OJSC Territorial'naya generiruyuschaya kompaniya # 11

Consolidated financial statements

for the year ended 31 December 2011
prepared in accordance with
International Financial Reporting Standards (IFRS)

OJSC Territorial'naya generiruyuschaya kompaniya #11

Consolidated financial statements

for the year ended 31 December 2011

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Independent auditor's report

To Shareholders of the OJSC Territorial'naya generiruyuschaya kompaniya #11

Report on consolidated financial statements

We have audited the accompanying consolidated financial statements of OJSC Territorial'naya generiruyuschaya kompaniya #11, which comprise the consolidated statement of financial position as at December 31, 2011, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and 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, as well as for maintaining internal control procedures relevant to 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 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 auditors' 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 December 31, 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other information

Consolidated financial statements of the Group as at December 31, 2010 has been audited by another auditor that issued the unmodified report as of March 25, 2011.

Ernst & Young LLC

March 7, 2012

OJSC Territorial'naya generiruyuschaya kompaniya # 11

Consolidated statement of financial position

as at 31 December 2011

(All amounts are in thousands of rubles, unless stated otherwise)

	Note	31 December 2011	31 December 2010
Assets			
Non-current assets			
Property, plant and equipment	6	16,479,356	15,459,317
Intangible assets		94,136	75,896
Prepayments	9	1,794,551	17,662
Trade and other receivables	8	3,694	12,938
Total non-current assets		**18,371,737**	**15,565,813**
Current assets			
Inventories	7	1,069,998	725,045
Trade and other receivables	8	2,202,042	1,957,149
Prepayments	9	77,020	56,905
Current income tax	21	14,241	15,113
VAT recoverable		1,275	10,312
Cash and cash equivalents	10	69,266	153,075
Total current assets		**3,433,842**	**2,917,599**
Total assets		**21,805,579**	**18,483,412**
Equity			
Share capital	11	5,128,277	5,128,277
Treasury shares	11	(20,671)	(20,671)
Additional paid-in capital	11	125,590	125,590
Retained earnings		7,495,338	7,280,359
Total equity		**12,728,534**	**12,513,555**
Liabilities			
Non-current liabilities			
Loans and borrowings	12	4,825,477	1,721,965
Employee benefits	13	490,120	492,173
Provisions	14	142,379	86,165
Deferred tax liabilities	21	1,284,196	1,158,244
Other non-current liabilities	13	13,400	–
Total non-current liabilities		**6,755,572**	**3,458,547**
Current liabilities			
Loans and borrowings	12	523,369	899,780
Trade and other payables	15	921,008	599,699
Other taxes payable	17	202,730	479,008
Prepayments received		293,921	212,059
Payables to employees	16	338,706	279,333
Provisions	14	41,739	41,431
Total current liabilities		**2,321,473**	**2,511,310**
Total liabilities		**9,077,045**	**5,969,857**
Total equity and liabilities		**21,805,579**	**18,483,412**

General Director — Kozhemyako S.I.

Chief Accountant — Chizhenko I.V.

7 March 2012

The notes set out on pages from 7 to 43 are an integral part of these consolidated financial statements.

OJSC Territorial'naya generiruyuschaya kompaniya # 11

Consolidated statement of comprehensive income

for the year ended 31 December 2011

(All amounts are in thousands of rubles, unless stated otherwise)

	Note	2011	2010
Revenue	18	21,024,482	19,322,708
Other operating income	18	285,447	208,216
Operating expenses	19	(20,764,637)	(19,334,984)
Operating profit		**545,292**	**195,940**
Finance income	20	3,221	18,062
Finance expenses	20	(196,028)	(260,988)
Net finance expenses		**(192,807)**	**(242,926)**
Profit/(loss) before tax		**352,485**	**(46,986)**
Income tax	21	(137,506)	(79,802)
Profit/(loss) for the period		**214,979**	**(126,788)**
Other comprehensive income		–	–
Total comprehensive income for the period		**214,979**	**(126,788)**
Earnings per ordinary share, basic and diluted (RUR per share)	11	0.0004	(0.0002)

The notes set out on pages from 7 to 43 are an integral part of these consolidated financial statements.

OJSC Territorial'naya generiruyuschaya kompaniya # 11

Consolidated statement of cash flows

for the year ended 31 December 2011

(All amounts are in thousands of rubles, unless stated otherwise)

	Note	2011	2010
Operating activities			
Profit/(loss) before tax		352,485	(46,986)
Adjustments for:			
Depreciation and impairment losses	19	1,175,322	1,317,466
Allowance for impairment of accounts receivable	19	(7,561)	346,385
Changes in other provisions		54,382	(15,802)
Net finance expense	20	192,807	242,926
(Profit)/loss on disposal of property, plant and equipment	18	(7,402)	1,148
Other non-cash transactions		79,342	88,501
Operating profit before changes in working capital, income taxes and interest paid		**1,839,375**	**1,933,638**
Changes in working capital:			
Increase in trade and other receivables	8	(305,205)	(55,438)
(Increase)/decrease in inventories	7	(344,945)	244,453
(Increase)decrease in prepayments	9	(26,461)	68,950
Decrease/(increase) in VAT recoverable		9,037	(2,778)
Decrease in trade and other payables	15	163,819	(386,387)
(Decrease)/increase in other taxes payable		(276,278)	277,002
Increase/(decrease) in payables to employees	16	5,298	(3,585)
Decrease in employee benefits	13	(40,727)	167,706
Increase in other long term liabilities		13,400	–
Increase in prepayments received		81,862	16,465
Cash flows from operating activities before income taxes and interest paid		**1,119,175**	**2,260,026**
Interest paid		(321,648)	(248,568)
Income tax paid		(23,755)	(29,782)
Net cash inflows from operating activities		**773,772**	**1,981,676**
Investing activities			
Purchase of property, plant and equipment		(3,566,876)	(1,585,799)
Proceeds from disposal of property, plant and equipment		12,312	1,640
Repayment of loan issued		–	250,000
Acquisition of intangible assets		(21,381)	(14,453)
Other investing transactions		1,374	724
Net cash flows used in investing activities		**(3,574,571)**	**(1,347,888)**
Financing activities			
Proceeds from loans and borrowings		14,523,267	15,602,850
Repayment of loans and borrowings		(11,802,946)	(16,064,513)
Dividends paid		(36)	(332)
Repayment of principal debt under finance lease		(3,295)	(25,794)
Net cash flows from/(used in) financing activities		**2,716,990**	**(487,789)**
Net (decrease)/increase in cash and cash equivalents		**(83,809)**	**145,999**
Cash and cash equivalents at the beginning of the period		**153,075**	**7,076**
Cash and cash equivalents at the end of the period	10	**69,266**	**153,075**

The notes set out on pages from 7 to 43 are an integral part of these consolidated financial statements.

OJSC Territorial'naya generiruyuschaya kompaniya # 11

Consolidated statement of changes in equity

for the year ended 31 December 2011

(All amounts are in thousands of rubles, unless stated otherwise)

	Attributable to equity holders of TGK-11				
	Share capital	**Treasury shares**	**Additional paid-in capital**	**Retained earnings**	**Total equity**
At 1 January 2010	**5,128,277**	**(20,671)**	**125,590**	**7,407,147**	**12,640,343**
Total comprehensive loss for the period	–	–	–	(126,788)	(126,788)
At 31 December 2010	**5,128,277**	**(20,671)**	**125,590**	**7,280,359**	**12,513,555**
At 1 January 2011	**5,128,277**	**(20,671)**	**125,590**	**7,280,359**	**12,513,555**
Total comprehensive income for the period	–	–	–	214,979	214,979
At 31 December 2011	**5,128,277**	**(20,671)**	**125,590**	**7,495,338**	**12,728,534**

The notes set out on pages from 7 to 43 are an integral part of these consolidated financial statements.

1. General information

(a) The Group and its operations

Open Joint Stock Company Territorial'naya generiruyuschaya kompaniya # 11 (hereinafter – the "Company" or "TGK-11") was established on 26 August 2005 in the course of reforming the Russian power industry. The reorganization of TGK-11 was completed on 1 November 2007 as a result of the merger of OJSC Omsk Electricity Generation Company (hereinafter – "OEGC") and OJSC Tomskenergo (hereinafter – "Tomskenergo") with TGK-11.

The head office of TGK-11 is located at 5 Sovetskaya st., Novosibirsk, 630007, Russia.

As at 31 December 2011 and 31 December 2010, OJSC Territorial'naya generiruyuschaya kompaniya # 11 Group (hereinafter – the "Group") comprises TGK-11 and its subsidiaries:

	Ownership, %
OJSC Production and Repairs Enterprise Omskenergoremont	100
OJSC Engineering and Construction Company	100
OJSC Energoservis	100
LLC SibEnergoFinance	100

The Group's main activity is electricity, capacity and heat generation and sale.

(b) Business environment in the Russian Federation

Russia continues economic reforms and development of its legal, tax and regulatory framework as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The global financial crisis has affected the Russian economy. While there are signs of economic recovery, the persisting uncertainty over the future economic growth and cost of capital could affect the Group's financial position, results of operations and business prospects.

While management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Group's results and financial position in a manner not currently determinable.

(c) Government regulation of tariffs for electricity and heat energy

The government affects the Group's activities by controlling tariffs for electricity and heat energy. The Federal Tariff Service and Regional Energy Commissions do not always approve increase of tariffs in line with the increase of the Group's expenses; therefore, certain tariffs may not be sufficient to cover all the Group's energy generation expenses. Tariffs are determined based on the expenses calculated in accordance with the Russian Accounting Standards.

Electricity produced in excess of volumes sold at regulated tariffs is realized at market prices on a non-regulated market.

2. Basis of preparation

(a) Statement of compliance

These consolidated financial statements (hereinafter – “Financial Statements“) have been prepared in accordance with International Financial Reporting Standards (hereinafter – “IFRS”).

(b) Going concern

The financial statements have been prepared based on the going concern assumption, according to which assets are realized and liabilities are settled in the normal course of business. These financial statements do not include any adjustments that would be necessary if the Group were unable to continue as a going concern.

(c) Basis of measurement

These financial statements are prepared on the historical cost basis except for the property, plant and equipment acquired before 1 January 2006 originally recognized at fair value at the date of transition to IFRS in order to determine their deemed cost.

(d) Functional and presentation currency

The national currency of the Russian Federation is the Russian ruble (RUR), which is the functional currency of the Group's companies and the presentation currency of these financial statements.

All amounts in these financial statements are presented in thousands of rubles.

(e) Use of professional judgments, estimates and assumptions

The preparation of the Group’s consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

(i) Judgments

In the process of applying the Group’s accounting policies, management has made the following judgments which have the most significant effect on the amounts recognized in the preliminary combined financial statements:

Operating leases – Group as a lessee

The Group entered into lease agreements with third parties for various items of property, plant and equipment. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that the lessor retains all significant risks and rewards of ownership of these properties, and so accounts for the agreements as operating leases.

Service concession arrangements – Group as service concession operator

The Group entered into a number of arrangements for the use of public heating system facilities for the purpose of providing services to the public under energy supply agreements (heat supply to customers). Group management has determined that such arrangements meet the criteria of service concession arrangements under IFRIC 12.

2. Basis of preparation (continued)

(e) Use of professional judgments, estimates and assumptions (continued)

(ii) Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. The Group's assumptions and estimates are based on the inputs available at the time of preparing the preliminary combined financial statements. But current circumstances and assumptions concerning the future may change as a result of changes in the market environment or circumstances beyond the Group's control. Such changes are reflected in assumptions as they occur.

Useful lives of property, plant and equipment

The estimation of the useful life of an item of property, plant and equipment is a matter of management judgment based upon experience with similar assets. In determining the useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear and tear and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments for future depreciation rates. Land plots and buildings are regarded as separate assets being separately recognized in the accounting. Land plots have indefinite useful lives and are not depreciated.

Impairment provision for accounts receivable

The impairment provision for accounts receivable is based on the Groups assessment of the collectability of specific customer accounts. If there is deterioration in a major customers creditworthiness or actual defaults are higher than the estimates, the actual results could differ from these estimates. If the Group determines that no objective evidence exists that impairment has occurred for an individually assessed accounts receivable, whether significant or not, it includes the account receivable in a group of accounts receivable with similar credit risk characteristics and collectively assesses them for impairment.

Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of accounts receivable that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

Ash dump restoration provision

The Group measures its ash dump restoration provision using the estimated cost of site restoration work in the period when such work will have to be carried out. Future estimated cost is based on the present cost of such work adjusted for the projected consumer price index until the period when the work will be carried out.

2. Basis of preparation (continued)

(e) Use of professional judgments, estimates and assumptions (continued)

Pension benefits

Post-employment benefits generally correspond to plans which are classified and accounted for as defined benefit plans.

The present value of defined post-employment benefit obligations and related current service cost are determined in accordance with actuarial valuation, which rely on demographic and financial assumptions including mortality, both during and after employment, rates of employee turnover, discount rate, future salary and benefit levels.

Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

Further details about the assumptions used are given in Note 3.

3. Summary of significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these Financial Statements and have been applied consistently by Group entities.

(a) Basis of consolidation

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

Intra-group balances, transactions and any unrealized profit are eliminated.

(b) Financial instruments

(i) Financial assets

Loans and receivables

Loans and receivables are a category of financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. Loans and receivables category comprises the following classes of assets: loans given, trade and other receivables, and cash and cash equivalents.

The Group initially recognizes loans and receivables and deposits on the date that they are originated. Cash and cash equivalents comprise cash balances and call deposits with maturities at initial recognition of three months or less.

3. Summary of significant accounting policies (continued)

(b) Financial instruments (continued)

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

Financial assets and liabilities are offset and their net amount is presented in the consolidated statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

(ii) Financial liabilities

All financial liabilities are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

The Group has the following financial liabilities: loans and borrowings, and trade and other payables.

Such financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

(c) Equity

Ordinary shares

Ordinary shares are classified as equity.

Treasury shares

When share capital recognized as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs is recognized as a deduction from equity. When treasury shares are sold or reissued subsequently, the amount received is recognized as an increase in additional paid-in capital.

Dividends

Dividends are recognized as a liability and deducted from retained earnings at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed in the consolidated financial statements when they are proposed before the reporting date, or proposed or declared after the reporting date but before the consolidated financial statements are authorized for issue.

3. Summary of significant accounting policies (continued)

(d) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment purchased after 1 January 2006 are measured at cost of purchase or construction less accumulated depreciation and impairment losses. For property, plant and equipment purchased before at 1 January 2006, the date of transition to IFRSs, cost was determined by reference to its fair value at that date.

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 their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalized borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

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.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognized net within "other operating income" or "operating expense" in profit or loss.

(ii) Subsequent costs

Subsequently, property, plant and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing part of equipment. When significant parts of property, plant and equipment are required to be replaced at certain intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciation. Likewise, the incurred costs of major inspection, reconstruction and modernization are recognized in the carrying amount of property, plant and equipment as replacement if all recognition criteria are met. All other repair and maintenance costs are recognized in the statement of comprehensive income as incurred. The present value of the expected cost for the decommissioning of the asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

(iii) Depreciation

Depreciation is based on the cost of an asset, less its residual value. Depreciation of property, plant and equipment is recognized on a straight-line basis over the estimated useful lives, since this most closely reflects the expected pattern of consumption of the future economic benefits associated with the asset, and depreciation expense is recognized in profit or loss for the period.

Significant components of an asset are assessed individually and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

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.

3. Summary of significant accounting policies (continued)

(d) Property, plant and equipment (continued)

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

Buildings	4 to 75 years
Hydraulic structures	4 to 80 years
Electric power lines	3 to 30 years
Heating networks	3 to 40 years
Power equipment	3 to 60 years
Other equipment and facilities	3 to 60 years
Other constructions	3 to 74 years
Other items of property, plant and equipment	1 to 39 years

Estimated useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(e) Intangible assets

Useful lives of intangible assets are assessed as either finite or indefinite.

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

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash generating unit level. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life from indefinite to finite is made on a prospective basis.

Research and development costs

Research costs are expensed as incurred. Development expenditures on an individual project are recognized as an intangible asset when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale
- Its intention to complete and its ability to use or sell the asset
- How the asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. Amortization is recorded in cost of sales. During the period of development, the asset is tested for impairment annually.

3. Summary of significant accounting policies (continued)

(e) Intangible assets (continued)

Amortization

Amortization is recognized in profit or loss 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:

- information systems 5-7 years;
- development costs 5 years.

Useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(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 recognized on the Group’s consolidated statement of financial position.

(g) Inventories

Inventories are measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business.

The cost of inventories includes all actual acquisition costs, processing costs directly associated with manufacturing products (rendering services, performing work) and other costs incurred to bring inventories to their existing condition and location.

The cost of inventories is determined using the weighted average cost method.

(h) Impairment

(i) Financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

3. Summary of significant accounting policies (continued)

(h) Impairment (continued)

The Group considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing evidence of impairment, the Group reviews historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(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.

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 that cannot be tested individually are grouped together into a smaller 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").

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (group of units) on a pro rata basis.

Impairment losses recognized 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, less accumulated depreciation or amortization, if no impairment loss had been recognized.

3. Summary of significant accounting policies (continued)

(i) Employee benefits

(i) Current portion of employee benefits

Salaries paid to employees are recognized as expenses for the reporting period. The Company also makes a provision for future vacation payments and provision for bonuses.

(ii) Post-employment benefit plans

Post-employment benefit plans include defined contribution plans and defined benefit plans.

In case of defined contribution plans, the Company's obligations are limited to the amount payable to the pension fund. Actuarial and investment risks are borne by employees. The Company recognizes contributions under such plan in the period to which they relate.

For defined benefit plans, the Company's obligation with respect to benefits is to ensure that payment to active and former employees is made in the agreed amount. Actuarial and investment risks are borne by the Company. The Company's defined benefits include, in particular, additional financial support provided to retired employees, lump-sum payments to employees upon retirement, death-in-service and death-in-pension benefits. The Company also bears long-term obligations with respect to other defined benefits such as jubilee benefits.

The cost of providing benefits under defined benefit plans is determined separately for each plan using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses for each individual plan at the end of the previous reporting period exceeded 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining periods of service of the employees participating in the plan.

The past service cost arises when the Company introduces a defined benefit plan or changes the benefits payable under an existing defined benefit plan. The past service cost is recognized as an expense on a straight line basis over the average period until the benefits become vested. If the benefits are vested immediately following the introduction of, or changes to, a pension plan, past service cost is recognized immediately.

The Company recognizes gains or losses on the curtailment or final settlement under a post-employment defined benefit plan at the time of such curtailment or settlement. The gain or loss on a curtailment or final settlement under a plan comprises any change in the present value of the defined benefit plan obligation, changes in the fair value of the plan assets, related actuarial gains and losses and past service cost that had not previously been recognized.

The defined benefit asset or liability comprises the present value of the defined benefit obligation less past service cost not yet recognized and less the fair value of plan assets out of which the obligations are to be settled directly. The value of any asset is restricted to the sum of any past service cost not yet recognized and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

3. Summary of significant accounting policies (continued)

(j) Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of provisions to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is recognized in profit or loss net of any reimbursement.

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. The unwinding of the discount is recognized as finance cost.

(k) Revenue recognition

Revenue is recognized to the extent that it is highly probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or expected to be received, excluding discounts, rebates, and other sales taxes or duty.

(i) Rendering of services

Revenue on the delivery of electricity, heat and chemically treated water and on dispatch of repairs and repair-construction work is recognized when such delivery and dispatch is effected during the period. The tariffs for electricity and heat are approved by Federal Tariff Agency or Regional Energy Commissions. Electricity produced in excess of volumes sold at regulated tariffs is realized at market prices on a non-regulated market. Electricity purchases entered into to support a delivery of bilateral contracts are presented net within revenue. Management applies judgment in determining which electricity purchases are entered into in order to support a delivery of bilateral contracts.

(ii) Sale of goods

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on dispatch of the goods.

(l) Lease payments

Payments upon operational lease agreements are recognized in profit and loss equally during the lease period. The amount of preferences received decreases rent expenses during the lease period. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected in the statement of comprehensive income.

(m) Finance income and costs

Finance income comprises interest income on funds invested, gains on the disposal of financial assets. Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions and impairment losses recognized on loans given. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss. Interest income and expenses on financial instruments are recognized in the profit or loss on a straight-line basis over the lifetime of financial instruments using the effective interest method.

3. Summary of significant accounting policies (continued)

(n) Income tax

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

Current tax is the expected tax payable or receivable on the taxable income or loss 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 recognized in respect of 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 recognized for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries to the extent that it is highly probable that they will not reverse in the foreseeable future.

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.

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 realized 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 recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is highly probable that future taxable profits will be available against which they can be utilized. 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 realized.

(o) Earnings per share

The Group presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to shareholders of the Group by the weighted average number of shares outstanding during the period, adjusted for own shares held. The Group has not issued any instruments that may potentially dilute EPS.

(p) 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 revenue and expenses that relate to transactions with any of the Group's other components. The operating results for all operating segments, for which discrete financial information is available, are reviewed regularly by the Group's management in order to make decisions about resources to be allocated to the segments and assess their performance.

3. Summary of significant accounting policies (continued)

(p) Segment reporting (continued)

Segment results that are reported to the Group's chief operating decision maker (the General Director of TGK-11) include items directly attributable to the segment's activities as well as those that can be allocated to the segment on a reasonable basis. Unallocated items comprise mainly head office expenses, income tax and income and expenses of TGK-11's subsidiaries.

(q) New and revised standards and interpretations

The accounting policies adopted in the preparation of the consolidated financial statements for the year ended 31 December 2011 are consistent with those followed in the preparation of the Group's annual financial statements for 2010 year, except for the adoption of new standards and interpretations as of 1 January 2011, noted below:

(i) The following IFRSs became effective for the Group's financial statements from 1 January 2011:

IAS 24 (Amendment), Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised by: (1) simplifying the definition of a related party, particularly in relation to significant influence and joint control, clarifying its intended meaning and eliminating inconsistencies; and by (2) providing a partial exemption from the disclosure requirements for government-related entities. For these entities, the general disclosure requirements of IAS 24 will not apply. Instead, alternative disclosures have been included, requiring (a) the name of the government and the nature of its relationship with the reporting entity; (b) the nature and amount of individually significant transactions; (c) a qualitative or quantitative indication of the extent of other transactions that are collectively significant. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

IAS 32 (Amendment), Financial Instruments: Presentation (the amendment is applicable for annual periods beginning on or after 1 February 2010). Classification of *Rights Issues* clarifies that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount are classified as equity instruments even if the fixed amount is determined in foreign currency. A fixed amount can be determined in any currency provided that entity offers these instruments pro rata to all of the existing owners of the same class of its own non-derivative equity instruments. The amendment has had no effect on the financial position or performance of the Group and its consolidated financial statements.

*IFRIC 14 (Amendment), The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (the amendment becomes effective for annual periods beginning on or after 1 January 2011 and is applied retrospectively).*The amendment removes an unintended consequence when an entity is subject to minimum funding requirements (MFR) and makes an early payment of contribution to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognised as pension asset. The Group is not subject to minimum funding requirements. The amendment to the interpretation had no effect on the financial position or performance of the Group and its consolidated financial statements.

3. Summary of significant accounting policies (continued)

(q) New and revised standards and interpretations (continued)

*IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (applicable for annual periods beginning on or after 1 July 2010).*The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as "consideration paid" in accordance with paragraph 41 of IAS 39 *Financial Instruments: Recognition and Measurement*. Additionally, the interpretation clarifies that the equity instrument issued are measured at their fair value, unless this cannot be reliably measured, in which case they are measured at the fair value of the liability extinguished, Any gain or loss is recognized immediately in profit and loss. If only part of a financial liability is extinguished, the entity needs to determine whether part of the consideration paid relates to modification of the liability outstanding, If so, the consideration paid is allocated between the two parts. The interpretation does not apply where the creditor is acting in the capacity of a shareholder, common control transactions, and where the issue of equity shares was part of the original terms of the liability. The amendment had no effect on the financial position or performance of the Group and its consolidated financial statements.

Improvements to International Financial Reporting Standards (issued in 2010). In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard.

IFRS 1 First-time Adoption of International Financial Reporting Standards was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS report and its first IFRS financial statements.

IFRS 3 Business combinations. The measurement options available for non-controlling interest (NCI) have been amended. Only components of non-controlling interest that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation shall be measured at either fair value or at the preset ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value. Additionally, the amendments (i) provide guidance on acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3.

IFRS 7 Financial Instruments – Disclosures (applied retrospectively). The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collaterals held and improving disclosures by requiring qualitative information to put the quantitative information in context, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the end of the reporting period and not the amount obtained during the reporting period.

3. Summary of significant accounting policies (continued)

(q) New and revised standards and interpretations (continued)

IAS 1 Presentation of Financial Statements. The amendment clarifies that an option to present an analysis of each component of other comprehensive income may be included either in the statement of changes in equity or in the notes to the financial statements.

IAS 34 Interim Financial Statements. The amendment requires additional disclosure for fair values and changes in classification of financial assets, as well as changes in contingent assets and liabilities in interim financial statements.

IAS 27 Consolidated and Separate Financial Statements (applied retrospectively). The standard was amended by clarifying the transition rules for amendments to IAS 21 *The Effect of Changes of Foreign Exchange Rates*, 28 *Investments in Associates* and 31 *Interests in Joint Ventures* made by the revised IAS 27 (as amended in January 2008); and

IFRIC 13 Customer Loyalty Programmes. The amendments states that in determining the fair value of award credits, an entity shall consider discounts and incentives that would otherwise be offered to customers not participating in the loyalty program.

The amendments did not have any material effect on consolidated financial statements.

There are other pronouncements, improvements and amendments that are not relevant for the current Group's operations since they will be adopted in 2012 or thereafter.

(ii) The following IFRSs and amendments to existing IFRSs that have been published are not yet effective and have not been early adopted by the Group:

IFRS 9, Financial Instruments Part 1: "Classification and Measurement." IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.

All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted. The Group is considering the implications of the standard and the impact on the Group.

3. Summary of significant accounting policies (continued)

(q) New and revised standards and interpretations (continued)

IFRS 7 (Amendment), Disclosures (the amendment is effective for annual periods beginning on or after 1 July 2011). Transfers of *Financial Assets* introduces additional disclosure requirements for transfers of financial assets in situations where assets are not derecognised in their entirety or where the assets are derecognised in their entirety but a continuing involvement in the transferred assets is retained. The new disclosure requirements are designated to enable the users of financial statements to better understand the nature of the risks and rewards associated with these assets. The amendment is expected to have no impact on the Group's consolidated financial statements.

IAS 12 (Amendment), Income taxes – Deferred Tax: Recovery of Underlying Assets (the amendment is effective for periods beginning on or after 1 January 2012 and is applied retrospectively). The amendment introduces an exception to the current measurement principles for deferred tax assets and liabilities arising from investment property measured using the fair value model in accordance with IAS 40 *Investment Property*. The exception also applies to investment property acquired in a business combination accounted for in accordance with IFRS 3 *Business Combinations* provided the acquirer subsequently measures the assets using the fair value model. In these specified circumstances the measurement of deferred tax liabilities and deferred tax assets should reflect a rebuttable presumption that the carrying amount of the underlying asset will be recovered entirely by sale unless the asset is depreciated or the business model is to consume substantially all the asset. The amendment is expected to have no impact on the Group's consolidated financial statements.

IFRS 10 Consolidated Financial Statements (the standard is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted). IFRS 10 *Consolidated Financial Statements* provides a single consolidation model that identifies control as the basis for consolidation for all types of entities. The standard sets out requirements for situations when control is difficult to assess, including cases involving potential voting rights, agency relationships, control of specified assets and circumstances in which voting rights are not the dominant factor in determining control. In addition IFRS 10 introduces specific application guidance for agency relationships. The standard also contains accounting requirements and consolidation procedures, which are carried over unchanged from IAS 27. IFRS 10 replaces the consolidation requirements in SIC-12 *Consolidation – Special Purpose Entities* and IAS 27 *Consolidated and Separate Financial Statements*. Currently the Group evaluates possible effect of the adoption of IFRS 10 on its financial position and performance.

IFRS 11 Joint Arrangements (the standard is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted). IFRS 11 *Joint Arrangements* improves the accounting for joint arrangements by introducing a principle-based approach that requires a party to a joint arrangement to recognise its rights and obligations arising from the arrangement. The classification of a joint arrangement is determined by assessing the rights and obligations of the parties arising from that arrangement. There are only two types of arrangements provided in the standard – joint operation and joint venture. IFRS 11 also eliminates proportionate consolidation as a method to account for joint arrangements. IFRS 11 supersedes IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities – Non-monetary Contributions by Venturers.* Currently the Group evaluates possible effect of the adoption of IFRS 11 on its financial position and performance.

3. Summary of significant accounting policies (continued)

(q) New and revised standards and interpretations (continued)

IFRS 12 Disclosure of Interests in Other Entities (the standard is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted). IFRS 12 *Disclosure of Interests in Other Entities* issued in May 2011 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. Adoption of the standard will require new disclosures to be made in the financial statements of the Group but will have no impact on its financial position or performance.

IFRS 13 Fair Value Measurement (the standard is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted). IFRS 13 *Fair Value Measurement* defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. The standard applies when other IFRSs require or permit fair value measurements. It does not introduce any new requirements to measure an asset or a liability at fair value, change what is measured at fair value in IFRSs or address how to present changes in fair value. The adoption of the IFRS 13 may have effect on the measurement of the Group’s assets and liabilities accounted for at fair value. Currently the Group evaluates possible effect of the adoption of IFRS 13 on its financial position and performance.

There are other improvements, pronouncements and amendments that ate not relevant to the current Group’s operations.

The Group considers to adopt the respective amendments of IFRSs when they become effective.

4. Changes to presentation and disclosure

The Group's outstanding interest accrued on loans and borrowings presented in the consolidated financial statements for the year ended 31 December 2010 was reclassified in order to ensure comparability with similar indicators presented in the consolidated financial statements for the year ended 31 December 2011.

	After reclassification	Before reclassification	Difference
Non-current liabilities			
Loans and borrowings	1,721,965	1,730,810	(8,845)
Current liabilities			
Loans and borrowings	899,780	907,155	(7,375)
Trade and other payables	599,699	583,479	16,220
			–

5. Operating segments

The Group identifies the following operating segments that coincide with reporting segments:

- Generation (heat, electricity and capacity production) in the Omsk region;
- Generation (heat, electricity and capacity production) in the Tomsk region.

5. Operating segments (continued)

In accordance with the decision of the Board of Directors, beginning from 1 January 2010, the Group determines the segment performance for management accounting purposes as gross profit adjusted by depreciation. Gross profit is determined at segment-level in accordance with Russian accounting principles (RAP). Information on the Group's segment performance is presented in the table below:

For the year ended 31 December 2011:

	Omsk	Tomsk	Total
Revenue from external sales	14,936,064	5,754,141	20,690,205
Revenue from sales to Group entities	18,600	2,430	21,030
Depreciation	630,338	473,351	1,103,689
Reporting segment performance result	1,503,996	671,083	2,175,079

For the year ended 31 December 2010:

	Omsk	Tomsk	Total
Revenue from external sales	13,431,902	5,870,824	19,302,726
Revenue from sales to Group entities	17,562	1,703	19,265
Depreciation	621,439	461,255	1,082,694
Reporting segment performance result	1,376,263	1,096,632	2,472,895

Reconciliation of reporting segment performance results by revenue, profit or loss for the period:

	2011	2010
Total revenue of reporting segments	20,711,235	19,321,991
Unallocated amounts	400,725	104,676
Eliminated revenue from sales to Group entities	(21,030)	(19,265)
Other items	(66,448)	(84,694)
Consolidated revenue	**21,024,482**	**19,322,708**

Reconciliation of reporting segments performance with IFRS profit before tax

	2011	2010
Reporting segments performance result	**2,175,079**	**2,472,895**
Unallocated amounts	(276,336)	(228,375)
Change in provisions for unused vacation and bonuses	(11,338)	(27,551)
Change in other provisions	3,583	43,353
Allowance for impairment of accounts receivable	27,870	(346,385)
Depreciation and impairment losses	(1,175,322)	(1,317,466)
Changes in employee benefit obligations (net of interest expense)	(12,582)	(189,771)
Energy-saving expenses	(70,875)	–
Change of other non-current liabilities	(13,400)	–
Unrealized profit	(22,910)	(29,386)
Prior year profit/loss	(12,557)	(32,303)
Write-off of SAP expenses	–	(88,516)
Other items	(65,920)	(60,555)
Operating results according to IFRS	**545,292**	**195,940**
Net finance expenses	(192,807)	(242,926)
Profit/(loss) before tax	**352,485**	**(46,986)**

Unallocated amounts comprise mainly head office expenses, income tax and income and expenses of TGK-11's subsidiaries.

Other items are represented by other adjustments, which represent the difference between methods used for accounting under RAP and financial reporting purposes under IFRS.

6. Property, plant and equipment

	Buildings	Hydraulic structures	Electric power lines	Heating networks	Power equipment	Other equipment and facilities	Other structures	Land	Other items	Construction in progress	Total
Cost											
At 1 January 2010	**4,771,045**	**709,743**	**2,028**	**3,250,402**	**4,180,867**	**2,508,984**	**2,292,599**	**86,542**	**129,968**	**654,577**	**18,586,755**
Additions	–	–	–	–	–	–	–	–	–	1,651,722	1,651,722
Transfers	136,802	16,978	–	155,724	377,481	297,436	174,084	574	23,505	(1,182,584)	–
Disposals	–	–	–	–	(5,323)	(2,343)	(479)	–	(4,971)	–	(13,116)
At 31 December 2010	**4,907,847**	**726,721**	**2,028**	**3,406,126**	**4,553,025**	**2,804,077**	**2,466,204**	**87,116**	**148,502**	**1,123,715**	**20,225,361**
Accumulated depreciation											
At 1 January 2010	**(554,360)**	**(73,719)**	**(1,706)**	**(876,377)**	**(842,245)**	**(661,754)**	**(390,747)**	**–**	**(57,998)**	**–**	**(3,458,906)**
Depreciation charge	(166,641)	(17,129)	(80)	(251,394)	(320,888)	(258,815)	(129,017)	–	(16,770)	–	(1,160,734)
Impairment loss	–	–	–	–	–	–	–	–	–	(156,732)	(156,732)
Disposals	–	–	–	–	4,796	1,758	180	–	3,594	–	10,328
At 31 December 2010	**(721,001)**	**(90,848)**	**(1,786)**	**(1,127,771)**	**(1,158,337)**	**(918,811)**	**(519,584)**	**–**	**(71,174)**	**(156,732)**	**(4,766,044)**
Net book value											
At 1 January 2010	**4,216,685**	**636,024**	**322**	**2,374,025**	**3,338,622**	**1,847,230**	**1,901,852**	**86,542**	**71,970**	**654,577**	**15,127,849**
At 31 December 2010	**4,186,846**	**635,873**	**242**	**2,278,355**	**3,394,688**	**1,885,266**	**1,946,620**	**87,116**	**77,328**	**966,983**	**15,459,317**

6. Property, plant and equipment (continued)

	Buildings	Hydraulic structures	Electric power lines	Heating networks	Power equipment	Other equipment and facilities	Other structures	Land	Other items	Construction in progress	Total
Cost											
At 1 January 2011	**4,907,847**	**726,721**	**2,028**	**3,406,126**	**4,553,025**	**2,804,077**	**2,466,204**	**87,116**	**148,502**	**1,123,715**	**20,225,361**
Additions	–	–	–	–	–	–	–	–	–	2,197,980	2,197,980
Transfers	27,459	56,937	13,625	270,756	60,164	301,210	318,999	–	43,544	(1,092,694)	–
Disposals	(366)	(10)	(7)	(18,958)	(31,280)	(3,596)	(1,510)	–	(9,020)	(225)	(64,972)
At 31 December 2011	**4,934,940**	**783,648**	**15,646**	**3,657,924**	**4,581,909**	**3,101,691**	**2,783,693**	**87,116**	**183,026**	**2,228,776**	**22,358,369**
Accumulated depreciation											
At 1 January 2011	**(721,001)**	**(90,848)**	**(1,786)**	**(1,127,771)**	**(1,158,337)**	**(918,811)**	**(519,584)**	**–**	**(71,174)**	**(156,732)**	**(4,766,044)**
Depreciation charge	(170,821)	(21,928)	(80)	(241,979)	(300,666)	(262,793)	(139,141)	–	(17,928)	–	(1,155,336)
Impairment loss	–	–	–	–	–	–	–	–	–	(17,695)	(17,695)
Disposals	100	8	7	15,584	31,238	3,351	830	–	8,944	–	60,062
At 31 December 2011	**(891,722)**	**(112,768)**	**(1,859)**	**(1,354,166)**	**(1,427,765)**	**(1,178,253)**	**(657,895)**	**–**	**(80,158)**	**(174,427)**	**(5,879,013)**
Net book value											
At 1 January 2011	**4,186,846**	**635,873**	**242**	**2,278,355**	**3,394,688**	**1,885,266**	**1,946,620**	**87,116**	**77,328**	**966,983**	**15,459,317**
At 31 December 2011	**4,043,218**	**670,880**	**13,787**	**2,303,758**	**3,154,144**	**1,923,438**	**2,125,798**	**87,116**	**102,868**	**2,054,349**	**16,479,356**

6. Property, plant and equipment (continued)

In 2011, capitalized interest on loans amounted to RUR 163,082 thousand at a weighted average capitalization rate of 7.4% (2010 – RUR 39,955 thousand at a weighted average capitalization rate of 9.2%).

In 2011, the Group recognized impairment of construction in progress by RUR 17,695 thousand (2010 – RUR 156,732 thousand) due to uncertainty as to the completion of the construction and other use.

Leased machinery and equipment

The Group's other property, plant and equipment includes items leased under finance lease agreements. The net book value of leased assets was as follows:

	31 December 2011	31 December 2010
Cost	14,599	106,691
Accumulated depreciation	(575)	(16,734)
Net book value	**14,024**	**89,957**

7. Inventories

	31 December 2011	31 December 2010
Fuel production stock	782,122	532,179
Materials and supplies	288,525	193,523
	1,070,647	**725,702**
Provision for impairment of inventories	(649)	(657)
Carrying amount of inventories	**1,069,998**	**725,045**

8. Trade and other receivables

	31 December 2011	31 December 2010
Non-current		
Other receivables	3,771	12,999
Allowance for impairment	(77)	(61)
	3,694	**12,938**
Current		
Trade receivables	2,394,658	2,906,865
Allowance for impairment of trade receivables	(396,232)	(1,146,647)
Promissory notes receivable	–	1,337
Other receivables	251,179	340,508
Allowance for impairment of other receivables	(47,563)	(144,914)
	2,202,042	**1,957,149**

9. Prepayments

	31 December 2011	31 December 2010
Non-current assets		
Advances for capital expenditures (net of allowance for impairment at 31 December 2011 in the amount of RUR 671 thousand) (2010: nil)	1,794,551	17,662
	1,794,551	**17,662**
Current assets		
Advances issued (net of allowance for impairment at 31 December 2011 in the amount of RUR 11,981 thousand (31 December 2010 – RUR 5,635 thousand))	77,020	56,905
	77,020	**56,905**

10. Cash and cash equivalents

	31 December 2011	31 December 2010
RUR denominated cash on hand	306	322
RUR denominated balances with banks	2,932	3,878
Cash in transit	66,028	32,375
Deposits	–	116,500
	69,266	**153,075**

11. Equity

(a) Share capital

As at 31 December 2011 and 31 December 2010 the Company has authorized and fully paid share capital of 512,827,729,472 ordinary shares with a par value of RUR 0.01.

As at 31 December 2010, no company had a controlling interest in the share capital of TGK-11. On 28 March 2011, JSC INTER RAO UES acquired a controlling interest in TGK-11.

(b) Treasury shares

In September 2008, the Group purchased 725,282,150 treasury shares for the total amount of RUR 20,671 thousand. These shares are owned by one of the Company's subsidiaries and carried at the acquisition cost.

(c) Additional paid-in capital

Additional paid-in capital represents the amount of cash received by the Group in the year 2007 as a result of the sale of 100% shares of subsidiaries owned by Tomskenergo and OEGC before their merger with TGK-11 under common control. These subsidiaries had not been consolidated in the Group in the retrospective consolidation period.

(d) Dividends

In 2011 and before the date of approval of the financial statements for the year ended 31 December 2011, no dividends were declared by the Group. No dividends were declared or paid by the Group for 2010.

11. Equity (continued)

(e) Earnings per share

Earnings/(loss) per share are calculated by dividing the profit/(loss) for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the reporting year and recorded as treasury shares.

	2011	2010
Weighted average number of ordinary shares outstanding	512,102,447,322	512,102,447,322
Profit/(loss) for the year attributable to shareholders	214,979	(126,788)
Basic and diluted (loss)/earnings per share, RUR	0.0004	(0.0002)

12. Loans and borrowings

The table below shows summarized information on the Group's loans and borrowings.

	Currency	Maturity	31 December 2010
Non-current liabilities			
Long-term bank loans	RUR	2012-2013	1,721,177
Finance lease liabilities	RUR	2014	788
			1,721,965
Current liabilities			
Short-term bank loans	RUR	2011	897,500
Finance lease liabilities, current portion	RUR	2011	2,280
			899,780

	Currency	Maturity	31 December 2011
Non-current liabilities			
Long-term bank loans	RUR	2013-2016	4,819,232
Finance lease liabilities	RUR	2016	6,245
			4,825,477
Current liabilities			
Short-term bank loans	RUR	2012	519,766
Finance lease liabilities, current portion	RUR	2012	3,603
			523,369

As at 31 December 2011 the estimated fair value of total non-current bank loans amounted to RUR 4,584,665 thousand (31 December 2010: RUR 1,613,490 thousand), and was estimated by discounting the future contractual cash flows at the estimated current market interest rates for similar financial instruments available to the Group.

Finance lease liabilities

Finance lease agreements were mainly concluded for the lease of motor vehicles. Lease terms correspond to useful lives of the leased assets.

The lease agreements provide for the transfer of ownership of property, plant and equipment at the end of lease terms.

12. Loans and borrowings (continued)

Finance lease liabilities (continued)

The maturity periods for the finance lease liabilities are as follows:

	31 December 2011		31 December 2010	
	Future minimum lease payments	Interest	Future minimum lease payments	Interest
Less than 1 year	5,592	1,989	3,114	834
From 1 to 5 years	8,554	2,309	1,003	215
	14,146	**4,298**	**4,117**	**1,049**

The finance lease liabilities are secured by the assets leased.

13. Employee benefits

The Group has a defined benefit pension plan and other long-term defined benefit plans which cover most full-time and retired employees. Long-term defined benefit plans include lump-sum payments to employees upon retirement, financial assistance to retired employees, lump-sum payments upon death and jubilee payments.

Defined benefit pension plan liabilities were assessed by an independent professional actuary using the projected unit credit method.

(a) Movements in the value of defined benefit obligation

	31 December 2011	31 December 2010
Present value of defined benefit obligation	504,289	550,307
Unrecognized past service cost	(96,504)	(131,553)
Unrecognized actuarial gains	82,335	73,419
Net defined benefit obligation	**490,120**	**492,173**

(b) Expenses recognized in profit or loss for the period

	2011	2010
Current service cost	16,173	14,928
Interest expense	38,673	45,443
Actuarial gains	(5,769)	(1,227)
Past service cost	(18,569)	176,070
Gains from reduction of plan liabilities	(4,417)	–
Total expenses on defined benefit pension plans	**26,091**	**235,214**

(c) Movements in the present value of defined benefit obligation

	2011	2010
Present value of liabilities at 1 January	**550,307**	**189,534**
Current service cost	16,173	14,928
Interest expense	38,673	45,443
Actuarial gains/(losses)	(16,126)	30,066
Past service cost	(40,596)	292,401
Reduction of the plan	(15,997)	–
Benefits	(28,145)	(22,065)
Present value of liabilities at 31 December	**504,289**	**550,307**

13. Employee benefits (continued)

(c) Movements in the present value of defined benefit obligation (continued)

Past service cost is related to the adoption of new collective agreements and provisions with the employees of the Company's subsidiaries and the increase in payments to current and retired employees.

The accrued defined benefit plan expenses were included in salaries and other employee benefits. Interest expense was included in finance expenses.

Key actuarial assumptions are presented in the table below:

	2011	2010
Discount rate	8.5%	8%
Wage and salary increase	7.5%	7.5%
Employee turnover	6%	6%
Average retirement age		
Men	59.12	57.5
Women	55.90	54.5
Average life expectancy of plan participants from the date of retirement		
Men	3.8	3.8
Women	19.4	19.4

Amounts for the current and previous four periods as at 31 December are as follows:

	2011	2010	2009	2008	2007
Present value of defined benefit obligation	(504,289)	(550,307)	(189,534)	(222,001)	(372,097)
Plan assets	–	–	–	–	–
(Deficit)/surplus	(504,289)	(550,307)	(189,534)	(222,001)	(372,097)
Experience adjustments on plan liabilities	(19,308)	24,354	46,938	14,108	34,509

Payments to employees and retirees in 2012 in terms of defined benefits pension plan are expected to amount RUR 29,216 thousand.

In the result of changes in legislation the Group accrued the amounts of contributions to social funds on long-term employee benefits.

14. Provisions

	31 December 2011	31 December 2010
Non-current		
Site restoration provision	142,231	86,165
Other provisions	148	–
	142,379	**86,165**
Current		
Legal provisions	41,739	41,431
	41,739	**41,431**

14. Provisions (continued)

Site restoration provision

The site restoration provision is calculated based on the expected costs and timing of site restoration activities upon retirement of ash dumps to prevent environmental damage.

The site restoration provision was estimated as at 31 December 2011 using the discount rate of 7.16% to 8.31% per annum (31 December 2010: 6.05% to 8.03% per annum).

The movement in the site restoration provision is presented below:

	2011	2010
As at 1 January	**86,165**	**81,048**
Unwinding of the discount	952	6,257
Change in estimates of existing obligations	55,114	(1,140)
Site restoration provision as at 31 December	**142,231**	**86,165**

15. Trade and other payables

	31 December 2011	31 December 2010
Trade payables	877,920	559,269
Other payables	29,923	24,210
Interest payable	13,165	16,220
	921,008	**599,699**

16. Payables to employees

	31 December 2011	31 December 2010
Payables to employees	122,910	117,612
Provision for bonuses	106,833	77,843
Provision for unused vacations	108,963	83,878
	338,706	**279,333**

17. Other taxes payable

	31 December 2011	31 December 2010
Value added tax	42,527	278,698
Land tax	63,375	64,281
Unified social tax	50,552	36,509
Personal income tax	26,388	25,899
Property tax	1,393	56,124
Other taxes	18,495	17,497
	202,730	**479,008**

18. Operating revenue

	2011	2010
Revenue		
Heating	10,792,739	10,092,094
Electricity	5,618,530	5,072,021
Capacity	3,499,132	3,491,782
Water and condensate	210,224	165,488
Chemically treated water	288,770	298,255
Repairs and construction	420,377	130,779
Other revenue	194,710	72,289
	21,024,482	**19,322,708**

	2011	2010
Other operating income		
Fines and penalties under contracts	106,037	134,929
Operating lease income	51,104	47,551
Property revealed during stock-take	40,058	72
Interest income for the late overcharged taxes return	19,859	–
Income from taking into account previously used inventory	15,926	9,383
Disposal of accounts payable	13,811	6,797
Income on disposal of inventory	11,600	–
Other operating income	12,246	8,604
Gain on disposal of property, plant and equipment	8,899	–
Insurance indemnity income	5,907	880
	285,447	**208,216**

19. Operating expenses

	2011	2010
Fuel	9,695,082	8,996,687
Salaries and other employee benefits, including taxes	3,269,589	2,923,760
Purchased electricity and capacity	1,442,464	891,901
Depreciation and impairment losses	1,175,322	1,317,466
Heat distribution	1,150,237	1,045,854
Other materials	1,170,925	1,027,925
Water supply	596,495	572,178
Taxes and levies net of income tax	453,626	522,911
Repairs and maintenance	305,954	418,981
Subscriber's fee	193,783	158,962
Lease	177,770	224,927
Security	132,951	115,764
Transportation expenses	122,927	87,984
Loss on disposal of property, plant and equipment	1,497	1,148
Other operating expenses	883,576	682,151
Allowance for impairment of accounts receivable	(7,561)	346,385
	20,764,637	**19,334,984**

20. Finance income and finance expenses

	2011	2010
Finance income		
Interest income: effect of discounting	1,802	17,338
Other income	1,419	724
	3,221	**18,062**
Finance expenses		
Interest expense on loans and borrowings	154,355	201,974
Unwinding of discount on site restoration provision	952	6,257
Interest expense on defined benefit pension plans	38,673	45,443
Interest expense on finance lease obligations	1,156	7,314
Other expenses	892	–
	196,028	**260,988**

21. Income tax

Income tax rate in the Russian Federation is 20%.

	2011	2010
Current income tax		
Reporting year	(12,379)	(10,979)
Adjustments in respect to prior years	825	(7,297)
	(11,554)	**(18,276)**
Deferred income tax		
Origination and reversal of temporary differences	(125,952)	(61,526)
	(125,952)	**(61,526)**
Total income tax	**(137,506)**	**(79,802)**

The main reason for an increase in the deferred tax liability was that in 2011 the Company filed an amended income tax return for 2009 where mobilization costs were included in non-operating expenses (Article 265.1.17 of the Russian Tax Code). As a result, a deferred tax liability related to property, plant and equipment and a deferred tax asset in the amount of RUR 289,914 thousand related to loss carried forward were recognized.

In 2011, the Company utilized part of the deferred tax asset in the amount of RUR 74,714 thousand to cover current income tax expenses.

Reconciliation with respect to the effective tax rate:

	2011		2010	
	RUR thousand	**%**	**RUR thousand**	**%**
Profit/(loss) before tax	352,485	100	(46,986)	(100)
Income tax at the statutory tax rate of 20% (2010: 20%)	(70,497)	(20)	9,397	20
Adjustments in respect to prior years	825	–	(7,297)	(16)
Net tax effect of non-deductible expenses/ non-taxable income	(67,834)	(19)	(81,902)	(174)
	(137,506)	**(39)**	**(79,802)**	**(170)**

21. Income tax (continued)

Differences between the value of assets and liabilities reported in the financial statements and their tax value result in certain temporary differences. The tax effect of the movement on these temporary differences is recorded at the rate of 20%. All changes in temporary differences are recorded in profit and loss for the period.

	31 December 2011	2011	31 December 2010	2010	31 December 2009
Tax effect of deductible temporary differences					
Provisions (including provisions for bonuses and unused vacations)	71,606	21,868	49,738	6,694	43,044
Inventories	1,680	(5,881)	7,561	1,970	5,591
Trade and other receivables	48,818	(69,508)	118,326	53,071	65,255
Tax loss carried forward	316,834	220,542	96,292	(127,745)	224,037
Other	26,613	21,651	4,962	(9,414)	14,376
	465,551	**188,672**	**276,879**	**(75,424)**	**352,303**
Tax effect of taxable temporary differences					
Property, plant and equipment	1,734,899	311,613	1,423,286	13,835	1,409,451
Other	14,848	3,011	11,837	(27,733)	39,570
	1,749,747	**314,624**	**1,435,123**	**(13,898)**	**1,449,021**
Total deferred tax liabilities	**1,284,196**	**125,952**	**1,158,244**	**61,526**	**1,096,718**

22. Operating leases

Lease payments under non-cancellable operating lease agreements are payable as follows:

	2011	2010
Less than 1 year	42,035	165,186
From 1 to 5 years	50,023	325,290
More than 5 years	251,273	92,135
	343,331	**582,611**

The most significant portion of lease payments includes payments related to lease of heating facilities and land.

The term of lease agreements usually ranges from one to five years (the term of lease agreements for land ranges from five to twenty five years) with an option for further renewal. The amount of lease payments is adjusted annually to reflect the existing market conditions.

The lease agreements for land were signed several years ago and provide for the lease of land under property, plant and equipment.

23. Financial instruments and risk management

(a) Overview

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

- credit risk;
- liquidity risk;
- market risk.

23. Financial instruments and risk management (continued)

(a) Overview (continued)

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 the risks, and the Group’s management of capital. Further quantitative disclosures are included throughout these Financial Statements.

The Group’s risk management policies deal with identifying and analyzing the risks faced by the Group, setting appropriate risk limits and controls, and monitoring risk and compliance with limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group’s activities. The Group, through its internal policies, aims to develop an orderly and effective 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 loans given.

When monitoring credit risk, the Group classifies counterparties based on their credit history and estimation of their financial stability. The Group's managementassesses the creditworthiness of counterparties taking into account their financial position, past business experience and other factors. The assessments made are a basis for defining individual levels of credit risk for each counterparty or group of counterparties. Risk levels are reviewed regularly.

The Group's management believes that the collectability of receivables may be affected by economic factors, especially during the period of Russian and global market vulnerability, however it assesses the risk of incurring losses in excess of the amount of provision for impairment recognized in the Financial Statements, to be low.

Cash and short-term deposits are placed in credit and financial institutions, which are considered to have minimal risk of default at the time of placing a deposit or opening an account. Regardless of the fact that some banks are not assigned an international credit rating, the Group's management considers them to be reliable counterparties with stable positions in the Russian market.

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

	Carrying amount	
	31 December 2011	**31 December 2010**
Trade and other receivables	2,205,736	1,970,087
Cash and cash equivalents	69,266	153,075
	2,275,002	**2,123,162**

23. Financial instruments and risk management (continued)

(b) Credit risk (continued)

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

	31 December 2011	31 December 2010
Legal entities	1,268,777	818,419
Individuals	729,649	941,799
	1,998,426	**1,760,218**

Impairment losses

The aging of accounts receivable at the reporting date was as follows:

RUR thousand	Gross carrying amount 2011	Impairment 2011	Gross carrying amount 2010	Impairment 2010
Not past due	1,537,293	3,951	1,400,551	–
Past due 0 to 90 days	354,604	3,265	236,140	11
Past due 91 to 180 days	41,534	8,771	79,893	9,412
Past due 181 to 365 days	225,975	83,431	318,721	134,021
Past due more than one year	490,202	344,454	1,226,404	1,148,178
	2,649,608	**443,872**	**3,261,709**	**1,291,622**

Allowance for impairment is determined by the Group's management based on the assessment of the solvency of individual customers, trends, analysis of payments history and expected future cash flows.

The movement in the allowance for impairment of trade and other receivables is as follows:

	2011	2010
Balance at the beginning of the year	1,291,622	1,047,440
(Decrease)/increase in allowance for impairment	(14,578)	350,762
Bad debt written off against allowance	(833,172)	(106,580)
Balance at the end of the year	**443,872**	**1,291,622**

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to discharge its financial liabilities as they fall due.

The Group monitors its liquidity risk by planning the current liquidity on a daily basis. Management analyses maturities of financial assets and estimated cash flows from operating and financing activities, and manages current liquidity using open credit lines.

23. Financial instruments and risk management (continued)

(c) Liquidity risk (continued)

The Group has the following credit limits:

	Contractual period	31 December 2011	31 December 2010
Credit limits with floating interest rates	12 months	500,000	500,000
Credit limits with fixed interest rates	12 months	425,233	2,830,000
	More than 12 months	6,110,767	1,500,000
Total credit limits		**7,036,000**	**4,830,000**

Contractual maturities of financial liabilities, including expected interest payments and excluding netting agreements are presented below. The cash flows included in the maturity analysis are not expected to occur significantly earlier, or at significantly different amounts.

Financial liabilities as at 31 December 2011:

	Carrying amount	Contractual cash flows	Less than 1 year	1 to 5 years
Loans and borrowings	5,348,846	5,348,846	529,614	4,819,232
Trade payables	877,920	877,920	877,920	–
Interest payable	13,165	1,296,394	457,305	839,089
Other payables	29,923	29,923	29,923	–
	6,269,854	**7,553,083**	**1,894,762**	**5,658,321**

Financial liabilities as at 31 December 2010:

	Carrying amount	Contractual cash flows	Less than 1 year	1 to 5 years
Loans and borrowings	2,621,745	2,621,745	900,568	1,721,177
Trade payables	559,269	559,269	559,269	–
Interest payable	16,220	391,311	33,591	357,720
Other payables	24,210	24,210	24,210	–
	3,221,444	**3,596,535**	**1,517,638**	**2,078,897**

(d) Market risk

Market risk is the risk that changes in market prices, such as interest rates, will have a negative impact on the Group's profit or the value of its financial instruments. The purpose of market risk management is to control market risk exposures within acceptable limits, while trying to optimize return on investments.

The Group is not exposed to currency risk since the Group does not perform transactions denominated in currencies other than RUR.

Market risk of the Group is represented by interest rate risk.

The Group's profit and operating cash flows are substantially independent of changes in market interest rates. The Group is exposed to interest rate risk only through fluctuations of the market value of its interest-earning loans and borrowings. The Group has no significant interest-bearing assets.

23. Financial instruments and risk management (continued)

(d) Market risk (continued)

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities as those at fair value through profit or loss. Therefore, a change in interest rates at the reporting date would not affect the Group’s profit or loss for the period.

Fair value

Management admits that the fair value of the Group’s financial assets and liabilities approximates their carrying amounts. The fair value measured exclusively for disclosure purposes is calculated based on the estimation of the present value of future cash flows related to principle and interest amounts discounted at the market interest rate at the reporting date.

(e) Capital management

The Group’s objectives when managing capital are to ensure the Group's ability to continue operations on a going concern basis in order to maximize shareholder value while maintaining optimal gearing ratios.

For these purposes the Group manages its capital at the level of each of the Group's companies based on financial data prepared in accordance with the applicable legislation and Russian accounting principles.

In order to maintain or adjust the capital structure, the Group may adjust the dividend payments to its shareholders, issue new shares or make contributions to the charter capitals, sell assets and repay loans.

24. Contingent liabilities

(a) Insurance

As at 31 December 2011, the Group has insurance coverage for its production facilities and equipment in the amount of up to RUR 99,181,756 thousand (as at 31 December 2010 – RUR 13,481,534 thousand) in relation to property, plant and equipment with a net book value of RUR 14,140,398 thousand (as at 31 December 2010 – RUR 14,225,513 thousand) and for liabilities to third parties in respect of damage to the environment and life and health injury arising from accidents or the Group’s activities in the amount of RUR 189,272 thousand (as at 31 December 2010 – RUR 189,072 thousand). Nevertheless, the Group is exposed to a risk of negative impact on the Group’s performance and financial position in case of a loss or damage to assets which have no or partial insurance coverage.

(b) Litigation

The Group's entities are party to a number of legal proceedings arising in the ordinary course of business. The Group's management believes that there are no current legal proceedings or claims outstanding, which, upon final disposition, will have a material adverse effect on the financial position of the Group except those in relation to which the Group accrued legal provisions.

24. Contingent liabilities (continued)

(c) Taxation

Russian tax, currency and customs legislation is subject to varying interpretations and frequent changes. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments. Consequently, tax authorities may challenge transactions and accounting methods that they had never challenged before. As a result, significant additional taxes, penalties and interest may be assessed. It is not possible to determine the amounts of constructive claims or evaluate probability of their negative outcome. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

As at 31 December 2011, management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained.

(d) Environmental liabilities

The Group's entities are subject to extensive environmental control and regulation by federal and regional authorities. The management believes that the Group's production technologies comply with all requirements of environmental regulations of the Russian Federation. However, environmental laws and regulations continue to evolve. The Group is unable to predict timing or extent of such changes. Such changes, if they occur, may require the Group to modernize its technology in order to comply with more strict regulations.

(e) Contingencies related to compliance with instructions of state authorities for technical supervision

State authorities for technical supervision monitor the technical condition of the Group's production equipment on a regular basis. As a result of such reviews, the Group may be required to perform modernization or repairs of its production equipment. The total amount necessary to fulfill the requirements of state authorities for technical supervision issued to the Group as a result of such reviews as at 31 December 2011 cannot be estimated reliably, given that the volume, estimates and timing of the required measures are now under consideration and approval by the Group's management.

(f) Capital construction obligation

Due to the entry into force of Decree of the Government of the Russian Federation No. 89 dated 24 February 2010, Concerning certain issues related to organizing long-term capacity takeoff on a competitive basis on the wholesale market for electrical energy (capacity), Decree of the Government of the Russian Federation No. 238 dated 13 April 2010, Concerning the determination of pricing parameters for trading in capacity on the wholesale market for electrical energy (capacity) of the transition period, and Instruction of the Government of the Russian Federation No. 1334-r dated 11 August 2010, Concerning the approval of the list of generating facilities to be used for supplying capacity under capacity supply agreements, NP Market Council, together with wholesale market participants, developed a contractual framework for selling the capacity of new generating facilities which are under construction in accordance with suppliers' investment programs approved by the Government of the Russian Federation under the comprehensive investment program of RAO UES of Russia.

24. Contingent liabilities (continued)

(f) Capital construction obligation (continued)

In accordance with the contractual framework, suppliers will enter into an agency agreement with JSC FSC, JSC TSA, NP Market Council and JSC SO UPS to sell investment capacities. In compliance with this agreement JSC FSC will enter into capacity supply agreements with all buyers of electrical energy (capacity) for and on behalf of the supplier.

On 1 November 2010, the Company entered into an Agency Agreement with JSC FSC, JSC TSA, NP Market Council and JSC SO UPS, in accordance with which JSC FSC undertakes to enter into capacity supply agreements in the interests of the Company.

From December 2010 through February 2011, JSC FSC entered into agreements for the supply of capacity of some generating facilities planned to be commissioned with a total capacity of 282 MW. According to the terms of the Agency Agreement, should the Company fail to meet the dates of commissioning the generating facilities or supply the requisite capacity, it will pay to the Agent a penalty, the amount of which will depend on the period by which the commissioning of the generating facilities is overdue, quantity of the undersupplied capacity and the price of the capacity under the long-term capacity supply agreement. The Company's management does not expect that it will be prevented from performing its obligations under the capacity supply agreements, in whole or in part.

25. Related party disclosures

Below is the summary of the Group's transactions with the related parties, except for the transactions with state-controlled entities:

Company with a significant influence on the Group		Sales to related parties	Purchases from related parties	Amounts due from related parties	Amounts due to related parties
Parent company OAO INTER RAO UES	2011	41,974	445	3,460	–
	2010	–	–	–	–
Companies of the Group OAO INTER RAO UES	2011	396,812	427,955	397,470	31,961
	2010	–	–	–	–

Related parties	Type of operation	Amounts due from related parties as at 31 December 2011	Amounts due from related parties as at 31 December 2010	Amounts due to related parties as at 31 December 2011	Amounts due to related parties as at 31 December 2010
Key management personnel	Salaries and other benefits	4,333	29	2,096	1,828

During the year ended 31 December 2011, the Group sold a portion of heat and electricity to state-controlled not-for-profit entities in the amount of RUR 4,097,424 thousand (19.49% of total revenue) (during the year ended 31 December 2010: RUR 3,755,114 thousand). Terms of these agreements were similar to those to third parties. The procedure to establish tariffs for electricity and heat is disclosed in Note 1 (c).

25. Related party disclosures (continued)

During the year ended 31 December 2011, the Group sold a major portion of heat power in the amount of RUR 1,950,737 thousand (9.3% of total revenue) to the state-controlled Group Gazprom (during the year ended 31 December 2010: RUR 1,559,595 thousand).

During the year ended 31 December 2011, the Group purchased at the contractual prices a major portion of gas in the amount of RUR 5,261,590 thousand from a state-controlled entity (during the year ended 31 December 2010: RUR 5,225,502 thousand). As at 31 December 2011, the Group's accounts payable to state-controlled entities for gas supply amount to RUR 9,157 thousand (31 December 2010 – RUR 20,098 thousand).

During the year ended 31 December 2011, the Group obtained loans from state-controlled banks based on market interest rates. As at 31 December 2011, the Group's liabilities to state-controlled banks amount to RUR 3,844,387 thousand (31 December 2010 – RUR 93,754 thousand).

Other purchases from state-controlled entities represented an insignificant portion of other Group's purchases.

Terms and conditions of transactions with related parties

At the end of reporting periods outstanding balances are unsecured, interest-free, except for loans, and settled mainly in cash.

Compensation to key management personnel

	2011	2010
Salaries and other benefits	75,687	62,533
	75,687	**62,533**

The Group's liabilities to the top management related to employee termination payments were measured in the reporting period. As at 31 December 2011, the liabilities amounted to RUR 4,320 thousand.

26. Service concession arrangement

The Group uses public heating system facilities for providing services under energy supply agreements (heat supply to customers). The right to use the heating infrastructure is granted by municipal authorities under service concession arrangements.

The arrangements can be cancelled upon mutual agreement of the parties or unilaterally with preliminary notification of the other party. According to Group management, the Concessor is unlikely to cancel the contracts, as the Group is the principal heat supplier in the service area.

In accordance with the concession arrangements, the Group pays for using the heating infrastructure facilities. The payments are determined by mutual agreement of the parties and are included in operating expenses. In 2010-2011, the Group did not perform any improvements (upgrades) of heating facilities and did not undertake any obligations to modernize these facilities in the future.

27. Events after the reporting period

On 17 February 2012, the Group partially realized the gain in the amount of RUR 139,277 thousand resulting from the acquisition in 2008 of accounts receivable with the nominal value of RUR 276,248 thousand for RUR 110,723 thousand. The Group expects to realize the remaining portion of the gain from the acquisition of accounts receivable by the end of 2012.