as follows:

| | Discount rate | Terminal value growth rate | Average budgeted EBITDA growth/(reduction) |
|---------------------------------|---------------|-------------------------------|--|
| OJSC Samarskoye PRP | 13.8% | 4% | (16%) |
| OJSC Orenburgenergoremont | 13.8% | 4% | 173% |
| OJSC Ulyanovskenergospetsremont | 13.8% | 4% | 44% |

(i) **Discount rate**

A post-tax discount rate of 13.8% was applied in determining the recoverable amount of the units. The discount rate was estimated based on past experience, and industry average weighted average cost of capital.

(ii) **Terminal value growth rate**

Cash flows were projected based on past experience, actual operating results and business plan in 2012. Cash flows for a further period were extrapolated using a constant growth rate of 4%, which does not exceed the long-term average growth rate for the industry.

(iii) **Budgeted EBITDA growth**

Budgeted EBITDA is expressed as the compound annual growth rates in the initial five years of the plans used for impairment testing and has been based on past experience adjusted for the following:

- OJSC Samarskoye PRP. In 2012 sales volume was projected using the same rate of growth experienced in 2011. Sales volume was assumed to reduce from 2012 to 2016 by 16.9% which is in line with the forecasts.
- OJSC Orenburgenergomont. In 2012 volume was projected using the higher rate of growth experienced in 2011 as the Group expected increase in third party sales. Sales volume was assumed to grow from 2012 to 2016 by 15.49% which is in line with the forecasts.
- OJSC Ulyanovskenergospetsremont. In 2012 sales volume was projected using the same rate of growth experienced in 2011. Sales volume was assumed to grow from 2012 to 2016 by 5.04% which is in line with the forecasts.

(c) **Sensitivity to changes in assumptions**

Management has identified three key assumptions for which there could be a reasonably possible change that could cause the carrying amount to exceed the recoverable amount. The table below shows the amount that these three assumptions are required to change individually in order for the estimated recoverable amount to be equal to the carrying amount.

| | Change required for carrying amount to equal the recoverable amount | | |
|---|--|--------------------------------|--------------------------------------|
| | OJSC Samarskoye PRP | OJSC Orenburg- energoremont | OJSC Ulyanovsk- energospetsremont |
| Post-tax discount rate (decrease)/increase | (6.25%) | (0.3%) | 3.48% |
| Budgeted EBITDA growth (decrease) | 23.55% | 2% | (8.5%) |
| Sales volume growth (decrease) | 1.45% | 0.06% | (0.58%) |

The values assigned to the key assumptions represent management's assessment of future trends in the repairs and technical maintenance business and are based on both external sources and internal sources.

14 Investments

| | 2011 | 2010 |
|--|------------------|------------------|
| <i>Non-current</i> | | |
| Available-for-sale investments at fair value | 48,231 | 78,077 |
| | <u>48,231</u> | <u>78,077</u> |
| | | |
| | 2011 | 2010 |
| <i>Current</i> | | |
| Available-for-sale investments at fair value | 44,638 | 33,802 |
| Short-term originated loans - RUB, fixed at 9% | - | 22,700 |
| Related party promissory notes - USD, fixed at 8.5% | 2,279,155 | 2,157,453 |
| Related party promissory notes - RUB, fixed at 15% | 1,200,000 | 1,200,000 |
| Related party promissory notes - RUB, fixed at 14% | 1,200,000 | 1,200,000 |
| Related party promissory notes of - RUB, fixed at 0% | 139,660 | 139,660 |
| | <u>4,863,453</u> | <u>4,753,615</u> |

The Group's exposure to credit risks related to other investments is disclosed in note 26.

15 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

| | Assets | | Liabilities | | Net | |
|-------------------------------|----------------|---------------|--------------------|--------------------|--------------------|--------------------|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| Property, plant and equipment | - | - | (3,508,035) | (3,627,096) | (3,508,035) | (3,627,096) |
| Trade and other receivables | - | - | (408,970) | (270,782) | (408,970) | (270,782) |
| Provisions | 14,130 | 31,966 | - | - | 14,130 | 31,966 |
| Other items | 121,759 | 43,115 | (12,773) | (2,554) | 108,986 | 40,561 |
| Net tax assets/(liabilities) | <u>135,889</u> | <u>75,081</u> | <u>(3,929,778)</u> | <u>(3,900,432)</u> | <u>(3,793,889)</u> | <u>(3,825,351)</u> |

(b) Unrecognised deferred tax liabilities

A temporary difference of RUB 3,186,671 thousand (31 December 2010: RUB 3,274,939 thousand) relating to investments in subsidiaries has not been recognised as the Group is able to control the timing of reversal of the difference, and reversal is not expected in the foreseeable future.

(c) **Movement in temporary differences during the year**

| | <u>1 January 2010</u> | <u>Recognised in profit or loss</u> | <u>Recognised directly in equity</u> | <u>31 December 2010</u> |
|-------------------------------|-----------------------|---|--|-----------------------------|
| Property, plant and equipment | (3,806,060) | 178,964 | - | (3,627,096) |
| Trade and other receivables | (220,696) | (50,086) | - | (270,782) |
| Provisions | 30,730 | 1,236 | - | 31,966 |
| Other items | 47,668 | (7,835) | 728 | 40,561 |
| | <u>(3,948,358)</u> | <u>122,279</u> | <u>728</u> | <u>(3,825,351)</u> |
| | | | | |
| | <u>1 January 2011</u> | <u>Recognised in profit or loss</u> | <u>Acquisition of subsidiaries</u> | <u>31 December 2011</u> |
| Property, plant and equipment | (3,627,096) | 119,061 | - | (3,508,035) |
| Trade and other receivables | (270,782) | (138,188) | - | (408,970) |
| Provisions | 31,966 | (17,836) | - | 14,130 |
| Other items | 40,561 | 61,030 | 7,395 | 108,986 |
| | <u>(3,825,351)</u> | <u>24,067</u> | <u>7,395</u> | <u>(3,793,889)</u> |

16 Other non-current assets

| | <u>2011</u> | <u>2010</u> |
|--------------------------------------|----------------|------------------|
| Trade and other receivables | 206,729 | 227,542 |
| Advances paid and prepayments | 7,214 | 28 |
| Prepayment for acquisition of shares | - | 2,128,442 |
| | <u>213,943</u> | <u>2,356,012</u> |

In December 2010 the Group made an advance payment of RUB 2,128,442 thousand for acquisition of shares in six companies. On 17 February 2011 the Group obtained control of them (see Note 7).

17 Inventories

| | <u>2011</u> | <u>2010</u> |
|--|------------------|------------------|
| Raw materials and other supplies | 492,609 | 252,926 |
| Fuel | 1,674,919 | 1,405,048 |
| Spare parts | 216,273 | 163,895 |
| Finished goods and goods for resale | 138,088 | 4,202 |
| Total inventories | <u>2,521,889</u> | <u>1,826,071</u> |
| Less: Provisions for obsolescence of inventories | <u>(20,870)</u> | <u>(9,766)</u> |
| | <u>2,501,019</u> | <u>1,816,305</u> |

18 Trade and other receivables

| | 2011 | 2010 |
|---|-------------------|------------------|
| Trade receivables | 11,649,399 | 7,940,556 |
| Other receivables | 1,408,782 | 1,094,488 |
| Amounts due from entity under control of Main Shareholder (see Note 30) | 1,817,456 | 917,019 |
| Total receivables | 14,875,637 | 9,952,063 |
| Less: Allowance for impairment of accounts receivable | (2,396,090) | (1,273,303) |
| | <u>12,479,547</u> | <u>8,678,760</u> |

As at 31 December 2011 RUB other receivables include RUB 2,638 thousand of interest on bank balances.

As at 31 December 2011 amounts due from related party include RUB 1,447,421 thousand of interest receivable on promissory notes issued by related party.

The Group's exposure to credit risks and impairment losses related to trade and other receivables are disclosed in note 26.

19 Cash and cash equivalents

| | 2011 | 2010 |
|--|------------------|------------------|
| Petty cash | 84 | 60 |
| Bank balances | 3,032,797 | 5,008,376 |
| Cash and cash equivalents in the statement of financial position and statement of cash flows | <u>3,032,881</u> | <u>5,008,436</u> |

The Group's exposure to interest rate and a sensitivity analysis for financial assets and liabilities are disclosed in note 26.

20 Other current assets

| | 2011 | 2010 |
|-------------------------------|----------------|----------------|
| Advances paid and prepayments | 568,756 | 298,610 |
| VAT recoverable | 83,654 | 260,894 |
| | <u>652,410</u> | <u>559,504</u> |

Advances paid and prepayments comprise gross contractual amounts due of RUB 570,772 thousand, of which RUB 2,016 thousand was expected to be uncollectable. As at 31 December 2011 VAT recoverable include RUB 40 398 thousand related to construction works.

21 Equity

Share capital

Number of shares unless otherwise stated

| | Ordinary shares | Ordinary shares |
|-------------------------------------|-----------------|-----------------|
| | 2011 | 2010 |
| Authorised shares | 30,011,859,694 | 30,011,859,694 |
| Par value, RUB | 1 | 1 |
| On issue at beginning of year | 30,011,859,694 | 30,011,859,694 |
| On issue at end of year, fully paid | 30,011,859,694 | 30,011,859,694 |

Holder of ordinary shares are entitled to one vote per share at meetings of the Company.

Dividends

At the reporting date no dividends were recommended by the Board of Directors.

Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding respectively during the year. The Company has no dilutive potential ordinary shares.

| | 2011 | 2010 |
|---|----------------|--------------|
| Weighted average number of shares outstanding, in thousands | 30,011,860 | 30,011,860 |
| (Loss)/profit for the year | (234,314) | 4,754 550 |
| Earnings per share – basic and diluted (RUB per share) | (0.008) | 0.158 |

22 Loans and borrowings

This note provides information about the contractual terms of the Group's loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate and foreign currency risk, see note 26.

| | 2011 | 2010 |
|---------------------------------------|------------------|------------------|
| <i>Non-current liabilities</i> | | |
| Unsecured bank loans | 3,590,276 | - |
| Promissory notes | - | 750 |
| | <u>3,590,276</u> | <u>750</u> |
| <i>Current liabilities</i> | | |
| Current portion of secured bank loans | - | 1,308,438 |
| Secured bank loans | - | 794,409 |
| Unsecured bank loans | 6,580,356 | 2,700,000 |
| Loans from other companies | 30,179 | - |
| | <u>6,610,535</u> | <u>4,802,847</u> |

No bank loans were secured as at 31 December 2011 (31 December 2010: RUR 2,102,847 thousand were secured by cash flows on certain power supply contracts. The Group has also collateralized this credit facility by pledging equipment with carrying value of RUR 3,104,128 thousand).

Terms and conditions of the most significant outstanding loans are as follows:

| | Maturity | 2011 | | 2010 | |
|----------------------------|-----------|-------------------|-------------------|------------------|------------------|
| | | Nominal value | Carrying amount | Nominal value | Carrying amount |
| Secured bank loans | | | | | |
| Euro, EURIBOR+1,9% | 2011 | - | - | 2,102,847 | 2,102,847 |
| Unsecured bank loans | | | | | |
| Euro, EURIBOR+2,5% | 2013 | 2,155,489 | 2,155,489 | - | - |
| RUB, fixed at 4.25%-7% | 2011-2012 | 5,480,356 | 5,480,356 | 2,200,000 | 2,200,000 |
| RUB, MosPrime+2,5% | 2011 | - | - | 500,000 | 500,000 |
| RUB, fixed at 8%-10% | 2012-2014 | 2,534,787 | 2,534,787 | - | - |
| Promissory notes | | | | | |
| RUB, fixed at 0% | 2011 | - | - | - | 750 |
| Loans from other companies | | | | | |
| RUB, fixed at 9% | 2012 | 30,179 | 30,179 | - | - |
| | | <u>10,200,811</u> | <u>10,200,811</u> | <u>4,802,847</u> | <u>4,803,597</u> |

23 Employee benefits

The Group has defined benefit pension and other long-term defined benefit plans that cover most full-time and retired employees. Defined post-employment benefits consist of several unfunded plans providing for lump-sum payments upon retirement, financial support for current pensioners, death benefits, jubilee benefits, old age life pension program.

| | 2011 | 2010 |
|---------------------------------------|------------------|------------------|
| Present value of unfunded obligations | 1,000,820 | 997,024 |
| Unrecognized net actuarial gain | 202,382 | 235,611 |
| Unrecognized past service cost | 76,879 | 92,687 |
| Total employee benefits | <u>1,280,081</u> | <u>1,325,322</u> |

| | 2011 | 2010 | 2009 | 2008 | 2007 |
|--|---------------|---------------|---------------|----------------|---------------|
| Defined benefit obligation | 1,000,820 | 997,024 | 917,828 | 1,545,697 | 2,004,396 |
| Deficit | 1,000,820 | 997,024 | 917,828 | 1,545,697 | 2,004,396 |
| Experience adjustments on plan liabilities | <u>42,282</u> | <u>61,326</u> | <u>42,186</u> | <u>136,486</u> | <u>31,983</u> |

(a) Movements in net liability recognised in the consolidated statement of financial position:

| | 31 December 2011 | | | 31 December 2010 | | |
|----------------------------|----------------------------|--------------------------|-----------------|----------------------------|--------------------------|-----------------|
| | Pension benefit obligation | Other benefit obligation | Total liability | Pension benefit obligation | Other benefit obligation | Total liability |
| Net liability at 1 January | 1,217,251 | 108,071 | 1,325,322 | 1,225,166 | 93,889 | 1,319,055 |

| | 31 December 2011 | | | 31 December 2010 | | |
|--|----------------------------|--------------------------|-----------------|----------------------------|--------------------------|-----------------|
| | Pension benefit obligation | Other benefit obligation | Total liability | Pension benefit obligation | Other benefit obligation | Total liability |
| Benefit paid | (68,210) | (12,468) | (80,678) | (62,768) | (11,883) | (74,651) |
| Other movements | 16,462 | - | 16,462 | - | - | - |
| Expense recognised in profit or loss (see below) | 10,760 | 8,215 | 18,975 | 54,853 | 26,065 | 80,918 |
| Net liability at 31 December | 1,176,263 | 103,818 | 1,280,081 | 1,217,251 | 108,071 | 1,325,322 |

(b) Amounts recognised in profit or loss:

| | 31 December 2011 | | | 31 December 2010 | | |
|---|----------------------------|--------------------------|-----------------|----------------------------|--------------------------|-----------------|
| | Pension benefit obligation | Other benefit obligation | Total liability | Pension benefit obligation | Other benefit obligation | Total liability |
| Current service costs | 28,903 | 8,262 | 37,165 | 26,335 | 7,399 | 33,734 |
| Interest on obligation | 72,591 | 8,477 | 81,068 | 74,283 | 8,734 | 83,017 |
| Net actuarial loss recognised in the period | (10,857) | 9,885 | (972) | (15,891) | 16,089 | 198 |
| Past service cost | 7,472 | - | 7,472 | (11,932) | - | (11,932) |
| Curtailment gain | (87,349) | (18,409) | (105,758) | (17,942) | (6,157) | (24,099) |
| Net expense recognised in profit or loss | 10,760 | 8,215 | 18,975 | 54,853 | 26,065 | 80,918 |

As a result of a curtailment in the pension arrangement for a number of redundant employees, the Group's defined benefit pension obligation decreased by RUB 105 758 thousand (31 December 2010: RUB 24 099 thousand). A corresponding curtailment gain is included in the statement of comprehensive income for the year ended 31 December 2011.

The expense is recognised in the line item of "Operating expenses" in the statement of comprehensive income.

(c) **Movements in the present value of the defined benefit obligations:**

| | 31 December 2011 | | | 31 December 2010 | | |
|---|----------------------------|--------------------------|-----------------|----------------------------|--------------------------|-----------------|
| | Pension benefit obligation | Other benefit obligation | Total liability | Pension benefit obligation | Other benefit obligation | Total liability |
| Present value of defined benefit obligation as at 1 January | 888,953 | 108,071 | 997,024 | 823,358 | 94,470 | 917,828 |
| Current service costs | 28,903 | 8,262 | 37,165 | 26,335 | 7,399 | 33,734 |
| Interest costs | 72,591 | 8,477 | 81,068 | 74,283 | 8,734 | 83,017 |
| Actuarial (gain)/loss | (2,027) | 9,885 | 7,858 | 45,734 | 15,508 | 61,242 |
| Past service cost | 38,087 | - | 38,087 | - | - | - |
| Curtailement gain | (61,294) | (18,410) | (79,704) | (17,989) | (6,157) | (24,146) |
| Benefits paid | (68,211) | (12,467) | (80,678) | (62,768) | (11,883) | (74,651) |
| Present value of defined benefit obligation as at 31 December | 897,002 | 103,818 | 1,000,820 | 888,953 | 108,071 | 997,024 |

(d) **Principal actuarial assumptions are as follows:**

| | 2011 | 2010 |
|------------------------------|------|------|
| Discount rate at 31 December | 8.5% | 8% |
| Future salary increases | 7.5% | 7.5% |
| Future inflation rate | 6% | 6% |

Mortality rates for the pension plan members were assumed in accordance with a life table based on official mortality data for Russia's citizens during 1986-87 (life expectancy at birth are: 65.8 for males, 74.3 for females).

Withdrawal and retirement rates were evaluated based on the data about the Group employees' withdrawals and retirements during 2005-2011.

24 Provisions

| | Legal claims | Other provisions | Total |
|---------------------------------|--------------|------------------|---------|
| Balance at 1 January 2010 | 44,826 | 57,079 | 101,905 |
| Provisions made during the year | 91,841 | 7,992 | 99,833 |
| Balance at 31 December 2010 | 136,667 | 65,071 | 201,738 |
| Provisions made during the year | (11,323) | 614,239 | 602,916 |
| Balance at 31 December 2011 | 125,344 | 679,310 | 804,654 |

Other provisions include provision for penalties for non-compliance with the terms of contractual arrangements as well as provision for employee bonuses.

25 Trade and other payables

| | 2011 | 2010 |
|-----------------------------------|-----------|-----------|
| Payables for capital construction | 195,066 | 3,680,793 |
| Trade payables | 3,456,948 | 1,412,833 |
| Other taxes payable | 910,474 | 391,986 |
| Prepayments received | 449,812 | 382,130 |
| Wages and salary | 299,731 | 214,440 |
| Dividends payable | 9,422 | 1,783 |
| Other payables | 200,983 | 1,324,585 |
| | 5,522,436 | 7,408,550 |

The Group's exposure to liquidity risk related to trade and other payables is disclosed in note 26.

26 Financial instruments

(a) Credit risk

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

| | 2011 | 2010 |
|-------------------------------------|------------|------------|
| Available-for-sale financial assets | 92,869 | 111,879 |
| Short-term originated loans | - | 22,700 |
| Promissory notes | 4,818,815 | 4,697,113 |
| Trade and other receivables | 12,686,276 | 8,906,302 |
| Cash and cash equivalents | 3,032,881 | 5,008,436 |
| | 20,630,841 | 18,746,430 |

The Company holds promissory notes issued by the Main Shareholder that are payable on demand. The credit risk related to these promissory notes and respective interest ultimately depends on the financial position of the main shareholder.

The maximum exposure to credit risk for trade and other receivables at the reporting date by type of customer was as follows:

| | 2011 | 2010 |
|------------------------------|-------------------|------------------|
| Corporate customers | 9,697,629 | 5,944,436 |
| Budgetary/municipal entities | 2,988,647 | 2,961,866 |
| | <u>12,686,276</u> | <u>8,906,302</u> |

The Group's most significant customer, OJSC Samaraenergo, accounts for RUB 2 457 thousand of the trade receivables carrying amount as of 31 December 2011 (31 December 2010: RUB 3,828 thousand).

Impairment losses

The aging of current trade and other receivables at the reporting date was:

| | Gross | Impairment | Gross | Impairment |
|---------------------------------|-------------------|-------------------|------------------|-------------------|
| | 2011 | 2011 | 2010 | 2010 |
| Not past due | 8,019,359 | 38,745 | 5,066,617 | - |
| Past due for less than 3 months | 2,419,780 | 1,382 | 1,660,649 | 69 |
| Past due for 3 to 6 months | 522,010 | 29,332 | 200,111 | 85,175 |
| Past due for 6 to 12 months | 2,186,739 | 1,068,287 | 1,297,995 | 33,598 |
| More than one year | 1,727,749 | 1,258,344 | 1,726,691 | 1,154,461 |
| | <u>14,875,637</u> | <u>2,396,090</u> | <u>9,952,063</u> | <u>1,273,303</u> |

The movement in the allowance for impairment in respect of current trade and other receivables during the year was as follows:

| | 2011 | 2010 |
|---|------------------|------------------|
| Balance at 1 January | 1,273,303 | 755,295 |
| Net impairment loss accrued | 1,377,507 | 563,641 |
| Receivables written off against allowance | (254,720) | (45,633) |
| Balance at 31 December | <u>2,396,090</u> | <u>1,273,303</u> |

(b) Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

| | 31 December 2011 | | | | |
|----------------------------|-------------------------|-------------------------------|-------------------|------------------|------------------|
| | Carrying amount | Contractual cash flows | 0-1 year | 1-2 years | 2-5 years |
| Unsecured bank loans | 10,170,632 | 10,815,237 | 7,051,378 | 2,304,347 | 1,459,512 |
| Loans from other companies | 30,179 | 30,179 | 30,179 | - | - |
| Trade and other payables | 3,852,997 | 3,852,997 | 3,852,997 | - | - |
| | <u>14,053,808</u> | <u>14,698,413</u> | <u>10,934,554</u> | <u>2,304,347</u> | <u>1,459,512</u> |

| | 31 December 2010 | | | |
|--------------------------|-------------------------|-------------------------------|-------------------|------------------|
| | Carrying amount | Contractual cash flows | 0-1 year | 1-2 years |
| Secured bank loans | 2,102,847 | 2,250,046 | 2,250,046 | - |
| Unsecured bank loans | 2,700,000 | 2,823,100 | 2,823,100 | - |
| Promissory notes | 750 | 750 | - | 750 |
| Trade and other payables | 6,418,211 | 6,418,211 | 6,418,211 | - |
| | <u>11,221,808</u> | <u>11,492,107</u> | <u>11,491,357</u> | <u>750</u> |

(c) Currency risk

Exposure to currency risk

The Group's exposure to foreign currency risk was as follows based on notional amounts:

| | EUR-denominated | USD-denominated | EUR-denominated | USD-denominated |
|--------------------------------|------------------------|------------------------|------------------------|------------------------|
| | 2011 | 2011 | 2010 | 2010 |
| Current assets | | | | |
| Promissory notes | - | 2,279,155 | - | 2,157,453 |
| Non-current liabilities | | | | |
| Bank loans | 2,155,489 | - | - | - |
| Current liabilities | | | | |
| Bank loans | - | - | 2,102,847 | - |
| | <u>2,155,489</u> | <u>2,279,155</u> | <u>2,102,847</u> | <u>2,157,453</u> |

The following significant exchange rates applied during the year:

| | 1 USD equals | 1 USD equals | 1 EUR equals | 1 EUR equals |
|-----|---------------------|---------------------|---------------------|---------------------|
| | 2010 | 2011 | 2010 | 2011 |
| RUB | 30.4769 | 32.1961 | 40.3331 | 41.6714 |

Sensitivity analysis

A 10% strengthening of the RUB against Euro at 31 December 2011 would have increased equity and profit or loss (net of taxes) by RUB 172,439 thousand (31 December 2010: RUB 168,227 thousand). This analysis assumes that all other variables, in particular interest rates, remain constant.

A 10% weakening of the RUB against Euro at 31 December 2011 would have had the equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

A 10% strengthening of the RUB against USD at 31 December 2011 would have decreased equity and profit or loss (net of taxes) by RUB 182,332 thousand (31 December 2010: RUB 172,596 thousand). This analysis assumes that all other variables, in particular interest rates, remain constant.

A 10% weakening of the RUB against USD at 31 December 2011 would have had the equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

(d) Interest rate risk

Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

| | Carrying amount | |
|----------------------------------|-----------------|-------------|
| | 2011 | 2010 |
| Fixed rate instruments | | |
| Financial assets | 4,679,155 | 4,580,153 |
| Financial liabilities | (8,045,322) | (2,200,000) |
| | (3,366,167) | 2,380,153 |
| Variable rate instruments | | |
| Financial liabilities | (2,155,489) | (2,602,847) |
| | (2,155,489) | (2,602,847) |

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate interest/currency swaps as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at 31 December 2011 would have increased/(decreased) equity and profit or loss (net of taxes) by RUB 17,244 thousand (31 December 2010: RUB 20,822 thousand). This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2010.

(e) Fair values

Management believes that the fair value of the Group's financial assets and liabilities approximates their carrying amounts.

27 Operating leases

Operating lease rentals are payable as follows:

| | 2011 | 2010 |
|----------------------------|------------------|------------------|
| Less than one year | 412,330 | 69,634 |
| Between one and five years | 1,567,734 | 214,816 |
| More than five years | 2,646,694 | 3,871,144 |
| | <u>4,626,758</u> | <u>4,155,594</u> |

The Group leases a number of land plots owned by local government under operating lease. The leases typically run for a period of one to five years with an option to renew the lease after that. Though the leases are not non-cancellable, the Group regards them as long-term commitments and intends to continue to lease them for a longer period.

During the current year RUB 519,843 thousand was recognised in the statement of comprehensive income in respect of operating leases (2010: RUB 465,384 thousand).

The land leases were entered into many years ago as the Group's buildings and facilities are located on these land plots. Since the land title does not pass, and the landlord retains control over land usage the Group determined that the land lease is an operating lease.

28 Commitments

The Group has signed an agency agreement on the provision of capacity to the wholesale market with CJSC "Financial settlements center" (FSC), OJSC "Administrator of the wholesale electricity market trading system of the Unified Power System" (ATS), OJSC "System operator of the Unified Power System" and Non-Commercial Partnership "Market council for organizing an efficient system of trading in the wholesale and retail electricity and capacity market".

The agreement entrusts the Agency (FSC) with the conclusion of agreements on the provision of capacity with regard to new generating facilities with a total capacity of 465 MW with electricity (capacity) buyers –wholesale market entities and participants in the trade in electricity in the wholesale market, defined by ATS in accordance with the Wholesale market regulations and Agreement on joining the system of wholesale trade market.

The Group shall be liable for any delay to the start of the performance of the obligations on supplying capacity, for failure to supply capacity, and for failure to supply enough capacity.

In accordance with the contract terms, Group' obligations shall be discharged till 1 January 2028.

| Capacity to be produced | Estimated cost of investments | Limit of the compensation of losses |
|----------------------------|----------------------------------|--|
| MW | '000 RUB | '000 RUB |
| 465 | 19,866,629 | 12,690,357 |

The Group has entered into the contracts to construct and purchase plant and equipment for RUB 3,668,783 thousand net of VAT (2010: RUB 9,463,529 thousand net of VAT). Outstanding capital commitments include amount of RUB 3,333,056 thousand related to construction under agency agreement on the provision of capacity to the wholesale market (2010: RUB 9,231,224 thousand net of VAT).

29 Contingencies

(a) Insurance

As of 31 December 2011, the Group had full coverage for its plant facilities and third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Management considers this coverage to be adequate to ensure that a risk of loss or destruction of the Group's assets would not have a material adverse effect on the Group's operations and financial position.

(b) Litigation

The Group is involved in a number of court cases where management estimates probability of potential losses of the Group as possible, which individually and in total, do not have material effect on the Group's financial position or results of operations.

(c) Taxation contingencies

(i) General issues

The taxation system in the Russian Federation is characterised by frequent changes in legislation, official pronouncements and court decisions, which are subject to varying interpretation by different tax authorities. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions.

(d) Environmental matters

The Group operates in the electric power industry in the Russian Federation. The enforcement of environmental regulations in Russia is evolving and the enforcement posture of Government authorities is continually being reconsidered. Group management periodically evaluates its obligations under environmental regulations.

Potential liabilities might arise as a result of changes in legislation and regulation or civil litigation. The impact of these potential changes cannot be estimated, but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

30 Related party transactions

(a) Transactions with management and close family members

Total remuneration accrued to key management personnel for the year ended 31 December 2011 and for the year ended 31 December 2010 was as follows:

| | 2011 | 2010 |
|---|---------|---------|
| Wages and other employee benefits to key management personnel | 266,221 | 113,664 |

(b) Transactions with other related parties

(i) Revenue

| | Transaction value 2011 | Transaction value 2010 | Outstanding balance 2011 | Outstanding balance 2010 |
|--|------------------------------|------------------------------|--------------------------------|--------------------------------|
| Sales of electricity and heat: | | | | |
| Entities under control of Main Shareholder | 1,010,380 | 2,242,162 | 107,731 | 821 |
| Other sales: | | | | |
| Entities under control of Main Shareholder | 128,483 | 10,668 | 262,304 | 23,581 |
| | 1,138,863 | 2,252,830 | 370,035 | 24,402 |

All outstanding balances with related parties are to be settled in cash within twelve months of the reporting date. None of the balances are secured.

(ii) Expenses

| | Transaction value 2011 | Transaction value 2010 | Outstanding balance 2011 | Outstanding balance 2010 |
|--|------------------------------|------------------------------|--------------------------------|--------------------------------|
| Purchase of electricity and power: | | | | |
| Entities under control of Main Shareholder | 197,002 | 376,565 | 9,993 | 5,864 |
| Other purchases: | | | | |
| Entities under control of Main Shareholder | 1,659,414 | 499,374 | 455,181 | 37,579 |
| | 1,856,416 | 875,939 | 465,174 | 43,443 |

Other purchases from entities under control of main shareholder include management fee of RUB 698,496 thousand (2010: RUB 433,948 thousand).

(iii) Promissory notes and interest

| | Interest income 2011 | Interest income 2010 | Outstanding interest receivables balance 2011 | Outstanding interest receivables balance 2010 |
|--|-------------------------|-------------------------|---|---|
| Promissory notes: | | | | |
| Entities under control of Main Shareholder | 519,697 | 518,801 | 1,447,421 | 892,617 |
| | <u>519,697</u> | <u>518,801</u> | <u>1,447,421</u> | <u>892,617</u> |

Outstanding promissory notes balance amounted to RUB 4,818 815 thousand (2010: RUB 4,697,113 thousand). The terms and conditions of promissory notes received from related parties are disclosed in Note 14.

(iv) Bank balances and interest

| | Interest income 2011 | Interest income 2010 | Outstanding bank balance 2011 | Outstanding bank balance 2010 |
|--|-------------------------|-------------------------|-------------------------------------|-------------------------------------|
| Bank balances: | | | | |
| Entities under control of Main Shareholder | - | 179,354 | 52,869 | - |
| | <u>-</u> | <u>179,354</u> | <u>52,869</u> | <u>-</u> |

(v) Transactions with government-related entities

The government of the Russian Federation has significant influence over the Group. In the course of business, the Group makes a significant number of fuel purchases with companies that are government-related. These operations are carried out under the regulated tariffs, or in accordance with market prices.

Costs of fuel purchases for government-related entities account for 47.9% or RUB 32,270,809 thousand of the total operating expenses for the year ended 31 December 2011 (for the year ended 31 December 2010: 50.83% or RUB 27,547,370 thousand).

(vi) Loans and borrowings received from government-related entities

| | Outstanding bank balance 2011 | Outstanding bank balance 2010 |
|-------------------------------------|-------------------------------------|-------------------------------------|
| Loans and borrowings received from: | | |
| OJSC Sberbank | 6,913,881 | - |
| | <u>6,913,881</u> | <u>-</u> |

Loans and borrowings are drawn at the market interest rate (Note 22).

31 Subsidiaries

| Subsidiary | Country of incorporation | 2011 | 2010 |
|---|--------------------------|------------------|------------------|
| | | Ownership/voting | Ownership/voting |
| Orenburg TGC | Russian Federation | 100% | 100% |
| OJSC Ulyanovskenergospetsremont | Russian Federation | 100% | - |
| OJSC Saratovskoye proizvodstvennoe remontnoe predpriyatie | Russian Federation | 100% | - |
| OJSC Samarskoye proizvodstvenno-remontnoe predpriyatie | Russian Federation | 100% | - |
| OJSC Samaraenergospetsremont | Russian Federation | 100% | - |
| OJSC Orenburgenergoremont | Russian Federation | 100% | - |
| OJSC "Engineering centre" | Russian Federation | 75% | - |
| LLC Sanatory-profilaktory Sokol | Russian Federation | 100% | 100% |
| OJSC Socialno-kulturnie meropriyatiya | Russian Federation | 100% | 100% |
| LLC Energofinance | Russian Federation | 100% | 100% |
| TD Energoservice | Russian Federation | 100% | - |
| LLC Saratov TEC-1 | Russian Federation | 100% | 100% |
| LLC Ulyanovskaya TTC | Russian Federation | 100% | 100% |