JSC INTER RAO UES

Consolidated financial statements

For the year ended 31 December 2012
with report of independent auditors

Contents

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Independent auditors' report

To the shareholders and the Board of Directors of
Open Joint Stock Company "INTER RAO UES" (JSC "INTER RAO UES")

We have audited the accompanying consolidated financial statements of JSC "INTER RAO UES" and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2012, and the 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, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the 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 31 December 2012, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLC

15 April 2013

Consolidated statement of financial position

(in millions of RUR)

	Note	31 December 2012	31 December 2011
Assets			
Non-current assets			
Property, plant and equipment	6	282,761	227,525
Investment property	7	–	1,211
Intangible assets	8	8,864	4,814
Investments in associates and jointly controlled entities	9	26,681	48,035
Deferred tax assets	10	1,974	1,104
Available-for-sale financial assets	11	32,563	40,651
Other non-current assets	12	5,177	4,751
Total non-current assets		**358,020**	**328,091**
Current assets			
Inventories	13	12,954	9,945
Accounts receivable and prepayments	14	63,079	44,488
Income tax prepaid		1,498	1,543
Cash and cash equivalents	15	48,049	43,518
Other current assets	17	6,986	42,669
		132,566	**142,163**
Assets classified as held-for-sale	16	38,048	61,662
Total current assets		**170,614**	**203,825**
Total assets		**528,634**	**531,916**
Equity and liabilities			
Equity			
Share capital	18	293,340	272,997
Treasury shares	18	(41,363)	(34,612)
Share premium	18	69,312	69,706
Hedge reserve	18	111	306
Fair value reserve	18	(3,354)	(329)
Foreign currency translation reserve		(1,369)	(313)
Retained earnings		32,438	39,725
Total equity attributable to shareholders of the Company		**349,115**	**347,480**
Non-controlling interest		4,723	43,177
Total equity		**353,838**	**390,657**
Non-current liabilities			
Loans and borrowings	20	44,377	44,514
Deferred tax liabilities	10	17,412	18,939
Other non-current liabilities	22	7,033	12,347
Total non-current liabilities		**68,822**	**75,800**
Current liabilities			
Loans and borrowings	20	15,034	3,458
Accounts payable and accrued liabilities	21	87,130	57,932
Other taxes payable	23	3,643	3,681
Income tax payable		167	388
Total current liabilities		**105,974**	**65,459**
Total liabilities		**174,796**	**141,259**
Total equity and liabilities		**528,634**	**531,916**

Chairman of the Management Board — Kovalchuk B.Yu.

Chief Accountant — Chesnokova A.O.

15 April 2013

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out in Notes 1-36.

Consolidated statement of comprehensive income

(in millions of RUR)

	Note	For the year 2012	For the year 2011
Revenue	24	556,189	536,244
Other operating income	25	5,506	7,775
Operating expenses, net	26	(593,433)	(548,502)
Operating loss		**(31,738)**	**(4,483)**
Excess of the acquired share in the fair value of the identifiable assets and liabilities over the cost of investment and gain from acquisition of available-for-sale financial assets and assets classified as held-for-sale, net	5, 16	11,645	44,652
Finance income	27	4,911	9,099
Finance expenses	27	(11,800)	(14,417)
Share of profit of associates and jointly controlled entities,net	9	2,709	16,973
(Loss) / income before income tax		**(24,273)**	**51,824**
Income tax benefit / (expense)	28	1,918	(10,367)
(Loss) / income for the period		**(22,355)**	**41,457**
Other comprehensive (loss) / income			
Loss on available-for-sale financial assets, net of tax	11, 18	(3,025)	(319)
Net (loss)/gain on hedge instruments, net of tax	18	(195)	1,536
Exchange (loss) / gain on translation to presentation currency		(1,147)	1,420
Other comprehensive (loss) / income, net of tax		**(4,367)**	**2,637**
Total comprehensive (loss) / income for the year		**(26,722)**	**44,094**
(Loss) / income attributable to:			
Shareholders of the Company		(22,818)	36,144
Non-controlling interest		463	5,313
		(22,355)	**41,457**
Total comprehensive (loss) / income attributable to:			
Shareholders of the Company		(27,094)	38,719
Non-controlling interest		372	5,375
		(26,722)	**44,094**
Basic (loss) / earnings per ordinary share for (loss) / income attributable to the shareholders of the Company	19	**RUR (0.00263)**	**RUR 0.00493**
Diluted (loss) / earnings per ordinary share for (loss) / income attributable to the shareholders of the Company	19	**RUR (0.00275)**	**RUR 0.00493**

Chairman of the Management Board Kovalchuk B.Yu.

Chief Accountant Chesnokova A.O.

15 April 2013

The consolidated statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out in Notes 1-36.

Consolidated statement of cash flows

(in millions of RUR)

	Note	For the year 2012	For the year 2011
Operating activities			
(Loss) / profit before income tax		**(24,273)**	**51,824**
Adjustments to reconcile (loss) / profit before tax to net cash flows from operating activities:			
Depreciation and amortisation	26	16,596	13,016
Provision for impairment of accounts receivable	26	4,638	3,624
Other provisions charge / (release)	13, 21, 26	365	(199)
Impairment of available-for-sale financial assets and assets classified as held-for-sale	26	6,324	23,110
Impairment of property, plant and equipment, intangible assets and goodwill	6, 8, 26	28,083	3,739
Excess of the acquired share in the fair value of the identifiable assets and liabilities over the cost of investment and gain from acquisition of available-for-sale financial assets and assets classified as held-for-sale, net	5, 16	(11,645)	(44,652)
Share of profit of associates and jointly controlled entities	9	(2,709)	(16,973)
Income from electricity derivatives, net	25, 26	(521)	(547)
Foreign exchange (gain) / loss, net		(90)	349
Interest income	27	(4,180)	(7,871)
Other finance income	27	(280)	(196)
Interest expense	27	3,796	3,224
Other finance expenses	27	395	367
Dividend income	27	(361)	(881)
Income from sale of available-for-sale financial assets and assets classified as held-for-sale	25	(1,525)	(1,553)
Loss on exchange of treasury shares for shares in available-for-sale financial assets	26	78	–
Shares option plan	33	543	1,134
Put and call option agreement	27	7,609	10,826
Loss on disposal of controlling interest	5, 25, 26	56	19
Other non-cash operations / items		264	574
Operating cash flows before working capital adjustments and income tax paid		**23,163**	**38,934**
Increase in inventories		(858)	(830)
(Increase) / decrease in accounts receivable and prepayments		(16,577)	5,660
Decrease / (increase) in value added tax recoverable		5,633	(1,016)
Decrease in other current assets		687	524
Increase in accounts payable and accrued liabilities		2,080	11,732
Decrease in taxes other than income tax prepaid / payable, net		(2,823)	(1,140)
Other working capital adjustments		(741)	(187)
		10,564	**53,677**
Income tax paid		(4,076)	(7,676)
Net cash flows from operating activities		**6,488**	**46,001**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out in Notes 1-36.

Consolidated statement of cash flows (continued)

(in millions of RUR)

	Note	For the year 2012	For the year 2011
Investing activities			
Proceeds from disposal of property, plant and equipment		187	39
Purchase of property, plant and equipment and intangible assets		(48,884)	(26,430)
Purchase of associates and jointly controlled entities		–	(4)
Purchase of controlling interest, net of cash acquired	5	(6,663)	11,914
Purchase of available-for-sale financial assets	9, 11	(407)	(600)
Increase in share capital in an associate		–	(1,131)
Proceeds from disposal of controlling interest		(42)	(23)
Proceeds from disposal of available-for-sale financial assets and assets classified as held-for-sale	11, 16	24,883	3,560
Proceeds from repayment of loans issued		477	2,959
Loans issued		(1,406)	(2,983)
Bank deposits placed		(13,877)	(15,385)
Bank deposits and promissory notes returned		53,885	2,718
Cash flows (used for) / derived from other investing activities		(2)	30
Dividends received		617	398
Net cash flows from / (used for) investing activities		**8,768**	**(24,938)**
Financing activities			
Proceeds from loans and borrowings		49,413	45,092
Repayment of loans and borrowings		(44,656)	(49,801)
Repayment of finance leases		(512)	(583)
Interest paid		(2,098)	(2,718)
Dividends paid		(2,248)	(1,631)
Purchase of non-controlling interest in subsidiaries	5	(7,893)	(235)
Disposal of non-controlling interest in subsidiaries	5	2,622	3
Proceeds from additional issue of shares	18	–	50
Redemption of treasury shares	18	(6,493)	–
Proceeds from treasury shares sold	18	43	726
Net cash flows used in financing activities		**(11,822)**	**(9,097)**
Effect of exchange rate fluctuations on cash and cash equivalents		1,097	282
Net increase in cash and cash equivalents		**4,531**	**12,248**
Cash and cash equivalents at the beginning of the year		43,518	31,270
Cash and cash equivalents at the end of the period	15	**48,049**	**43,518**

Chairman of the Management Board — Kovalchuk B.Yu.

Chief Accountant — Chesnokova A.O.

15 April 2013

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out in Notes 1-36.

Consolidated statement of changes in equity

(in millions of RUR)

		Attributable to shareholders of the Company									
	Note	*Share capital*	*Treasury shares*	*Share premium*	*Foreign currency translation reserve*	*Fair value reserve*	*Hedge reserve*	*Retained earnings*	*Total*	*Non-controlling interest*	*Total equity*
Balance at 31 December 2010		**81,287**	**(1,173)**	**11,460**	**(1,671)**	**(10)**	**(1,230)**	**27,874**	**116,537**	**22,602**	**139,139**
Total comprehensive income / (loss) for the year ended 31 December 2011		**–**	**–**	**–**	**1,358**	**(319)**	**1,536**	**36,144**	**38,719**	**5,375**	**44,094**
Dividends to shareholders	18	–	–	–	–	–	–	(565)	**(565)**	(477)	**(1,042)**
Acquisition of non-controlling interest in subsidiaries	5	–	–	–	–	–	–	(433)	**(433)**	(75)	**(508)**
Acquisition of Group entities	5	–	–	–	–	–	–	–	**–**	(38)	**(38)**
Disposal of non-controlling interest in subsidiaries	5	–	–	–	–	–	–	221	**221**	31	**252**
Additional issue of shares	18	191,710	(34,006)	58,246	–	–	–	(27,124)	**188,826**	15,759	**204,585**
Call option agreement	18	–	–	–	–	–	–	2,352	**2,352**	–	**2,352**
Sale of treasury shares	18	–	521	–	–	–	–	159	**680**	–	**680**
Shares option plan	33	–	46	–	–	–	–	1,097	**1,143**	–	**1,143**
		191,710	**(33,439)**	**58,246**	**–**	**–**	**–**	**(24,293)**	**192,224**	**15,200**	**207,424**
Balance at 31 December 2011		**272,997**	**(34,612)**	**69,706**	**(313)**	**(329)**	**306**	**39,725**	**347,480**	**43,177**	**390,657**
Balance at 31 December 2011		**272,997**	**(34,612)**	**69,706**	**(313)**	**(329)**	**306**	**39,725**	**347,480**	**43,177**	**390,657**
Total comprehensive (loss) / income for the year ended 31 December 2012		**–**	**–**	**–**	**(1,056)**	**(3,025)**	**(195)**	**(22,818)**	**(27,094)**	**372**	**(26,722)**
Dividends to shareholders	18	–	–	–	–	–	–	–	**–**	(2,414)	**(2,414)**
Additional issue of shares	5	20,343	(9,547)	(394)	–	–	–	7,916	**18,318**	(17,231)	**1,087**
Acquisition of controlling interest in subsidiary	5	–	–	–	–	–	–	–	**–**	376	**376**
Acquisition of non-controlling interest in subsidiaries	5, 18	–	7,116	–	–	–	–	8,847	**15,963**	(23,856)	**(7,893)**
Disposal of non-controlling interest in subsidiaries	5	–	–	–	–	–	–	(1,677)	**(1,677)**	4,299	**2,622**
Acquisition of available-for-sale financial assets	11, 18	–	2,069	–	–	–	–	(33)	**2,036**	–	**2,036**
Acquisition of treasury shares	18	–	(6,424)	–	–	–	–	(69)	**(6,493)**	–	**(6,493)**
Shares option plan	33	–	–	–	–	–	–	543	**543**	–	**543**
Sale of treasury shares	18	–	35	–	–	–	–	4	**39**	–	**39**
		20,343	**(6,751)**	**(394)**	**–**	**–**	**–**	**15,531**	**28,729**	**(38,826)**	**(10,097)**
Balance at 31 December 2012		**293,340**	**(41,363)**	**69,312**	**(1,369)**	**(3,354)**	**111**	**32,438**	**349,115**	**4,723**	**353,838**

Chairman of the Management Board Kovalchuk B.Yu.

Chief Accountant Chesnokova A.O.

15 April 2013

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out in Notes 1-36.

(in million of RUR)

1. The Group and its operations

Establishment of the Group

Open Joint Stock Company “INTER RAO UES” (the “Parent Company” or the “Company” or JSC “INTER RAO UES”) was incorporated on 1 November 2002 by the sole shareholder, Open Joint Stock Company for Energy and Electrification Unified Energy System of Russia (“RAO UES”). From the date of incorporation until 9 April 2008 the Company’s name was JSC “Sochinskaya TPS”. On 9 April 2008, based on the shareholder’s decision, the Company was renamed to JSC “INTER RAO UES”. JSC INTER RAO UES is incorporated and domiciled in Russian Federation and whose shares are publicly traded.

The Russian Federation is the ultimate controlling party of JSC INTER RAO UES and has a controlling interest in the Company of over 50%.The Russian Federation does not prepare consolidated financial statements for public use.

The Company has controlling interests in a number of subsidiaries operating in different regions of the Russian Federation and abroad (the Company and its subsidiaries collectively are designated as the “Group”). During the year 2011 and 2012 the Group incorporated and acquired controlling interest in a number of entities that are engaged in electricity production, supply and other activities as presented in Note 5. The Group’s principal subsidiaries as at 31 December 2012 are presented in Note 35.

The Group is engaged in the following business activities:

- Electricity production, supply and distribution;
- Export and import of electricity;
- Sales of electricity purchased abroad and on the domestic market;
- Engineering services;
- Energy effectiveness research and development.

At 31 December 2012 the number of employees of the Group was 57,069 (31 December 2011: 47,014).

With effect from 25 July 2008 the Company’s registered office was entrance 7, Krasnopresnenskaya naberezhnaya – 12, 123610, Moscow, the Russian Federation. With effect from 29 July 2011 the Company’s registered office is building 3, Bolshaya Pirogovskaya – 27, 119435, Moscow, the Russian Federation.

The Group’s business environment

The governments of the countries where the Group entities operate directly affect the Group's operations through regulation with respect to energy generation, purchases and sales. Governmental economic, social and other policies in these countries could have a material effect on the operations of the Group.

The Russian Federation, Georgia, Armenia, Moldova (including Transdniestria Republic), Kazakhstan, Turkey, Lithuania, Latvia and Estonia have been experiencing significant (albeit different) political and economic changes that have affected, and may continue to affect, the activities of the Group entities operating in this environment. Consequently, operations in these jurisdictions involve risks that typically do not exist in other mature markets. These risks include matters arising from the policies of the government, economic conditions, the imposition of or changes to taxes and regulations, foreign exchange fluctuations and the enforceability of contract rights. In addition, the recent contraction in the capital and credit markets has further increased the level of economic uncertainty in the environment.

The accompanying consolidated financial statements reflect management’s assessment of the impact of the business environment on the operating results and the financial position of the Group in the countries where the Group entities operate. Management is unable to predict all developments which could have an impact on the utilities sector and the wider economy in these countries and consequently, what effect, if any, they could have on the financial position of the Group. Therefore, future business environment may differ from management’s assessment.

2. Basis of preparation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the International Accounting Standards Board (the IASB).

Each entity of the Group individually maintains its own books of accounts and prepares its statutory financial statements in accordance with the relevant statutory accounting requirements. These financial statements are based on the statutory records and adjusted and reclassified for the purpose of fair presentation in accordance with IFRS.

(in million of RUR)

2. Basis of preparation (continued)

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except for certain financial instruments which are measured at fair value, as discussed in Note 3.

(c) Predecessor accounting

The Group accounts for certain acquisitions presented in the table below as acquisitions amongst entities under common control using the predecessor accounting method (or pooling-of-interests method). Application of pooling-of-interests method assumes the comparatives are presented as if the entities acquired had been always consolidated. Accordingly, information in respect to the comparative period has been restated as if the acquisitions had occurred from the beginning of the earliest period presented.

The table below summarises the shareholding interest acquired from entities under common control in 2011 which have been accounted for using pooling-of-interests method. The effect of the application of pooling-of-interests method on the Group's consolidated financial statements is presented in Note 18.

	31 December 2011
JSC RazTES	100.00%
JSC Altayenergosbyt	100.00%
JSC United Energy Retailing Company	100.00%
LLC RN-Energo	100.00%
JSC PSK (group of companies)	61.52%
JSC OGK-1 (group of companies)[1]	45.14%
JSC TGK-11 (group of companies)	34.35%
JSC Tambov Energy Retailing Company	59.38%
JSC Saratovenergo	56.97%
JSC Mosenergosbyt (group of companies)	50.92%

(d) Functional and presentation currency

The national currencies of the countries where the Group entities operate are usually the individual company's functional currencies, because they generally reflect the economic substance of the underlying transactions and circumstances of those companies.

Beginning from 1 January 2011 the consolidated financial statements are presented in millions of the Russian roubles ("RUR") since management believes that this currency became more useful for the potential users of the consolidated financial statements (shareholders and non-equity investors) as a result of the changes in the Group structure: after additional issue of shares made by the Parent Company in 2011 the main part of the Group is represented by entities operating in the Russian Federation having RUR as their functional currency. All values are rounded to the nearest million, except when otherwise indicated.

The Group applies judgment in determination of the functional currencies of certain Group entities. The functional currency determination influences foreign exchange gain / losses recognised in profit and loss and translation differences recognised in other comprehensive income.

(e) Seasonality

Demand for electricity is to some extent influenced by the season of the year. Revenue is usually higher in the period from October to March than in other months of the year. This seasonality does not impact revenue or cost recognition policies of the Group.

(f) Going concern

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realisation of assets and the satisfaction of liabilities in the normal course of business. These financial statements do not include any adjustments that might be necessary should the Group be unable to continue as a going concern.

[1] Beginning from 1 October 2012 – JSC INTER RAO – Electric Power Plants (Note 5)

(in million of RUR)

2. Basis of preparation (continued)

(g) Critical accounting estimates and judgments

The Group makes estimates and judgments that affect the reported amounts of assets and liabilities within the next reporting period. Estimates and judgments are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgments, apart from those involving estimations, in the process of applying the accounting policies. The judgments that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next reporting period include:

Provision for impairment of accounts receivable

The provision for impairment of accounts receivable is based on the Group's assessment of the collectability of specific customer accounts. If there is deterioration in a major customer's 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 accounts 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 to the extent of 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 (see Note 14).

Useful lives of property, plant and equipment

The estimation of 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 physical environment in which the asset operates. Changes in any of these conditions or estimates may result in adjustments in depreciation rates. Land has an unlimited useful life and therefore is not depreciated.

Loans and borrowings

As at 31 December 2011 the Group accounted for loans with a nominal value of RUR 2,551 million at an amortised cost of RUR 141 million. The amortised cost of these loans has been calculated taking into account future cash flows associated with the repayment of these loans. The Group assessed future cash flows based on currently available facts and conditions, such as assessments of future capital investments, gas and electricity prices and market rates on similar financial instruments. Changes in any of these conditions or estimates may result in significant adjustments to the carrying value of loans and borrowings. As at 31 December 2012 the Group did not hold such loans due to reclassification (see Note 20 (i)).

Estimation of fair value

The estimation of the fair value of the acquired businesses and financial instruments where there is not an active market is a matter of management judgment based on the application of relevant valuation models. In determining the fair value the valuation models that are based on management best estimates of future cash flows, current market conditions and the choice of analogue the judgment areas are frequently used. Changes in any of these conditions may result in significant adjustment to the fair value of financial instruments and acquired businesses.

Restoration provision

Changes in the measurement of an existing restoration provision that result from changes in the estimated timing or amount of the outflows of economic benefits, or from changes in the discount rate adjust the cost of the related asset and liability. Estimating the amounts and timing of those obligations settlement requires management judgment. This judgment is based on cost and engineering studies using currently available technology and on current environmental regulations. The restoration provision is also subject to change because of updates in laws and regulations, and their interpretation by management.

(in million of RUR)

2. Basis of preparation (continued)

(g) Critical accounting estimates and judgments (continued)

Impairment of non-financial assets

An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the management forecast for the next twenty years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different CGUs, including a sensitivity analysis, are disclosed and further explained in Note 6 and Note 8.

Tax contingencies

The Group entities operate in a number of tax jurisdictions across Europe and the CIS. Where management believes it is probable that their interpretation of the relevant legislation and the Group's tax positions cannot be sustained, an appropriate amount is provided for in the financial statements. Tax contingencies are disclosed in Note 32.

Deferred income tax asset recognition

The Group does not recognize certain deferred income tax assets in respect of certain Group entities located in the Russian Federation, Armenia and Kazakhstan as management believes that it is not probable that the future taxable profit will be available in the respective Group entities against which the Group can utilize the benefits. Unrecognised deferred income tax assets are disclosed in Note 10 (b).

Changes in accounting estimates

Beginning from 1 October 2012 the Group changed its judgment regarding useful lives of property, plant and equipment within the reorganization through incorporation of assets and liabilities of JSC OGK-1 and JSC WGC-3 into JSC INTER RAO – Electric Power Plans (Note 5). Changes have been applied prospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, resulting in the RUR 646 million additional depreciation charge accrued in 2012 financial statements as compared to 2011 if no changes to useful life of property plant and equipment took place.

Reclassification

In 2012 the amount of RUR 1,546 million was reclassified from Other taxes payable to Accounts payable and accrued liabilities on the consolidated statement of financial position at 31 December 2011 to conform with the current year presentation. Respective reclassification was done in the consolidated statement of cash flows within working capital adjustments in operating activity.

3. Summary of significant accounting policies

Significant accounting policies applied in the preparation of the consolidated statements are described below. These accounting policies have been consistently applied.

Basis of consolidation

Principles of consolidation

Subsidiaries. Subsidiaries are entities controlled by the Company. Control is presumed to exist when the Company directly or indirectly has an interest of more than one half of the voting rights or otherwise has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Non-controlling interest. Non-controlling interest represents the non-controlling shareholders' proportionate share of the equity and results of operations of the Group's subsidiaries. This has been calculated based upon the non-controlling interests' ownership percentage of these subsidiaries. The non-controlling interest has been disclosed as a part of equity.

(in million of RUR)

3. Summary of significant accounting policies (continued)

Basis of consolidation (continued)

The Group applies a policy of treating transactions with non-controlling interests as transactions with equity owners of the Group. For purchases of non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Differences between consideration received and carrying value of non-controlling interests sold are also recorded in equity.

The Group derecognises non-controlling interest if non-controlling shareholders have received a mandatory offer to purchase their shares. The difference between the amount of the liability recognised in the consolidated statement of financial position over the carrying value of the derecognised non-controlling interests is charged to retained earnings.

Associates and jointly controlled entities. Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Associates are accounted for using the equity method. The consolidated financial statements include the Group's share of the net profit/loss of associates, after adjustments to align the accounting policies with those of the Group, from the date when significant influence commences until the date when significant influence ceases. When the Group's share of losses exceeds its interest in an associate, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.A jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity in which the ventures have a shared interest. The entity operates in the same way as other entities, except that a contractual arrangement between the venturers establishes joint control over the economic activity of the entity. Jointly controlled entities are accounted for using the equity method.

The Group discontinues using the equity method from the date on which it ceases to have joint control over, or have significant influence in associates and jointly controlled entities.

Transactions eliminated on consolidation. Intercompany transactions, balances and unrealised gains in transactions among the Group entities are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Unrealised gains on transactions between the Group and its equity accounted investees are eliminated to the extent of the Group's interest in the investees; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Business combinations

The acquisitions of entities under common control are accounted for using the predecessor accounting method. In accordance with this method, the consolidated financial statements of the Group is prepared to reflect the combination as if it had occurred from the beginning of the earliest period presented in the financial statements, or, if occurred later, from the date when the entities had been under common control. Under the predecessor accounting method the assets and liabilities of the combining entities are accounted for at the carrying values determined by the Group in its consolidated financial statements. Comparative information is presented as if the entities had always been consolidated.

All other acquisitions are accounted for by applying the purchase method of accounting.

Under this method when the Group obtains control over an entity it measures the cost of the business combination as the aggregate of:

(a) the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group, in exchange for control over the acquiree; and

(b) any costs directly attributable to the business combination.

The acquisition date for purchase accounting is the date when the Group effectively obtains control over the acquiree.

Foreign currency

Foreign currency transactions and translation. Transactions in foreign currencies are measured in the respective functional currencies of the Group entities at exchange rates effective at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are remeasured to the entities' functional currencies at the exchange rate at that date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are remeasured to the functional currency at the exchange rate at the date that the fair value was determined. Other non-monetary assets and liabilities measured in a foreign currency are remeasured to the functional currency at the exchange rate at the date of operation. Foreign currency differences arising on remeasurement are recognised in profit and loss.

The effect of exchange rate changes on fair value of available-for-sale financial assets, when they are considered non-monetary, is included in the statement of other comprehensive income.

(in million of RUR)

3. Summary of significant accounting policies (continued)

Foreign currency (continued)

Assets and liabilities of the Company and its subsidiaries are translated into the Group's presentation currency at the exchange rate prevailing at the end of the reporting period. Profit and loss items of the Company and its subsidiaries are translated at the average exchange rate for the period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in this case income and expenses are translated at the rate on the dates of the transactions). Components of equity and other comprehensive income are translated at the historical rate with the exception of equity opening balances at the date of transition to IFRS which were translated at the exchange rate at the date of transition. Exchange differences arising on the translation of the net assets of the Company and its subsidiaries are recognised as translation differences in other comprehensive income and included in the foreign currency translation reserve (FCTR) in equity.

Property, plant and equipment

Property, plant and equipment are carried at historical cost of acquisition or construction after deduction of accumulated depreciation and accumulated impairment. The cost of self-constructed assets includes cost of materials, direct labour and a proportion of production overheads. Where an item of property, plant and equipment comprises major components having different useful lives, the components are accounted for as separate items of property, plant and equipment.

Renewals and improvements are capitalised. The costs of regular repair and maintenance are expensed as incurred. Gains and losses arising from the disposal of property, plant and equipment are included in profit and loss as incurred.

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, is capitalised to the carrying amount of the component being written off. Other subsequent expenditure is capitalised only when it increases future economic benefits embodied in the item of property, plant and equipment. All other expenditures are recognised in profit and loss as incurred.

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

Prepayments for capital construction and acquisition of property, plant and equipment are included into construction in progress.

Depreciation of property, plant and equipment is calculated on a straight-line basis over the estimated useful life of the asset. Depreciation commences from the time an asset is completed and ready for use. The useful lives are reviewed at each financial year-end and, if expectations differ from previous estimates, changes are recognised prospectively. The useful lives, in years, of assets by type of facility are as follows:

Type of facility	***Useful life, years***
Buildings	15-100
Hydro engineering structures	17-99
Transmission facilities and equipment	5-50
Thermal networks	10-29
Power equipment	5-66
Other equipment and fixtures	5-40
Other structures	2-30
Other fixed assets	3-20

Investment properties

Investment property is property held by the Group to earn rental income or held for capital appreciation and which is not occupied by the Group.

Investment property is carried at cost less any accumulated depreciation and impairment losses. Depreciation and impairment are recorded in profit and loss. Depreciation of investment property is calculated on a straight-line basis over the estimated useful life of the asset. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is ready for use. The useful life for buildings for rent out purposed equalled to 58 years.

Earned rental income is recorded as revenue in profit and loss.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from intended use and no future economic benefits are expected from its disposal or continuing use. Any gains or losses on the retirement or disposal of an investment property are recognised in profit and loss.

Transfers are made to/from investment property when, and only when, there is a change in use, evidenced ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development with a view to sale. Transfers to/from investment property are recognised at cost less any accumulated depreciation and any accumulated impairment losses as a deemed cost at the date of transfer.

(in million of RUR)

3. Summary of significant accounting policies (continued)

Intangible assets

The Group classifies its intangible assets in the following categories:

- goodwill;
- software;
- other intangible assets (which include: a status of guaranteeing supplier, costs of projects in the development stage and others).

Goodwill. Goodwill arises on the acquisition of subsidiaries, associates and jointly controlled entities.

Goodwill represents the excess of the cost of investment over the Group's interest in the net fair value of the identifiable assets and liabilities of the acquiree. Goodwill in respect of subsidiaries is recognized as a separate asset within intangible assets in the consolidated statement of financial position. Goodwill in respect of associates and jointly controlled entities is included in the carrying amount of the investees.

The excess of the Group's interest in the net fair value of the identifiable assets and liabilities of the acquiree over the cost of investment is recognized in profit and loss. For associates and jointly controlled entities such excess is recognized in profit and loss as a part of the share of profit / loss of an associates and jointly controlled entities.

Goodwill is measured at cost less accumulated impairment losses and is the subject for impairment test at each reporting period or when an indication of impairment loss exists.

Concession arrangements. Concession contracts are the contracts when the Group constructs and upgrades infrastructure used to provide services, which it operates and maintains for a specified period of time. These arrangements include operating of a power plant and infrastructure under service concession arrangement for their entire useful life.

The Group applies the financial asset model when the amount due from the grantor meets the definition of a receivable which is measured at fair value. It is subsequently measured at amortised cost. The amount initially recognised plus the cumulative interest on that amount is calculated using the effective interest method.

Any asset carried under concession arrangements is derecognised on disposal or when no future economic benefits are expected from its future use or disposal or when the contractual rights to the financial asset expire.

The Group manages concession arrangements which include the construction of power plant, infrastructure and other facilities followed by a period in which the Group maintains and services the infrastructure. This may also include, in a secondary period, asset replacement or refurbishment. These concession arrangements set out rights and obligations relative the infrastructure and the service to be provided.

For fulfilling those obligations, the Group is entitled to receive consideration from the grantor. The consideration received or receivable is allocated by reference to the relative fair values of the services provided; typically:

- A construction component
- A service element for operating and maintenance services performed.

The right to consideration gives rise to a financial asset.

Revenue from the concession arrangements earned under the financial asset model consists of the (i) fair value of the amount due from the grantor; and (ii) interest income related to the capital investment in the project.

Software and other intangible assets. Other intangible assets that are acquired or internally created (as part of the cost of development projects) by the Group, which have finite useful lives, are measured at cost less accumulated amortization and impairment losses.

The estimated useful lives of intangible assets are in the range of 2-10 years for software and other intangibles assets.

Amortization. Amortization is recognized in profit and loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use.

(in million of RUR)

3. Summary of significant accounting policies (continued)

Internally generated intangible assets

Costs of projects on development stage are recognized as intangible assets to the extent that such expenditure is expected to generate future economic benefits and demonstrated all of the following: (a) the technical feasibility of completing the intangible asset so that it can be available for use or sale; (b) the Group's intention to complete intangible asset and use or sell it; (c) the Group's ability to use or sell the intangible asset; (d) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; (e) the Group's ability to measure the expenditure attributable to the intangible asset during its development reliably.

Leased assets

Leases in terms of which the Group as a lessee 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. The corresponding finance lease liability is carried at the present value of future lease payments.

Other leases are operating leases and the leased assets are not recognised on the Group's statement of financial position. The total lease payments are charged to profit or loss on a straight-line basis over the lease term.

Assets classified as held for sale (HFS)

Non-current assets and disposal groups are classified as HFS if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is met only when the sale is highly probable within a year from the date of classification, the asset or disposal group is available for immediate sale in its present condition and management has committed to the sale. The extension of the period required to complete a sale does not preclude an asset (or disposal group) from being classified as HFS if the delay is caused by events or circumstances beyond the Group's control and there is sufficient evidence that the Group remains committed to its plan to sell the asset (or disposal group). Non-current assets and disposal groups classified as HFS are measured at the lower of their carrying amount and fair value less costs to sell.

Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is determined on the weighted average basis, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Provision is made for obsolete or slow-moving inventories, taking into account their expected use and future realizable value.

Cash and cash equivalents

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

Prepayments

Prepayments made by the Group are carried at cost less provision for impairment. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of prepayment is written down as impairment loss in profit and loss. Prepayments received by the Group are classified as non-current liabilities when the goods or services relating to the prepayment are to be delivered beyond one year period. Where such prepayments relate to construction contracts, revenue is recognised when the outcome of the contract can be estimated reliably, by reference to the stage of completion of the contract activity.

(in million of RUR)

3. Summary of significant accounting policies (continued)

Value added tax on purchases and sales

Value added tax (VAT) related to sales is payable to tax authorities either upon revenue recognition or at the time of collection of receivables from customers, depending on local statutory regulations in respective jurisdictions in which the Group entities operate. Tax authorities permit settlement of VAT on a net basis. VAT related to sales and purchases which has not been settled at the end of the reporting period (deferred VAT) is recognised in the consolidated statement of financial position on a gross basis and disclosed separately as current asset and liability. Where provision has been made for impairment of receivables, the impairment loss is recorded for the gross amount of the debtor's balance, including VAT. Related deferred VAT liability is maintained on the consolidated statement of financial position until the debt is recognised for tax purposes. Changes of VAT recoverable related to the purchases of property, plant and equipment and investment property is recognized in the consolidated statement of cash flows in operating activities.

Financial instruments

Financial instruments include cash and cash equivalents, available-for-sale financial assets, accounts receivable, accounts payable and loans and borrowings. Particular recognition and measurement methods are disclosed in the individual policy statements associated with each item. Financial instruments are represented by derivatives and non-derivative financial instruments.

Sale and repurchase agreements

Equity instruments sold under sale and repurchase agreements ('repos') are retained in the consolidated statement of financial position. The difference between sale and repurchase price in treated as other operating income / (expenses) through profit and loss in the consolidated statement of comprehensive income.

Derivative financial instruments

Derivative financial instruments are means to transfer risk inherent in the basic instruments, between the parties of the contract, without transfer of the underlying instruments.

As a part of trading activities, the Group has the following derivative financial instruments:

a) interest rate swap;

b) currency swap;

c) foreign currency forward and option contract: foreign currency forwards and options are initially recognised at fair value on the date a forward / option contract is entered into and are subsequently remeasured at their fair value. Fair value gains and losses on those derivatives are presented as part of other comprehensive income to the extent of effective cash flow hedges and as a part of profit or loss to the extent of ineffective cash flow hedges;

d) electricity futures and forward contracts: electricity derivatives are initially recognized at fair value on the date a contract in entered into and are subsequently remeasured at their fair value. Fair value gains and losses on those derivatives are presented as part of other comprehensive income to the extent of effective cash flow hedges and as a part of profit or loss to the extent of ineffective cash flow hedges or speculative transactions;

e) shares option (call or put): options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period. Options purchased by the Group provide the Group with the opportunity to purchase (call options) the underlying asset at an agreed-upon value either on or before the expiration of the option.

Compound financial instruments

Compound (hybrid) financial instrument is divided in accordance with the terms of the contract in the following parts: financial liability / financial asset and equity component. When initial carrying amount of a compound financial instrument is allocated to its equity and asset / liability components, the equity component is assigned to the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the asset / liability component. The sum of the carrying amounts assigned to the asset / liability and equity components on initial recognition equals to the fair value that would be ascribed to the instrument as a whole. The Group presents the asset / liability and equity components separately in its consolidated statement of financial position. On initial recognition, the fair value of the asset / liability component is the present value of the contractually determined stream of future cash flows discounted at the rate of interest applied at that time by the market to instruments of comparable credit status and providing substantially the same cash flows, on the same terms, but without the conversion option. Changes in the fair value of an equity instrument are not recognized in the consolidated financial statements. On conversion of a convertible instrument at maturity, the Group derecognizes the asset / liability component and recognizes it in equity. The original equity component remains as equity (although it may be transferred from one line item within equity to another). There is no gain or loss on conversion at maturity.

(in million of RUR)

3. Summary of significant accounting policies (continued)

Compound financial instruments (continued)

The method of recognising of the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

(a) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge);

(b) hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge);

(c) hedges of a net investment in a foreign operation (net investment hedge).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions.

The Group also documents its assessment, both at the time of the hedges' inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. The fair values of various derivative instruments are disclosed in Note 17, 18, 21, 22. The fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

Non derivative financial assets

The Group classifies its financial assets in the following categories:

a) financial assets at fair value through profit or loss,

b) available-for-sale financial assets,

c) held-to-maturity financial assets.

Management determines the classification of its financial assets at initial recognition and re-assesses this designation thereafter.

(a) Financial assets at fair value through profit or loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term period or if so designated by management. Assets in this category are classified as current assets if they are expected to be realized within 12 months from the end of the reporting period the balance sheet date. Gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are included within the profit and loss in the consolidated statement of comprehensive income in the period in which they arise.

(b) Available-for-sale financial assets (AFS)

Investments intended to be held for an indefinite period of time are classified as AFS; they are classified as other non-current assets unless management has an intention to hold the investment for less than 12 months from the end of the reporting period. Management determines the appropriate categorisation, current or non-current distinction, at the time of purchase and re-assesses it based on maturity at the end of each reporting period.

AFS include non-marketable securities, which are not publicly traded. For these investments, fair value is estimated using a variety of methods including those based on their earnings and those based on the discounted value of estimated future cash flows. In assessing the fair value, management makes assumptions that are based on market conditions existing at the end of each reporting period. Investments in equity securities that are not quoted on a stock exchange and which fair value cannot be estimated on a reasonable basis by other means are stated at cost less impairment losses.

'Regular way' purchases and sales of investments are initially measured at fair value plus transaction costs and recognised on the settlement date, which is the date when the investment is delivered to or by the Group. AFS are subsequently carried at fair value except for those investments which fair value cannot be reliably estimated. In this case the investments are carried at cost less impairment provision. Gains and losses arising from changes in the fair value are recognised in other comprehensive income and included in the fair value reserve in equity in the period in which they arise. Realised gains and losses from the disposal of AFS are included in profit and loss in the period in which they arise.

(in million of RUR)

3. Summary of significant accounting policies (continued)

Non derivative financial assets (continued)

(c) Held-to-maturity financial assets

Financial assets with fixed terms and cash flows are classified as held-to-maturity financial assets, provided management intends to keep them for their full terms and is in a position to do so. Management determines the appropriate classification for its investments on their acquisition dates. Held-to-maturity financial assets are carried at amortised cost based on the effective interest method, net of provision for impairment losses. Interest earned on held-to-maturity financial assets is recognised as interest income. All purchases and sales made in accordance with standard market conventions for held-to-maturity financial assets are recognised at the date of settlement.

Loans and accounts receivable

Accounts receivable are recorded inclusive of value added taxes (VAT) and are initially recorded at the amount receivable from the debtor. Trade and other receivables are adjusted for provision made for impairment of these receivables. Such provision for doubtful debtors is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the contract. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected future cash flows, discounted at the market rate of interest adjusted for the credit risk of debtors at the date of origination of the receivables.

Debt is recognised initially at its fair value net of transaction costs incurred. Fair value is determined using the prevailing market rate of interest for a similar instrument, if significantly different from the transaction price. In subsequent periods, debt is stated at amortised cost using the effective yield method; any difference between the amount at initial recognition and the redemption amount is recognised in profit and loss as interest adjustment over the period of the debt obligation exists.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the obligation at the reporting date.

Fair value of financial instruments

Fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted market bid prices for assets and offer prices for liabilities, at the close of business on the reporting date, without any deduction of the transaction costs.

For financial instruments where there is no active market, fair value is determined using appropriate valuation techniques. Valuation techniques include discounted cash flow method, comparison to similar instruments for which market observable prices exist, options pricing models, credit models and other relevant valuation models. Certain financial instruments are recorded at fair value using valuation techniques because current market transactions or observable market data are not available. Their fair value is determined using a valuation model that has been tested against prices or inputs to actual market transactions and using the Group's best estimate of the most appropriate model assumptions. Models are adjusted to reflect the spread for bid and ask prices to reflect costs to close out positions, counterparty credit and liquidity spread and limitations in the models. Also, profit or loss calculated when such financial instruments are first recorded (Day 1 profit or loss) is deferred and recognised only when the inputs become observable or on derecognition of the instrument.

For discounted cash flow techniques, estimated future cash flows are based on management's best estimates and the discount rate used is a market related rate for a similar instrument. The use of different pricing models and assumptions could produce materially different estimates of fair values.

Fair value of floating rate and overnight deposits with credit institutions is their carrying value. The carrying value is the cost of the deposit plus interest accrued. Fair value of fixed interest-bearing deposits is estimated using discounted cash flow techniques. Expected cash flows are discounted at prevailing market rates for similar instruments at the reporting date.

If fair value cannot be measured reliably, these financial instruments are measured at cost, being fair value of the consideration paid for the acquisition of the instrument or the amount received. All transaction costs directly attributable to the acquisition are also included in the cost of the transaction. An analysis of fair values of financial instruments and further details as of how they are measured are provided in Note 29.

(in million of RUR)

3. Summary of significant accounting policies (continued)

Fair value of financial instruments (continued)

Where fair values of financial assets and financial liabilities recorded on the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of discounted cash flows model and/or mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity risk, credit risk, and model inputs such as volatility and discount rates, prepayment rates and default rate assumptions for asset backed securities.

For discounted cash flows analysis, estimated future cash flows and discount rates are based on current market information and rates applicable to financial instruments with similar yields, credit quality and maturity characteristics. Estimated future cash flows are influenced by factors such as economic conditions (including country specific risks), concentrations in specific industries, types of instruments or currencies, market liquidity and financial conditions of counterparties. Discount rates are influenced by risk free interest rates and credit risk.

Changes in these assumptions affect the fair value of financial instruments.

Impairment

Held-to-maturity financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

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

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

All impairment losses are recognised in profit and loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in profit and loss.

AFS

Impairment losses are recognised in profit and loss when incurred as a result of one or more events (“loss events”) that occurred after the initial recognition of AFS. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss is measured as the difference between the acquisition cost and current fair value, less any impairment loss on that asset previously recognised in profit or loss. The last is reclassified from fair value reserve to profit or loss. Impairment losses on equity investments classified as AFS are not reversed through profit or loss; increases in their fair value after impairment are recognised directly in other comprehensive income.

Non-financial assets

Carrying amounts of the Group’s non-financial assets, other than inventories and deferred tax assets, are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If 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, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset.

An impairment loss is recognised if the carrying amount of an asset or cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from those of other assets and groups. Impairment losses are recognised in the consolidated statement of comprehensive income. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

(in million of RUR)

3. Summary of significant accounting policies (continued)

Impairment (continued)

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

Derecognition of financial assets

The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but does not retain control. Control is retained if the counterparty does not have practical ability to sell the asset in its entirety to an unrelated third party without imposition of additional restrictions on the sale.

Loans and borrowings

Loans and borrowings are recognised initially at their fair value which is determined using prevailing market rate of interest for a similar instrument, if significantly different from the transaction price, net of transaction costs incurred. In subsequent periods, loans and borrowings are recognised at amortised cost, using effective interest method; any difference between the amount at initial recognition and the redemption amount is recognised in profit and loss as an interest adjustment over the period of the instrument.

Employee benefits

Pension and post-employment benefits. In the normal course of business the Group contributes to various governmental pension schemes on behalf of its employees. Mandatory contributions to governmental pension schemes are expensed in profit and loss when incurred. Costs associated with discretionary pensions and other post-employment benefits are included in wages, benefits and payroll taxes in profit and loss; however, separate disclosures are not provided as these costs are not material.

Short-term benefits. Short-term employee benefits are measured on an undiscounted basis and are expensed in profit and loss as related service is provided.

An expense is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by employees, and the obligation can be estimated reliably.

Defined benefit plans. The Company operates defined benefit plans that cover the majority of its employees. Benefit plans define the amount of pension benefit that an employee will receive on or after retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognised in the consolidated statement of financial position in respect of defined benefit pension plans is the present value of defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognised actuarial gains and losses. Defined benefit obligations are calculated using the projected unit credit method.

Present value of defined obligations are determined by discounting the estimated future cash outflows using interest rate of government bonds that are denominated in the currency of benefits payment and associated with the operation of the plans, and that have maturity terms approximating the terms of the related pension liabilities.

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

Share-based payment transactions. The share option programme allows the Group's employees to acquire shares of the Company. The fair value of the options is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the American type options is measured based on the binomial model while fair value of European type options is measured based on the Black-Scholes model taking into account terms and conditions in the options were granted.

(in million of RUR)

3. Summary of significant accounting policies (continued)

Government grants

Grants from government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to costs are deferred and recognised in profit and loss over the period necessary to match them with the costs that they are intended to compensate. Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to profit and loss on a straight-line basis over the expected lives of the related assets.

Provisions

A provision is recognised if, as a result of past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting expected future cash flows at a pre-tax rate that reflects current market assessments of time value of money and risks specific to liability.

Environmental liabilities

Liabilities for environmental remediation are recorded where there is a present obligation, the payment is probable and reliable estimates can be made.

Restoration provision

Restoration provision is recognized if it presents a legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. The asset is depreciated through profit and loss in the consolidated statement of comprehensive income on a straight-line basis during the asset’s useful life. Restoration provision is calculated based on expected costs and time required to restore the land occupied by ash dumps and mines at the end of their useful life to avoid their damaging effect on the environment. Change in provision related to revision of costs, discount rate or other assumptions is accounted for prospectively starting from the date of change in these estimates.

Shareholder’s equity

Dividends

Dividends declared are recognised as a liability and deducted from equity if they are approved by shareholders. Dividends are disclosed when they are declared after the end of the reporting period, but before the consolidated financial statements are authorised for issue.

Earnings per share

Earnings per share is determined by dividing profit / (loss) attributable to ordinary shareholders by weighted average number of ordinary shares outstanding during the reporting period, excluding the effect of average number of ordinary shares purchased by the Group (treasury shares).

Diluted earnings per share are calculated by adjusting weighted average number of ordinary shares outstanding assuming conversion of all dilutive potential ordinary shares. The Company has a dilution effect caused by the share options to management. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as average market price of the Company’s shares) based on the monetary value of the subscription rights attached to outstanding share options.

Share premium

Share premium is determined as a difference between the issue cost of shares and their nominal value at the moment of issue of shares. Share premium is translated into reporting currency using the historical rate as at the date of the transaction and recognised in the consolidated statement of changes in equity.

Treasury shares

The cost of acquisition of the Company’s equity instruments by the Company or its subsidiaries, including any directly attributable incremental costs, net of income taxes, is deducted from equity attributable to the Company’s owners until the equity instruments are cancelled, reissued or disposed of.

(in million of RUR)

3. Summary of significant accounting policies (continued)

Shareholder's equity (continued)

Treasury shares are recognised at their nominal value, and any differences between nominal value and consideration transferred, including any directly attributable incremental costs, net of income taxes, are recognised within retained earnings.

Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and related income tax effects is included in equity attributable to the Company's shareholders. Disposal of treasury shares is recognised at nominal value, and any difference between nominal value and consideration received, net of any directly attributable incremental transaction costs and related income tax effects, is recognised in retained earnings. No gain or loss is recognised in the consolidated statement of comprehensive income on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Revenue

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Group and revenue can be reliably measured, regardless of when the payment is made. Revenue from sale of electricity, capacity and heat is recognised in profit and loss on delivery of electricity, capacity and heat. Where applicable, revenue is based on rates and related restrictions established by law and regulating authorities. The regulatory mechanisms differ from country to country.

Revenue from rendering of construction contracts services is recognised in line with the stage of completion of the services. Costs incurred in connection with future activity for a contract are excluded from contract costs in determining the stage of completion. They are presented as a part of amounts due to or due from customers for contract work. Revenue amounts are presented exclusive of VAT.

The Group presents electricity purchases entered into to support a delivery of non-regulated bilateral contracts net within revenue.

Social expenditure

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

Research expenditure

Research expenditure is recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period, even if the asset recognition criteria are subsequently met.

Finance income

Finance income comprises interest income on funds invested, accretion income, dividend income and foreign currency gains, net. Interest income is recognised as it accrues, using the effective interest method. Dividend income is recognised when the dividends are declared and an inflow of economic benefits is probable.

Finance expenses

Finance expenses primarily include interest expense on borrowings, unwinding of discount on provisions and foreign currency losses, net. All borrowing costs are recognised in the consolidated statement of comprehensive income using the effective interest method unless directly attributable to acquisition of a qualifying asset. Commission fee for opening of credit lines is included into interest expense.

Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit and loss except it relates to items recognised in other comprehensive income or directly in equity.

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

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: initial recognition of goodwill, initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that the Parent Company is able to control the timing of their reversal and it is probable that they will not reverse in the foreseeable future.

(in million of RUR)

3. Summary of significant accounting policies (continued)

Income tax expense (continued)

A deferred tax asset for deductible temporary differences and tax losses carry forward is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised.

Deferred tax assets are reviewed at the end of each reporting period and are reduced to the extent that it is no longer probable that related tax benefit will be realised.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on laws that have been enacted or substantively enacted by the end of the reporting period.

New accounting pronouncements and revised standards

The accounting policies adopted in the preparation of the consolidated financial statements for the year ended 31 December 2012 are consistent with those followed in the preparation of the Group's annual financial statements for 2011, except for the adoption of new amendments of the following standards became effective for the Group's consolidated financial statements at 31 December 2012, noted below:

a) The amendments of the following standards became effective for the Group's consolidated financial statements as of 1 January 2012:

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 risks and rewards associated with these assets. The Group has no transferred financial assets that are not derecognized in their entirety and the associated liabilities; therefore, this amendment did not have any material effect on the 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 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 Group recognizes the investment property using the cost model; therefore, the amendments did not have any material effect on the consolidated financial statements.

IFRS 1 (Amendment) Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters was issued in December 2010 and applies to annual reporting periods beginning on or after 1 July 2011. The amendment replaces the fixed dates in the derecognition exception and the exemption related to the initial fair value measurement of financial instruments, and adds a deemed cost exemption to IFRS 1 that an entity can apply at the date of transition to IFRSs after being subject to severe hyperinflation. The amendments did not have any effect on the consolidated financial statements.

b) The following IFRSs and amendments to existing IFRSs that have been published are not yet effective

The following amendment to IFRS will become effective for the Group's consolidated financial statements from 1 July 2012:

► *IAS 1 Presentation of Financial Statements (Amendment) issued in June 2011* and applies to annual reporting periods beginning on or after 1 July 2012, changes the grouping of items presented in the consolidated statement of other comprehensive income. According, the change of the group are required to subdivide an article submitted as part of other comprehensive income, into two categories, based on whether the article be transferred to profit and loss in the future. Used in IAS 1 the statement of comprehensive income name now changed to the profit and loss statement and other comprehensive income. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

(in million of RUR)

3. Summary of significant accounting policies (continued)

New accounting pronouncements and revised standards (continued)

The following IFRSs will become effective for the Group's consolidated financial statements from 1 January 2013*:*

- *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*. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.
- *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 rights and obligations of the parties arising from that arrangement. There are only two types of arrangements provided in the standard – joint operations 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 Ventures.* The Group is currently assessing the impact of the amended standard on its consolidated financial statements.
- *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 certain disclosures to be made in the consolidated financial statements of the Group but is expected to have impact on its financial position or performance. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.
- *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 as well as disclosures in the notes to the consolidated financial statements.
- *IAS 28 Investments in Associates (Amendment) issued in May 2011 and effective for annual periods beginning on or after 1 January 2013*, there is a possibility of an early use, prescribes the accounting treatment of investments in associated companies and includes a requirement for application of equity method to investments in associates and joint activities. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.
- *Revised IAS 19 Employee Benefits (released in June 2011*) *applies to periods beginning with the 1 January 2013* or after making significant changes to the procedure for the recognition and measurement of the cost of the pension scheme with defined benefit and severance payments, as well as significantly changes the requirements for disclosure of information about all types of remuneration to employees. Changes range from fundamental (for example, the exclusion mechanism corridor and the notion of expected yield of assets plan) to simple wording changes and clarifications. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.
- *Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7), issued in December 2011.* Amendments clarify assets and liabilities offsetting rules and introduce new related disclosure requirements. The new disclosure requirements in IFRS 7 are effective for annual periods beginning on or after 1 January 2013. The Group will adopt revised IFRS 7 from 1 January 2013. The Group does not expect the amendments to have a material impact on the consolidated financial position and consolidated results of operations, but is currently assessing the impact of the amended standard on the disclosures in the notes to the consolidated financial statements.

(in million of RUR)

3. Summary of significant accounting policies (continued)

New accounting pronouncements and revised standards (continued)

- *In March 2012, the IASB issued amendments to IFRS (IFRS) 1 First-time Adoption of International Financial Reporting Standards.* The amendments relate to loans obtained from government agencies at below-market interest rate. Companies applying IFRS for the first time are exempt from retrospective application of the requirements for prior periods. Changes in the standard are effective for annual periods beginning on 1 January 2013. Earlier application is also permitted. The Group does not expect the amendments to have an impact on the consolidated financial statements.
- *IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine*. This interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity. The interpretation is effective for annual periods beginning on or after 1 January 2013. The new interpretation will not have an impact on the Group.
- *Improvements to IFRS (issued in 2012).* In May 2012, the IASB issued its omnibus of amendments to IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34 primarily with a view to remove inconsistencies and clarify wording. There are separate transitional provisions for each standard. The effective date for each of the proposed amendments, if finalised, would be annual periods beginning on or after 1 January 2013, with earlier adoption permitted. The Group is considering the implications of the standards and the impact on the Group.

The following amendment to IFRS became effective for the Group's financial statements from 1 January 2014:

- *Offsetting Financial Assets and Financial Liabilities* (Amendments to IAS 32), issued in December 2011, added criterion that an entity 'currently has a legally enforceable right to offset the recognized amounts' and criterion that an entity 'intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously'. The Group shall apply those amendments for annual periods beginning on or after 1 January 2014. The Group does not expect the amendments to have a material impact on the consolidated financial position, consolidated results of operations or notes to the consolidated financial statements.

The following IFRS became effective for the Group's consolidated financial statements from 1 January 2015:

- *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 report 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.
  - The IASB has published an amendment to IFRS 9 that delays the effective date from annual periods beginning on or after 1 January 2013 to 1 January 2015. This amendment is a result of the Board extending its timeline for completing the remaining phases of its project to replace IAS 39 beyond June 2011. The Group is currently assessing the impact of the standard on the consolidated financial statements. Adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted.

The Group is considering the implications of the standards improvement and the impact on the Group.

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

The Group plans to adopt new standards and amendments when they become effective.

(in million of RUR)

4. Segment information

Operating segments are components of an enterprise about which separate financial information is available and is evaluated regularly by the Chief Operating Decision Maker ('CODM') in deciding how to allocate resources and in assessing performance. The Management Board of the Parent Company have been determined as the CODM; the operating segment has been defined as a legal entity or a particular business activity of a legal entity. Since 2011 the Management Board decided to analyse the effectiveness of the operating segments based on IFRS financial reporting.

The Management Board considers the Group activities from both geographical (by countries of the Group entities' jurisdiction) and business perspective (generation, trading, supply, distribution, engineering and other) meaning that each operating segment represents a certain type of business activities in a certain country.

The following reporting segments have been identified based on the requirements of IFRS 8 *Operating Segments* (taking into consideration aggregation criteria as well as quantitative thresholds on revenue and EBITDA):

- **Supply in the Russian Federation** (represented by JSC Mosenergosbyt, JSC PSK, JSC Tambov Energy Retailing Company, JSC Saratovenergo, JSC Altayenergosbyt, LLC INTER RAO Orlovskii energosbit and their management company JSC United Energy Retailing Company, JSC Industrial Energetics, LLC RN-Energo, LLC RT – Energy Trading (equity accounted investee);
- **Generation in the Russian Federation** represented by the following reporting sub-segments:
  - *INTER RAO – Electricity Generation Group** (represented by generating divisions of the Parent Company and JSC INTER RAO – Electric Power Plants*). In 2011 annual financial statements and 2012 interim financial statements the Group presented three different sub-segments including OGK-1, WGC-3 and Generation of Parent. In 2012 the Group merged these sub-segments in one due to reorganization of OGK-1 and WGC-3 held in 2012 (Note 5). The Group restated segment information for the year ended 2011, respectively.
  - *TGK-11* (represented by Group TGK-11);
  - *Bashkir Generation* (represented by LLC Bashkir Generation Company, LLC Bashkir Heat Distribution Grid and LLC CCGT CHPP-5) since November 2012.
- **Trading in the Russian Federation and Europe** (represented by the trading activities of the Parent Company, RAO Nordic Oy, UAB INTER RAO Lietuva, SIA INTER RAO Latvia, INTER RAO Eesti OU, Inter Green Renewables and Trading AB and JSC Eastern Energy Company). JSC Eastern Energy Company was included in segment Other for the year ended 2011. For the purpose of presentation the Group restated segment information for the year ended 2011.
- **Georgia** (represented by JSC Telasi, LLC Mtkvari Energy and JSC Khramhesi I, Khramhesi II (the latter two – since the beginning of April 2011), LLC Khramhesi-3 (since November 2011);
- **Armenia** (represented by JSC Elektricheskiye seti Armenii, JSC RazTec and CJSC International Power Corporation (till March 2011);
- **Moldova** (represented by CJSC Moldavskaya GRES);
- **Kazakhstan** (represented by JSC Stantsiya Ekibastuzskaya GRES-2 (equity accounted investee), LLP Kazenergoresurs and LLP INTER RAO Central Asia). LLP INTER RAO Central Asia was included in segment Other for the year ended 2011. For the purpose of presentation the Group restated segment information for the year ended 2011;
- **Turkey** (represented by Group Trakya (since December 2012), TGR Elektrik Energy Toptan Ticaret A.S. and Inter Rao Turkey Energy Holding A.S.) TGR Elektrik Energy Toptan Ticaret A.S. was included in segment Other for the year ended 2011 For the purpose of presentation the Group restated segment information for the year ended 2011;
- **Engineering in the Russian Federation** (represented by LLC INTER RAO Engineering (since September 2011), LLC Quartz Novie Tekhnologii (equity accounted investee), LLC UK Quartz (equity accounted investee), LLC InterRAO-WorleyParsons (equity accounted investee), LLC Energy Centre INTER RAO (equity accounted investee), LLC Interenergoeffect (equity accounted investee), LLC INTER RAO Engineering, LLC CP Energy Union, LLC INTER RAO – Export and Energy beyond borders Non-for-profit Fund);
- Other.

* These sub-segments include LLC INTER RAO Management of Electric Power Plants (allocated according to the method of management fee distribution).

(in million of RUR)

4. Segment information (continued)

The CODM evaluates performance of the operating segments based on EBITDA, which is calculated as profit / (loss) for the period before finance income and expenses, income tax expense, depreciation and amortisation of property, plant and equipment and intangible assets, impairment of property, plant and equipment and investment property, impairment of goodwill and provisions for doubtful debts and for inventory obsolescence, share in profit / (loss) of associates and acquisition effects such as excess of the acquired share in the fair value of the identifiable assets and liabilities over the cost of investment and some other. The Group's definition of EBITDA may differ from that of other companies. Information about depreciation and amortisation of property, plant and equipment and intangible assets, interest income and expenses is disclosed in segment information as it is regularly reviewed by the CODM.

Revenue of each segment is mainly represented by sales of electricity, capacity and heat-power allocated to the reporting segments.

The CODM analyses leverage of the Group's subsidiaries, jointly-controlled entities (equity accounted investees) on a regular basis; loans and borrowings are allocated to the reporting segments excluding inter-segment balances.

Jointly-controlled entities (equity accounted investees) are reviewed by the CODM in terms of the Group's share in their profit / (loss) and loan and borrowings.

"Unallocated and Eliminations" includes elimination of transactions among the reporting segments ("Eliminations") and management expenses, interest income and expense of the Parent Company as well as loans and borrowings, obtained by the Parent Company or other subsidiaries, which cannot be allocated to a specific reporting segment on a reasonable basis ("Unallocated").

(in million of RUR)

4. Segment information (continued)

Year ended 31 December 2012

	Supply	*Generation*			*Trading*						*Engineering*			
		The Russian Federation												
	The Russian Federation	*INTER RAO – Electricity Generation Group*	*TGK-11*	*Bashkir Generation*	*The Russian Federation and Europe*	*Armenia*	*Georgia*	*Moldova*	*Kazakhstan*	*Turkey*	*The Russian Federation*	*Other*	*Unallocated and eliminations*	*Total*
Total revenue	**359,105**	**119,917**	**24,009**	**8,416**	**45,249**	**8,729**	**5,719**	**6,484**	**238**	**1,665**	**1,034**	**782**	**(25,158)**	**556,189**
Revenue from external customers	358,955	97,857	23,720	7,616	44,087	8,729	5,720	6,485	238	1,665	863	254	–	**556,189**
Inter-segment revenue	150	22,060	289	800	1,162	–	(1)	(1)	–	–	171	528	(25,158)	**–**
Operating expenses, including:														
Purchased electricity and capacity	(191,675)	(6,766)	(1,769)	(550)	(35,957)	(4,318)	(636)	–	(180)	–	–	(11)	24,471	**(217,391)**
Transmission fees	(146,025)	–	–	(4)	(4,498)	(212)	(351)	(152)	(37)	–	–	–	–	**(151,279)**
Fuel expenses	(18)	(72,270)	(11,676)	(5,692)	–	(1,517)	(1,497)	(3,974)	–	(1,508)	–	–	–	**(98,152)**
Share in profit / (loss) of jointly-controlled entities	43	1,083	–	–	–	–	–	–	1,216	–	(173)	–	–	**2,169**
EBITDA	**6,294**	**13,505**	**1,298**	**557**	**4,396**	**205**	**1,575**	**1,503**	**1,233**	**60**	**(220)**	**63**	**(3,976)**	**26,493**
Depreciation and amortization	(1,132)	(11,724)	(1,214)	(751)	(58)	(462)	(458)	(477)	(3)	(2)	(3)	(184)	(128)	**(16,596)**
Interest income	1,033	1,986	–	25	56	28	4,945	–	1	–	173	65	(4,132)	**4,180**
Interest expenses	(105)	(1,500)	(191)	(9)	(35)	(391)	(4,980)	(163)	–	(50)	(1)	(664)	4,293	**(3,796)**

(in million of RUR)

4. Segment information (continued)

Year ended 31 December 2011

	Supply	*Generation*		*Trading*						*Engineering*			
		The Russian Federation											
	The Russian Federation	***INTER RAO – Electricity Generation Group***	***TGK-11***	***The Russian Federation and Europe***	***Armenia***	***Georgia***	***Moldova***	***Kazakhstan***	***Turkey***	***The Russian Federation***	***Other***	***Unallocated and eliminations***	***Total***
Total revenue	**362,616**	**105,952**	**21,024**	**58,231**	**8,587**	**5,965**	**5,506**	**751**	**342**	**–**	**942**	**(33,672)**	**536,244**
Revenue from external customers	362,445	77,250	20,766	54,327	8,587	5,625	5,499	751	342	–	652	–	**536,244**
Inter-segment revenue	171	28,702	258	3,904	–	340	7	–	–	–	290	(33,672)	**–**
Operating expenses, including:													
Purchased electricity and capacity	(190,825)	(6,950)	(1,443)	(45,633)	(3,178)	(1,031)	(122)	(592)	(278)	–	(47)	33,413	**(216,686)**
Transmission fees	(140,323)	–	–	(6,873)	(349)	(356)	(114)	(69)	–	–	–	–	**(148,084)**
Fuel expenses	(165)	(61,430)	(9,695)	–	(1,139)	(1,603)	(3,322)	–	–	–	–	115	**(77,239)**
Share in profit / (loss) of jointly-controlled entities	(7)	1,711	–	–	–	–	–	1,190	–	(3)	(60)	–	**2,831**
EBITDA	**16,907**	**16,360**	**1,633**	**5,260**	**1,641**	**1,211**	**1,127**	**1,249**	**(1)**	**(5)**	**(301)**	**(3,424)**	**41,657**
Depreciation and amortization	(934)	(9,523)	(1,157)	(35)	(437)	(389)	(406)	(4)	–	–	(104)	(27)	**(13,016)**
Interest income	564	6,994	1	46	45	35	–	–	–	–	426	(240)	**7,871**
Interest expenses	(51)	(1,225)	(157)	(52)	(428)	(284)	(192)	–	(24)	–	(660)	(151)	**(3,224)**

(in million of RUR)

4. Segment information (continued)

As at 31 December 2012

	Supply	*Generation*			*Trading*						*Engineering*			
		The Russian Federation												
	The Russian Federation	***INTER RAO – Electricity Generation Group***	***TGK-11***	***Bashkir Generation***	***The Russian Federation and Europe***	***Armenia***	***Georgia***	***Moldova***	***Kazakhstan***	***Turkey***	***The Russian Federation***	***Other***	***Unallocated and eliminations***	***Total***
Loans and borrowings, **including:**	**(2,825)**	**(16,416)**	**(8,957)**	**(2,268)**	**(3)**	**(3,734)**	**(1,341)**	**–**	**(4,868)**	**(6,406)**	**(860)**	**(1,347)**	**(15,764)**	**(64,789)**
Share in loans and borrowings of jointly-controlled entities	–	–	–	–	–	–	–	–	(4,868)	–	(840)	(246)	576	**(5,378)**

As at 31 December 2011

	Supply	*Generation*		*Trading*						*Engineering*			
		The Russian Federation											
	The Russian Federation	***INTER RAO – Electricity Generation Group***	***TGK-11***	***The Russian Federation and Europe***	***Armenia***	***Georgia***	***Moldova***	***Kazakhstan***	***Turkey***	***The Russian Federation***	***Other***	***Unallocated and eliminations***	***Total***
Loans and borrowings, including:	**(709)**	**(15,789)**	**(5,362)**	**(629)**	**(3,478)**	**(1,677)**	**–**	**(454)**	**–**	**(218)**	**(1,180)**	**(19,148)**	**(48,644)**
Share in loans and borrowings of jointly-controlled entities	–	–	–	–	–	–	–	(454)	–	(218)	–	–	**(672)**

(in million of RUR)

4. Segment information (continued)

The reconciliation between EBITDA of the reporting segments and net profit for the year in the consolidated statement of comprehensive income is represented below:

	For the year ended 31 December 2012	*For the year ended 31 December 2011*
EBITDA of the reportable segments	**26,493**	**41,657**
Depreciation and amortization (Note 26)	(16,596)	(13,016)
Interest income (Note 27)	4,180	7,871
Interest expenses (Note 27)	(3,796)	(3,224)
Put and Call option agreements (Note 27)	(7,609)	(10,826)
Foreign currency exchange gain, net (Note 27)	90	151
Other finance income (Note 27)	246	710
Provisions charge, including: (Note 26)	(39,410)	(30,274)
impairment of intangible assets	*(153)*	*(31)*
impairment of property, plant and equipment	*(27,125)*	*(3,758)*
release of provision for impairment of investment property	*–*	*93*
impairment of available for sale financial assets	*(6,291)*	*(21,130)*
impairment of assets classified as held for sale	*(33)*	*(1,980)*
other provisions release / (charge)	*(365)*	*199*
impairment of account receivables	*(4,638)*	*(3,624)*
impairment of goodwill	*(805)*	*(43)*
Loss from disposal of controlling interest	(56)	(19)
Excess of the acquired share in the fair value of the identifiable assets and liabilities over the cost of investment and gain from acquisition of available-for-sale financial assets and assets classified as held-for-sale, net	11,645	44,652
Share of profit in associates (Note 9)	540	14,142
Income tax benefit / (expense) (Note 28)	1,918	(10,367)
(Loss) / income for the year in the consolidated statement of comprehensive income	**(22,355)**	**41,457**

The reconciliation between loans and borrowings of the reportable segments and loans and borrowings for the reporting period in the consolidated statement of financial position is represented below:

	As at 31 December 2012	*As at 31 December 2011*
Loans and borrowings of the reportable segments	**(64,789)**	**(48,644)**
Less:		
Share in loans an borrowings of jointly-controlled entities	5,378	672
Loans and borrowings in the consolidated statement of financial position	**(59,411)**	**(47,972)**

(in million of RUR)

4. Segment information (continued)

Information about geographical areas

The Management Board also considers revenue of the Group entities generated in their countries of jurisdiction and abroad as well as non-current assets (property, plant and equipment, investment property, investments in associates and jointly controlled entities and intangible assets, including goodwill) based on location of assets.

	For the year ended 31 December 2012			*For the year ended 31 December 2011*		
	Revenue in the Group entity's jurisdiction[1]	***Revenue in countries other than Group entity's jurisdiction***	***Total revenue based on location of customers***	***Revenue in the Group entity's jurisdiction***	***Revenue in countries other than Group entity's jurisdiction***	***Total revenue based on location of customers***
The Russian Federation	500,175	102	**500,277**	470,799	100	**470,899**
Armenia	8,445	–	**8,445**	8,264	–	**8,264**
Lithuania	7,545	–	**7,545**	11,320	–	**11,320**
Belarus	–	7,356	**7,356**	–	5,553	**5,553**
Georgia	5,720	969	**6,689**	5,625	764	**6,389**
Finland	5,191	1,019	**6,210**	15,147	3,861	**19,008**
Moldova (incl. Transdniestria Republic)	365	5,519	**5,884**	330	4,366	**4,696**
China	–	4,023	**4,023**	–	1,641	**1,641**
Kazakhstan	238	3,308	**3,546**	751	2,381	**3,132**
Latvia	42	2,013	**2,055**	–	2,978	**2,978**
Turkey	1,665	–	**1,665**	342	–	**342**
Mongolia	–	797	**797**	–	498	**498**
Romania	–	581	**581**	–	802	**802**
Other	–	1,116	**1,116**	–	722	**722**
Total	**529,386**	**26,803**	**556,189**	**512,578**	**23,666**	**536,244**

	Total non-current assets based on location of assets[2]	
	As at 31 December 2012	***As at 31 December 2011***
The Russian Federation	291,583	257,112
Armenia	7,910	8,796
Georgia	6,972	8,213
Moldova (incl. Transdniestria Republic)	5,509	5,810
Turkey	4,817	3
Lithuania	1,483	1,498
Other	32	153
Total	**318,306**	**281,585**

1 Revenues are attributable to countries on the basis of the customer's location.

2 Total non-current assets based on location of assets excludes deferred tax assets, available-for-sale financial assets and other non-current assets.

(in million of RUR)

5. Acquisitions and disposals

During the years 2011 and 2012 the Group made several acquisitions and disposals. Details are presented below:

Acquisition of LLC Invest Inform Project

On 2 April 2012, the Group acquired 100% stake in LLC Invest Inform Project for a cash consideration of RUR 44 million, less of cash acquired in the amount of RUR 2 million. LLC Invest Inform Project specialises in corporate information systems and technology consulting services. Fair value of assets and liabilities of the acquired entity was determined by the Group based on financial information prepared in accordance with IFRS as at the date of acquisition.

The fair values of assets and liabilities arising from the acquisition were as follows (RUR million):

	Fair values
Property, plant and equipment	2
Deferred tax assets	4
Inventories	9
Accounts receivable	30
Cash and cash equivalents	2
Accounts payable and accrued charges	(41)
Taxes payable	(6)
Fair value of net assets acquired	**–**
Goodwill arising from the acquisition (see Note 8)	44
Total consideration	**44**

Goodwill arising on the acquisition of LLC Invest Inform Project amounted to RUR 44 million was impaired and recognized in the consolidated statement of comprehensive income for the year 2012. The key reason for the acquisition was management's decision to move Groups' IT function into a separate entity.

Acquisition of JSC Bashkirenergoactive

On 7 November 2012 JSC Bashkirenergo was reorganized in the form of spin off into two entities, JSC Bashkirskaya Electrosetevaya Companiya (JSC BESC) and JSC Bashenergoactive, power generating company operating in Bashkiria Republic of the Russian Federation (including LLC Bashkir Generation Company, LLC Bashkir Heat Distribution Grid and LLC CCGT CHPP-5 and other subsidiaries) (Note 9).

As a result of reorganization, JSC INTER RAO UES became an owner of 100% of JSC Bashenergoactive shares. Total consideration transferred is represented by the fair value of 42,973,092,213 JSC INTER RAO UES ordinary shares at the date of the transaction amounting to RUR 1,087 million (Note 18), cash consideration of RUR 6,894 million, promissory notes issued with a fair value of RUR 9,859 million and payable in instalments with final settlement 29 September 2013, and fair value of 26.66% of share capital of JSC Bashkirenergo amounting to RUR 23,879 million (Note 9).

Fair value of property, plant and equipment acquired was determined by an independent appraiser. Fair value of other identifiable assets and liabilities was determined by management based on financial information prepared in accordance with IFRS.

The fair values of assets and liabilities arising from the acquisition are as follows (RUR million):

	Fair values
Property, plant and equipment	55,997
Intangible assets	18
Other non-current assets	509
Inventories	1,449
Accounts receivable	4,523
Income tax prepaid	152
Cash and cash equivalents	2,307
Other current assets	36
Deferred tax liabilities	(5,300)
Other non-current liabilities	(2,023)
Accounts payable and accrued charges	(4,626)
Taxes payable	(362)
Fair value of net assets acquired	**52,680**
Excess of the acquired share in the fair value of the identifiable assets and liabilities over the consideration transferred	(10,961)
Total consideration	**41,719**

(in million of RUR)

5. Acquisitions and disposals (continued)

Acquisition of JSC Bashkirenergoactive (continued)

Excess of the acquired share in the fair value of the identifiable assets and liabilities over consideration transferred amounting to RUR 10,961 million was recognised directly in the consolidated statement of comprehensive income for the year 2012.

JSC Bashenergoactive and its subsidiaries were integrated into INTER RAO UES as Bashkir Generation.

Bashkir Generation.contributed revenues of RUR 8,416 million and a net loss of RUR 339 million to the Group for the period from the date of acquisition to 31 December 2012. Had the acquisition occurred as at 1 January 2012, the estimated contribution to the Group revenue would have been RUR 42,491 million, and the estimated contribution to the net result for the year ended 31 December 2012 would have been a net loss of RUR 666 million.

Acquisition of Trakya Elektrik Uretim ve Ticaret A.S.

On 12 December 2012 the Group acquired a 90.00% interest in Trakya Elektrik Uretim ve Ticaret A.S., electricity power generating company operating in Turkey. Total cash consideration paid by the Group was RUR 2,701 million (USD 85 million), less of cash acquired in the amount of RUR 667 million (USD 21 million).

Fair value of identifiable intangible assets was determined by an independent appraiser (Note 8). Fair value of other assets and liabilities was determined by Group management based on IFRS financial information of the acquired entities as at 31 November 2012.

The fair values of assets and liabilities arising from the acquisition are as follows (RUR million):

	Fair values
Intangible assets	5,100
Deferred tax assets	2,255
Inventories	581
Accounts receivable	2,134
Cash and cash equivalents	667
Other non-current assets	869
Non-current loans and borrowings	(3,985)
Deferred tax liability	(1,020)
Current loans and borrowings	(743)
Accounts payable and accrued charges	(1,990)
Taxes payable	(107)
Fair value of net assets acquired	**3,761**
Less: Non-controlling interest (10%)	(376)
Fair value of acquired interest in net assets	**3,385**
Excess of the acquired share in the fair value of the identifiable assets and liabilities over the consideration transferred	(684)
Total consideration	**2,701**

Excess of the acquired share in the fair value of the identifiable assets and liabilities over consideration transferred amounting to RUR 684 million was recognised directly in the consolidated statement of comprehensive income for the year 2012.

Trakya Elektrik Uretim ve Ticaret A.S.contributed revenues of RUR 1,665 million and a net income of RUR 72 million to the Group for the period from the date of acquisition to 31 December 2012. Had the acquisition occurred as at 1 January 2012, the estimated contribution to the Group revenue would have been RUR 15,727 million, and the estimated contribution to the net result for the year ended 31 December 2012 would have been a net income of RUR 631 million.

Acquisition of JSC WGC-3

As a result of placing additional shares in the 1st half 2011, at the end of March 2011 JSC INTER RAO UES acquired from third parties, 85.47% of the ordinary voting shares (excluding treasury shares) of JSC WGC-3, an electricity and heat power generating company operating in several regions of the Russian Federation. The total consideration amounted to RUR 52,108 million is represented by the fair value of 1,361,626,945,728 JSC INTER RAO UES ordinary shares at the market quotations at the date of the transfer.

Fair value of property, plant and equipment was determined by an independent appraiser. Fair value of other identifiable assets and liabilities was determined by management based on financial information prepared in accordance with IFRS of the acquired entity for the 1st quarter 2011 year.

(in million of RUR)

5. Acquisitions and disposals (continued)

Acquisition of JSC WGC-3 (continued)

The fair values of assets and liabilities arising from the acquisition are as follows (RUR million):

	Fair values
Property, plant and equipment	75,629
Intangible assets	77
Other non-current assets	3,207
Inventories	2,633
Accounts receivable	7,847
Income tax prepaid	137
Cash and cash equivalents	13,441
Other current assets	24,877
Deferred tax liabilities	(7,894)
Other non-current liabilities	(771)
Accounts payable and accrued charges	(4,257)
Taxes payable	(2,106)
Fair value of net assets acquired	**112,820**
Less: Non-controlling interest (14.53% of the Group's WGC-3 net assets)	(16,393)
Fair value of acquired interest in net assets	**96,427**
Excess of the acquired share in the fair value of the identifiable assets and liabilities over the consideration transferred	(44,319)
Total consideration	**52,108**

Excess of the acquired share in the fair value of the identifiable assets and liabilities over consideration given amounting to RUR 44,319 million was recognised in the consolidated statement of comprehensive income for the year ended 31 December 2011.

In February 2012, the Group sold 1,966 million of treasury shares of JSC WGC-3 for a cash consideration of RUR 1,877 million; as a result, the effective share of the Group changed from 85.47% to 81.93%.

In April 2012 the Group acquired additional 8.65% of JSC WGC-3 ordinary shares from third parties for total consideration equivalent to RUR 4,811 million, settled by the Group's treasury shares (Note 18).

On 14 June 2012 shareholders of JSC WGC-3 approved reorganization in form of restructuring and merger with JSC INTER RAO UES and JSC INTER RAO – Electric Power Plants, which is a 100% subsidiary of the Parent Company. In accordance with the legislation of the Russian Federation shareholders who did not take part in shareholder meeting or voted against reorganization sold their 2.50% of ordinary shares for RUR 1,350 million to the entity.

On 1 October 2012 the Group completed the reorganization of generating entities. 6.92% of ordinary shares owned by non-controlling shareholders who did not exercise the right to sell shares, were converted into ordinary shares of JSC INTER RAO UES. The total consideration given amounted to RUR 3,589 million is represented by the fair value of 131,474,772,000 ordinary shares issued by JSC INTER RAO UES at the market quotations at the date of the transaction.

Certain restrictions issued by the Federal Antimonopoly Service of the Russian Federation upon the acquisition of JSC WGC-3 are disclosed in Note 31.

Acquisition of JSC Khramhesi I and JSC Khramhesi II

On 12 April 2011 the Group acquired a 100.00% interest in JSC Khramhesi I and JSC Khramhesi II, electricity power generating companies operating in Georgia. Total cash consideration paid by the Group was RUR 2,909 million (USD 104 million), including cash consideration paid in the amount of RUR 831 million (USD 32 million), net of cash acquired in the amount of RUR 141 million (USD 5 million) and deferred consideration in the amount of RUR 2,219 million (USD 72 million) which was fully paid in the 4th quarter 2011.

Fair value of property, plant and equipment was determined by an independent appraiser. Fair value of other assets and liabilities was determined by Group management based on IFRS financial information of the acquired entities as at 31 March 2011.

(in million of RUR)

5. Acquisitions and disposals (continued)

Acquisition of JSC Khramhesi I and JSC Khramhesi II (continued)

The fair values of assets and liabilities arising from the acquisition are as follows (RUR million):

	Fair values
Property, plant and equipment	2,866
Intangible assets	9
Inventories	17
Accounts receivable	130
Income tax prepaid	2
Cash and cash equivalents	141
Other current assets	2
Non-current loans and borrowings	(409)
Deferred tax liabilities	(320)
Current loans and borrowings	(164)
Accounts payable and accrued charges	(40)
Taxes payable	(25)
Fair value of net assets acquired	**2,209**
Goodwill arising from the acquisition (see Note 8)	700
Total consideration	**2,909**

Goodwill arising on the acquisition of JSC Khramhesi I and JSC Khramhesi II amounted to RUR 700 million. The key reason of the acquisition was the Group's further expansion of generating activities on the territory of Georgia (Note 8).

Acquisition of Vydmantai Wind Park UAB

On 15 July 2011 the Group acquired a 51.00% interest in an electricity power wind-generating company operating in Lithuania. The total consideration paid by the Group was RUR 892 million (EUR 22 million). Fair value of assets and liabilities was determined by an independent appraiser.

The fair values of assets and liabilities arising from the acquisition are as follows (RUR million):

	Fair values
Property, plant and equipment	998
Intangible assets	460
Accounts receivable	44
Cash and cash equivalents	55
Other current assets	48
Non-current loans and borrowings	(663)
Deferred tax liability	(92)
Current loans and borrowings	(29)
Accounts payable and accrued charges	(31)
Taxes payable	(2)
Fair value of net assets acquired	**788**
Less: Non-controlling interest (49%)	(386)
Fair value of acquired interest in net assets	**402**
Goodwill arising from the acquisition (see Note 8)	53
Total consideration	**892**
Less: Non-controlling interest (49%)	(437)
Consideration paid for acquired interest in net assets	**455**

Goodwill arising on the acquisition of Vydmantai Wind Park UAB amounted to RUR 53 million. The key reason of the acquisition was to enhance the trading segment with electricity generating assets in Lietuva. The park is equipped by the fifteen turbines E70 type produced by Enercon, 2MW each. The acquisition was financed by cash and loan from Swedbank AB. The licence held by Vyndmantai Wind Park UAB enables to sell the electricity produced by the wind park with the guaranteed tariff of 300 LTL per MWh (RUR 3,621) which is above the current market price. This tariff is guaranteed by law and is valid throughout the end of 2020. The licence is amortised till the end of 2020. The goodwill recognition is justified by the discounted cash-flow model that evidences that project cash inflows will cover all the assets acquired including the goodwill during the reasonable payback period. It's also expected the additional synergies from the combining of trading and generating units, i.e. the UAB INTER RAO Lietuva trading experience and expertise will enhance the profitability of generating capacities.

(in million of RUR)

5. Acquisitions and disposals (continued)

Acquisition of JSC OGK-1

In December 2010 net assets of JSC OGK-1 were increased by RUR 23,302 million due to additional issue of 20,809 million ordinary shares made by this company. On 21 December 2010 the Group acquired 18,998 million shares, or a 29.03% interest in JSC OGK-1 for the total consideration of RUR 21,278 million.

As a result of placing additional shares in the 1st half 2011, JSC INTER RAO UES acquired additional 45.14% of ordinary shares of JSC OGK-1 from entities under common control and 0.98% from third parties. The acquisition of 45.14% was accounted for using the pooling-of-interests method. The acquisition of 0.98% was accounted as acquisition of non-controlling interest in the amount of RUR 634 million in the consolidated statement of changes in equity.

In April 2012 the Group acquired additional 2.86% of JSC OGK-1 ordinary shares from third parties for the total consideration equivalent to RUR 1,316 million, settled by the Group's treasury shares (Note 18).

On 14 June 2012 shareholders of JSC OGK-1 approved reorganization in form of restructuring and merger with JSC INTER RAO UES and JSC INTER RAO – Electric Power Plants, which is a 100% subsidiary of the Parent Company. In accordance with the legislation of the Russian Federation shareholders who did not take part in shareholders meeting or voted against reorganization sold their 8.61% of ordinary shares for RUR 3,842 million to the entity.

On 1 October 2012 the Group completed the reorganization of generating entities. 13.38% of ordinary shares owned by non-controlling shareholders who did not exercise the right to sell shares, were converted into ordinary shares of JSC INTER RAO UES. The total consideration given amounted to RUR 5,736 million is represented by the fair value of 209,761,917,312 ordinary shares issued by JSC INTER RAO UES at the market quotations at the date of the transaction.

Acquisition of JSC TGK-11

In January-June 2011 the Group additionally purchased from third parties 0.40% of ordinary shares of JSC TGK-11 for a total consideration of RUR 33 million, increasing its share to 33.36%.

In the 1st half 2011, JSC INTER RAO UES acquired 34.35% of ordinary shares of JSC TGK-11 from entities under common control. This acquisition was accounted for using the pooling-of-interests method. Total Group's share in JSC TGK-11 increased to 67.71% as at 31 December 2011.

In April 2012 the Group additionally acquired 16.85% of ordinary shares of JSC TGK-11 from third parties for the total consideration equivalent to RUR 1,243 million, settled by the Group's treasury shares, increasing the Group's ownership interest to 84.56% (Note 18).

In September – December 2012 the Group acquired 15,44% of ordinary shares of JSC TGK-11 for RUR 1,193 million from non-controlling shareholders in accordance with an obligatory and mandatory offer. As a result, the Group became the 100% owner of JSC TGK-11..

Acquisition of JSC Saint-Petersburg Sale Company

On 29 September 2010 the Group purchased 24.99% of ordinary shares and 37.03% of preference shares (26.75% of total shares) of JSC Saint-Petersburg Sale Company (JSC PSK), an electricity trading company operating in Saint Petersburg, the Russian Federation. Purchased preference shares are non-voting.

Total consideration was RUR 1,472 million. The consideration included cash payment in the amount of RUR 200 million made in September 2010 and deferred consideration in the amount of RUR 1,272 million paid in January 2012 (see Note 16). Due to prolongation of the final settlement till the 1st quarter 2012 according to the terms of the purchase agreement the Group has to pay additional fee in the amount of RUR 46 million.

As a result of placing additional shares in the 1st half 2011, JSC INTER RAO UES acquired 67.10% of ordinary shares and 28.98 % of preference shares (61.52% of total shares) of JSC PSK (acquired from entities under common control). This acquisition was accounted for using the pooling-of-interests method.

In May 2011 the Group additionally purchased 4.98% of ordinary shares (4.25% of total shares) of JSC PSK for a total consideration of RUR 201 million.

In June 2012 the Group sold 66.02% of preference shares (9.66% of total shares) of JSC PSK for a total consideration of RUR 745 million.

(in million of RUR)

5. Acquisitions and disposals (continued)

Acquisition of JSC Saint-Petersburg Sale Company (continued)

In July 2012 the Group made a voluntary offer to purchase shares of JSC PSK from non-controlling shareholders. As a result, the Group acquired 1.31% of JSC PSK ordinary shares and 12.32% of JSC PSK preference shares for RUR 1,125 million and increased its shareholding interest in JSC PSK to 96.49% of total shares.

In October 2012 the Group commenced the mandatory buyout which was completed in December 2012. The Group purchased 3.51% of JSC PSK shares from non-controlling shareholders for RR 338 million. As a result, the Group became the 100% owner of JSC PSK.

Certain restrictions imposed by the Federal Antimonopoly Service of the Russian Federation upon the acquisition of JSC PSK are disclosed in Note 31.

Acquisition of JSC Mosenergosbyt

As a result of placing additional shares in the 1st half 2011, JSC INTER RAO UES acquired 50.92% of ordinary shares of JSC Mosenergosbyt from entities under common control. This acquisition was accounted for using the pooling-of-interests method.

In the 1st half 2011 one of the subsidiaries of JSC Mosenergosbyt acquired 2.87% of ordinary shares of JSC Korolevskaya network for a total consideration of RUR 10 million.

As at 31 December 2012 the Group has 50.92% (31 December 2011: 50.92%) of ordinary shares of JSC Mosenergosbyt.

Certain restrictions issued by Federal Antimonopoly Service of the Russian Federation upon the acquisition of JSC Mosenergosbyt are disclosed in Note 31.

Acquisition of JSC Altayenergosbyt

As a result of placing additional shares in the 1st half 2011, JSC INTER RAO UES acquired 100% of ordinary shares of JSC Altayenergosbyt from entities under common control. This acquisition was accounted for using the pooling-of-interests method.

As at 31 December 2012 the Group has 100.00% (31 December 2011: 100.00%) of ordinary shares of JSC Altayenergosbyt.

Acquisition of LLC RN-Energo

As a result of placing additional shares in 2011, JSC INTER RAO UES acquired 100% of ordinary shares of LLC RN-Energo from entities under common control in July 2011. This acquisition was accounted for using the pooling-of-interests method.

As at 31 December 2012 the Group has 100.00% (31 December 2011: 100.00%) of ordinary shares of LLC RN-Energo.

Acquisition of JSC United Energy Retailing Company

As a result of placing additional shares in the 1st half 2011, JSC INTER RAO UES acquired 100% of ordinary shares of JSC United Energy Retailing Company from entities under common control. This acquisition was accounted for using the pooling-of-interests method.

As at 31 December 2012 the Group has 100.00% (31 December 2011: 100.00%) of ordinary shares of JSC United Energy Retailing Company.

Acquisition of JSC Tambov Energy Retailing Company

As a result of placing additional shares in the 1st half 2011, JSC INTER RAO UES acquired 67.87% of ordinary shares, or 59.38% of total shares of JSC Tambov Energy Retailing Company from entities under common control. This acquisition was accounted for using the pooling-of-interests method.

As at 31 December 2012 the Group has 59.38% (31 December 2011: 59.38%) of total shares of JSC Tambov Energy Retailing Company.

Acquisition of JSC Saratovenergo

As a result of placing additional shares in the 1st half 2011, JSC INTER RAO UES acquired 74.46% of ordinary shares or 56.97% of total shares of JSC Saratovenergo from entities under common control. This acquisition was accounted for using the pooling-of-interests method.

As at 31 December 2012 the Group has 56.97% (31 December 2011: 56.97%) of total shares of JSC Saratovenergo.

(in million of RUR)

5. Acquisitions and disposals (continued)

Acquisition of JSC Saratovenergo (continued)

Certain restrictions issued by the Federal Antimonopoly Service of the Russian Federation upon the acquisition of JSC Saratovenergo are disclosed in Note 31.

Acquisition of JSC Hrazdan Energy Company

As a result of placing additional shares in the 1st half of 2011, JSC INTER RAO UES acquired 100% of ordinary shares of JSC Hrazdan Energy Company from entities under common control. This acquisition was accounted for using the pooling-of-interests method.

As at 31 December 2012 the Group has 100.00% (31 December 2011: 100.00%) of ordinary shares of JSC Hrazdan Energy Company.

Acquisition of INTER RAO LED System Group

On 19 April 2011, the Group acquired a 35.17% interest in INTER RAO LED Systems Group, the key participant in the Russian LED Systems market. At the date of acquisition the investment was classified as available-for-sale financial asset with the carrying value of RUR 600 million. On 19 August 2011, the Group entered into joint control over the acquiree with other participants, and the investment was reclassified to investment in jointly controlled entity.

The fair values of assets and liabilities determined by an independent appraiser arising from the acquisition are as follows (RUR million):

	Fair values
Fair value of acquiree's net assets	**1,939**
Fair value of acquired interest in net assets	**524**
Goodwill	76
Total consideration	**600**

Goodwill arising from the acquired share in the fair value of the identifiable assets and liabilities amounting to RUR 76 million was recognised in the carrying value of investment in associates and jointly controlled entities in the consolidated statement of financial position at 31 December 2011 and 31 December 2012. The key reason of the acquisition was the Group's decision to participate in development of LED Systems market of the Russian Federation.

Disposal of controlling interest

On 7 February 2011, the Group sold its 90% share in CJSC International Power Corporation. Cash inflow from the disposal amounted to RUR 126 million including cash consideration of RUR 136 million, net of cash and cash equivalents disposed. Gain from the disposal amounted to RUR 258 million was recognised in the consolidated statement of comprehensive income within other operating income.

On 6 August 2011, the Group sold its 98% share in LLP Nedra Kazakhstana.

On 12 August 2011, the Group sold its 100% share in LLC Sakhalinenergoneft to third parties for a cash consideration of RUR 0.01 million.

On 28 October 2011, the Group sold 85.47% share in LLC Hockey Club CSKA to third parties for a cash consideration of RUR 0.01 million.

During the year 2012 the Group has disposed of a number of insignificant subsidiaries.

Acquisition of non-controlling interest in JSC Electrolutch

On 1 February 2011, the Board of Directors of the Company approved the issue price of additional ordinary shares in the amount of RUR 128,288 per share in favour of the third parties. Due to additional issue of shares, held on February 2011 the share of the Parent Company in the share capital JSC Electrolutch was diluted from 97.78% to 87.48% of ordinary shares; cash proceeds equaled to RUR 255 million.

In December 2011, the Group acquired from the third party 10.55% of ordinary shares of JSC Electroluch and increased its share to 98.03% of its voting shares.

On 5 March 2012, the Group additionally acquired 1.97% of ordinary shares in JSC Electrolutch for a consideration amounting to RUR 45 million paid in cash.

As at 31 December 2012, the Group has 100% (31 December 2011: 98.03%) of ordinary shares of JSC Electrolutch.

(in million of RUR)

6. Property, plant and equipment

	Land and buildings	*Infrastructure assets*	*Plant and equipment*	*Other*	*Construction in progress*	*Total*
Cost						
Balance at 1 January 2011 (restated)	**36,743**	**36,800**	**79,760**	**4,966**	**29,508**	**187,777**
Reclassification	(1,670)	665	2,056	(1,051)	–	**–**
Additions	68	432	682	28	44,641	**45,851**
Disposals	(76)	(101)	(1,291)	(175)	(556)	**(2,199)**
Transfers	2,575	4,006	17,240	405	(24,226)	**–**
Transfer to/(from) Other Balance Accounts	–	(23)	–	–	(281)	**(304)**
Acquisition of controlling interest	20,455	13,687	19,459	460	25,433	**79,494**
Disposal of controlling interest	(109)	(539)	(435)	(55)	(21)	**(1,159)**
Translation difference	368	544	451	55	(11)	**1,407**
Balance at 31 December 2011	**58,354**	**55,471**	**117,922**	**4,633**	**74,487**	**310,867**
Including finance leases	152	320	4,124	615	–	**5,211**
Balance at 31 December 2011	**58,354**	**55,471**	**117,922**	**4,633**	**74,487**	**310,867**
Reclassification	(2,299)	(1,793)	4,688	(593)	(3)	**–**
Additions	37	368	9	68	43,544	**44,026**
Transfers from investment property	1,292	–	–	–	310	**1,602**
Disposals	(59)	(216)	(815)	(146)	(757)	**(1,993)**
Transfers	14,308	15,234	23,142	757	(53,441)	**–**
Transfer to/(from) Other Balance Accounts	–	3	–	(15)	(363)	**(375)**
Acquisition of controlling interest	17,352	10,192	18,172	1,623	8,724	**56,063**
Disposal of controlling interest	–	–	–	(2)	–	**(2)**
Translation difference	(501)	(1,822)	(1,683)	(140)	(95)	**(4,241)**
Balance at 31 December 2012	**88,484**	**77,437**	**161,435**	**6,185**	**72,406**	**405,947**
Including finance leases	193	320	4,115	663	–	**5,291**
Depreciation and impairment losses						
Balance at 1 January 2011 (restated)	**(11,355)**	**(18,376)**	**(35,247)**	**(2,684)**	**(1,410)**	**(69,072)**
Reclassification	1,720	(651)	(2,121)	1,052	–	**–**
Depreciation charge	(1,277)	(2,494)	(8,403)	(329)	–	**(12,503)**
Impairment loss charge	(782)	(1,013)	(2,590)	(82)	(135)	**(4,602)**
Impairment loss reversal	267	105	180	5	287	**844**
Disposals	24	52	1,095	91	–	**1,262**
Transfers	(5)	(43)	(14)	–	62	**–**
Disposal of controlling interest	106	477	374	47	15	**1,019**
Translation difference	(116)	(42)	(127)	(8)	3	**(290)**
Balance at 31 December 2011	**(11,418)**	**(21,985)**	**(46,853)**	**(1,908)**	**(1,178)**	**(83,342)**
Including finance leases	(3)	(259)	(2,252)	(43)	–	**(2,557)**
Balance at 31 December 2011	**(11,418)**	**(21,985)**	**(46,853)**	**(1,908)**	**(1,178)**	**(83,342)**
Reclassification	74	925	(1,331)	221	111	**–**
Depreciation charge	(1,844)	(3,279)	(10,395)	(429)	–	**(15,947)**
Impairment loss charge	(4,883)	(3,727)	(13,422)	(116)	(6,521)	**(28,669)**
Impairment loss reversal	278	605	582	79	–	**1,544**
Transfers from investment property	(71)	–	–	–	(273)	**(344)**
Disposals	7	94	714	67	14	**896**
Transfers	(415)	(446)	(150)	–	1,011	**–**
Transfer to/(from) Other Balance Accounts	–	(2)	–	(2)	2	**(2)**
Acquisition of controlling interest	–	–	–	(61)	–	**(61)**
Disposal of controlling interest	–	–	–	2	–	**2**
Translation difference	234	1,309	1,111	81	2	**2,737**
Balance at 31 December 2012	**(18,038)**	**(26,506)**	**(69,744)**	**(2,066)**	**(6,832)**	**(123,186)**
Including finance leases	(7)	(263)	(2,460)	(99)	–	**(2,829)**
Net book value						
Balance 31 December 2010	**25,388**	**18,424**	**44,513**	**2,282**	**28,098**	**118,705**
Balance at 31 December 2011	**46,936**	**33,486**	**71,069**	**2,725**	**73,309**	**227,525**
Balance at 31 December 2012	**70,446**	**50,931**	**91,691**	**4,119**	**65,574**	**282,761**

(in million of RUR)

6. Property, plant and equipment (continued)

The category Land and buildings includes land in the amount of RUR 586 million (31 December 2011: RUR 513 million).

Construction in progress is represented by property, plant and equipment that has not yet been put into operation and advances to suppliers of property, plant and equipment. Such advances amounted to RUR 9,971 million as at 31 December 2012 (31 December 2011: RUR 14,002 million).

Interest capitalized during the year ended 31 December 2012 amounted to RUR 429 million (the year ended 31 December 2011: RUR 241 million).

(a) Impairment

The Group performed the impairment tests of property, plant and equipment within the cash generating units – the material impairment charge and reversal (included in the Consolidated statement of comprehensive income in the line "Operating expenses") represented below by cash generating units:

Kashirskaya GRES (separate power plant included into the operating segment – "Generation in the Russian Federation")
In 2012 due to reduction of forecasted electricity tariffs, compared to previous estimates, the recoverable amount of Kashirskaya GRES property, plant and equipment decreased. Therefore, the impairment in the amount RUR 7,230 million was recognized. The recoverable amount was measured as value in use using the discount rate of 12.9% as at 31 December 2012.

Verkhnetagilskaya GRES (separate power plant included into the operating segment – "Generation in the Russian Federation")
In 2012 due to change in estimates of forecasted fuel expenses, compared to previous estimates, the recoverable amount of Verhnetagilskaya GRES property, plant and equipment decreased. Therefore, the impairment in the amount RUR 2,909 million was recognized. The recoverable amount was measured as value in use using the discount rate of 12.9% as at 31 December 2012.

Urengoiskaya GRES (separate power plant included into the operating segment – "Generation in the Russian Federation")
In 2012 due to change in estimates of forecasted fuel expenses and actual tariff for new capacity compared to previous estimates, the recoverable amount of Urengoiskaya GRES property, plant and equipment decreased. Therefore, the impairment in the amount RUR 1,837 million was recognized. The recoverable amount was measured as value in use using the discount rate of 12.9% as at 31 December 2012.

Gusinoozerskaya GRES (separate power plant included into the operating segment – "Generation in the Russian Federation")
In 2012 due to reduction of forecasted capacity tariffs, compared to previous estimates and increase in capital expenditures plan the recoverable amount of Gusinoozerskaya GRES property, plant and equipment decreased. Therefore, the impairment in the amount RUR 4,628 million was recognized. The recoverable amount was measured as value in use using the discount rate of 12.9% as at 31 December 2012.

Dzhubginskaya TES (separate power plant included into the operating segment – "Generation in the Russian Federation")
In 2012 the first estimate of recoverable amount Dzhubginskaya TES property, plant and equipment was performed. The impairment in the amount RUR 3,547 million was recognized. The recoverable amount was measured as value in use using the discount rate of 12.9% as at 31 December 2012.

Yuznouralskaya GRES (separate power plant included into the operating segment – "Generation in the Russian Federation")
As at 30 June 2012 due to reduction of forecasted capacity tariffs, compared to previous estimates, the recoverable amount of Yuznouralskaya GRES property, plant and equipment decreased. Therefore, the impairment in the amount RUR 1,297 million was recognized. As at 30 December 2012 due to the input of new capacities the recoverable amount of *Yuznouralskaya GRES* property, plant and equipment increased and impairment of 6 month 2012 was recovered in the amount RUR 1,174 million. The recoverable amount was measured as value in use using the discount rate of 12.9% as at 31 December 2012 (as at 30 June 2012: 14.1%).

Ivanovo Thermal-gas Plant (separate power plant included into the operating segment – "Generation in the Russian Federation")
In 2011 the impairment in the amount RUR 167 million was recovered, mainly due to a significant increase of actual tariff for new capacity in comparison to the previous estimates.

In 2012 mainly due to the change in estimates of generation volumes, compared to previous period the recoverable amount of Ivanovo Thermal-gas Plant property, plant and equipment decreased. Therefore, the impairment in the amount RUR 7,173 million was recognized. The recoverable amount was measured as value in use using the discount rate of 12.4% as at 31 December 2012 (as at 31 December 2011: 13.5%).

(in million of RUR)

6. Property, plant and equipment (continued)

(a) Impairment (continued)

Cherepetskaya GRES (separate power plant included into the operating segment – "Generation in the Russian Federation")
In 2011 due to reduction of the electricity and capacity tariffs forecasts, compared to previous estimates, the recoverable amount of Cherepetskaya GRES property, plant and equipment decreased. Therefore, the impairment in the amount RUR 441 million was recognized. In 2012 due to the input of new capacities the recoverable amount of Cherepetskaya GRES property, plant and equipment increased and impairment of 2011 was recovered in the amount RUR 370 million.

The recoverable amount was measured as value in use using the discount rate of 12.9% as at 31 December 2012 (as at 31 December 2011: 14.1%).

Sochinskaya TPS (separate power plant included into the operating segment – "Generation in the Russian Federation")
In 2011 due to the loss of special status a must-run generator after recalculation of the recoverable amount of property, plant and equipment – the impairment in the amount of RUR 4,143 million was recognized. In 2012 additional impairment in the amount of RUR 11 million was recognized in respect of additions to property, plant and equipment. The Group is committed to operate Sochinskaya TPS. The recoverable amount was measured as value in use using the discount rate of 13.5% as at 31 December 2011.

JSC Electrolutch (the complex of office buildings included into the operating segment – "Other")
In 2011 due to the growth in market rent prices the recoverable amount of an asset was determined (see details in Note 7), consequently as a result of this analysis, the impairment in the amount RUR 396 million was recovered. The recoverable amount was estimated as value in use using the discount rate of 12.9% as at 31 December 2011. In 2012 no indicators of impairment charge or recovery were revealed.

Moldavskaya GRES (separate power plant included into the operating segment – "Moldova")
In 2011 the impairment in the amount of RUR 281 million was recovered with the main reasons being decrease in the discount rate and increase in electricity sales tariff. In 2012 the recoverable amount of Moldavskaya GRES property, plant was recalculated resulted no base for impairment charge. The recoverable amount as value in use was measured using the discount rate of 20.0% as at 31 December 2012 (as at 31 December 2011: 15.4%).

Various other minor impairment charges in the amount of RUR 37 million were recognized in 2012 (2011: RUR 18 million). It is reasonably possible, on the basis of existing knowledge, that outcomes within the next financial year that are different from the assumptions used as at 31 December 2012 could require a material adjustment to the carrying amount of certain power plants (CGUs).

(b) Pledge

Properties as at 31 December 2012 with carrying amount of RUR 30 million (31 December 2011: RUR 33 million) are pledged by CJSC Elektricheskiye seti Armenii as collateral for several loans.

7. Investment properties

The movement of investment properties for the reporting period is as follows:

At 1 January 2011 (restated)	**1,094**
Additions	43
Impairment loss recovery	93
Depreciation charge	(19)
At 31 December 2011	**1,211**
At 31 December 2011	**1,211**
Additions	67
Depreciation charge	(20)
Transfer to property, plant and equipment	(1,258)
At 31 December 2012	–

Investment properties represented a complex of three office buildings located in Moscow in various stages of completion which were rented out until 31 December 2012. Since these buildings are occupied by the Group entities for own use from the end of 2012 year, the Group transferred investment properties to property, plant and equipment.

(in million of RUR)

8. Intangible assets

	Goodwill	*Software*	*Other*	*Total*
Cost				
Balance at 1 January 2011 (restated)	**1,858**	**1,471**	**1,088**	**4,417**
Reclassification	–	34	(34)	**–**
Acquisition of controlling interest	753	104	496	**1,353**
Additions	–	370	348	**718**
Disposals	–	(130)	(17)	**(147)**
Disposal of controlling interest	(6)	(1)	(8)	**(15)**
Translation difference	151	14	1	**166**
Balance at 31 December 2011	**2,756**	**1,862**	**1,874**	**6,492**
Balance at 31 December 2011	**2,756**	**1,862**	**1,874**	**6,492**
Reclassification	–	(6)	6	**–**
Acquisition of controlling interest	44	20	5,103	**5,167**
Additions	1	867	363	**1,231**
Disposals	–	(286)	(192)	**(478)**
Disposal of controlling interest	(58)	–	–	**(58)**
Translation difference	(93)	(19)	(285)	**(397)**
Balance at 31 December 2012	**2,650**	**2,438**	**6,869**	**11,957**
Amortisation and impairment				
Balance at 1 January 2011 (restated)	**(324)**	**(651)**	**(162)**	**(1,137)**
Reclassification	–	(6)	6	**–**
Amortisation charge	–	(314)	(180)	**(494)**
Impairment losses	(43)	–	(31)	**(74)**
Acquisition of controlling interest	–	(50)	(4)	**(54)**
Disposals	–	71	13	**84**
Disposal of controlling interest	6	–	3	**9**
Translation difference	(9)	(3)	–	**(12)**
Balance at 31 December 2011	**(370)**	**(953)**	**(355)**	**(1,678)**
Balance at 31 December 2011	**(370)**	**(953)**	**(355)**	**(1,678)**
Reclassification	–	6	(6)	**–**
Acquisition of controlling interest	–	(1)	(1)	**(2)**
Amortisation charge	–	(440)	(189)	**(629)**
Impairment losses	(805)	–	(153)	**(958)**
Disposals	–	84	14	**98**
Disposal of controlling interest	58	–	–	**58**
Translation difference	9	9	–	**18**
Balance at 31 December 2012	**(1,108)**	**(1,295)**	**(690)**	**(3,093)**
Net book value				
At 1 January 2011 (restated)	**1,534**	**820**	**926**	**3,280**
At 31 December 2011	**2,386**	**909**	**1,519**	**4,814**
At 31 December 2012	**1,542**	**1,143**	**6,179**	**8,864**

Amortisation charge is included in operating expenses in the consolidated statement of comprehensive income.

Additions in goodwill in the amount of RUR 44 million arose on the acquisition of LLC Invest Inform Project in April 2012 (see Note 5).

Impairment of goodwill

31 December 2012

Goodwill which arose on the acquisition of LLC Invest Inform Project in April 2012 amounted to RUR 44 million (see Note 5) was fully impaired in the consolidated statement of comprehensive income for the year ended 31 December 2012. The main reason for impairment was unfavourable change in the customer's base subsequent to acquisition.

Additions in the amount of RUR 700 million relate to acquisition of JSC Khramesi GES I and JSC Khramesi GES II in April 2011 (Note 5). Goodwill amounted to RUR 700 million and accumulated foreign currency exchange difference RUR 61 million as at 31 December 2012 was impaired in the consolidated statement of comprehensive income for the year ended 31 December 2012. The main reason for impairment was management decision on liquidation of LLC Khramesi GES III, established in 2011 for the purpose of further expansion of generating activities in Georgia.

(in million of RUR)

8. Intangible assets (continued)

Impairment of goodwill (continued)

31 December 2011

UAB INTER RAO Lietuva

As at 31 December 2012 the Group carried out an impairment test for goodwill related to acquisition of UAB INTER RAO Lietuva. For the purpose of impairment testing goodwill is allocated to UAB INTER RAO Lietuva as an individual cash-generating unit. The impairment test was based on the following key assumptions:

- According to electricity demand projections, the demand would increase annually at average rate of 2% and would reach approximately 11.6 GWth by the year 2022, from the current level of approximately 9.6 GWth. It is expected that starting from the year 2013 till the year 2022 annual volume of electricity imported to Lithuania will grow to 8 GWth, 70% of that volume will be covered by deliveries carried out by UAB INTER RAO Lietuva;
- Volume of deliveries is assumed to provide gross margin of 13%, as the above mentioned volume allows UAB INTER RAO Lietuva to carry out electricity sales in peak periods, when higher profitability is achieved;
- The discount factor used for the impairment test performed by management as at 31 December 2012 was 9.79%.

Based on the assumptions described above, management considers that as at 31 December 2012 there are no impairment need to be recorded.

Other

Included in other intangible assets RUR 5,100 million represents identifiable intangible assets of Trakya Elektrik Uretim ve Ticaret A.S acquired in a business combination (Note 5). This intangible asset represents the Group's right to operate the electricity power plant facilities in accordance with the Buy-Operate-Transfer ("BOT") agreement. The intangible asset was initially recognised at its fair value which was assessed by the independent appraiser. As at the date of business combination (December 2012) the intangible assets' useful life was 7 years and 1 month (as at 31 December 2012: the remaining useful life was 7 years).

Other intangible assets include capitalised Status of the guaranteed supplier in the amount of RUR 503 million, recognised on the acquisition of a subsidiary by one of the Group's entity, acquired under common control (31 December 2011: RUR 575 million). As at 31 December 2012 other intangible assets' remaining useful life was 7 years.

9. Investments in associates and jointly controlled entities

Details of the associates, jointly controlled entities and joint ventures, together with movements in the carrying values of these investments, are set at below:

			Voting	
	Status	***Country***	***31 December 2012***	***31 December 2011***
NVGRES Holding Limited	Jointly controlled entity	The Russian Federation	75.00%	75.00%
CJSC Nizhnevartovskaya GRES	Jointly controlled entity	The Russian Federation	75.00%	75.00%
JSC Stantsiya Ekibastuzskaya GRES-2	Jointly controlled entity	The Republic of Kazakhstan	50.00%	50.00%
LLC Kvarz Noviye Technologii	Jointly controlled entity	The Russian Federation	50.10%	50.10%
LLC UK Kvarz	Jointly controlled entity	The Russian Federation	50.10%	50.10%
JSC Kambarata HPP-1	Jointly controlled entity	The Kyrgyz Republic	50.00%	50.00%
CJSC Industrial Power Company	Jointly controlled entity	The Russian Federation	50.00%	50.00%
LLC Interenergoeffect	Jointly controlled entity	The Russian Federation	–	50.00%
LLC Power Efficiency Centre INTER RAO UES	Jointly controlled entity	The Russian Federation	50.01%	50.01%
LLC InterRAO-WorleyParsons	Jointly controlled entity	The Russian Federation	51.00%	51.00%
SOOO ENERGOCONNECT	Jointly controlled entity	Belorussia	50.00%	50.00%
CJSC INTER RAO LED-Systems	Jointly controlled entity	The Russian Federation	35.17%	35.17%
LLC RT – Energy Trading	Jointly controlled entity	The Russian Federation	50.00%	50.00%
UAB Alproka	Associate	Lithuania	49.99%	49.99%
JSC Rusia Petroleum	Associate	The Russian Federation	25.00%	25.00%
RUS Gas Turbines Holding B.V.	Associate	The Netherlands	25.00%	25.00%
JSC Akkuyu NPP	Associate	Turkey	3.47%	3.47%
JSC Bashkirenergo	Associate	The Russian Federation	–	26.65%

(in million of RUR)

9. Investments in associates and jointly controlled entities (continued)

	JSC Bashkir-energo	*NVGRES Holding Limited*	*JSC Stantsiya Ekibastuz-skaya GRES-2*	*RUS Gas Turbines Holding B.V.*	*JSC Akkuyu NPP*	*CJSC INTER RAO LED-Systems*	*Other*	*Total*
Carrying value at 1 January 2011 (restated)	**–**	**13,958**	**4,004**	**–**	**980**	**–**	**566**	**19,508**
Additions	9,934	–	–	1,131	–	600	14	**11,679**
Unrealized gain	–	–	–	–	–	–	11	**11**
Share of profit / (loss) after tax	–	1,711	1,190	(6)	17	(81)	29	**2,860**
Gain from disposal of available-for-sale financial asset	14,227	–	–	–	–	–	–	**14,227**
Change in ownership structure	–	–	–	–	(121)	7	–	**(114)**
Dividends received from associate and jointly controlled entities	–	–	(325)	–	–	–	(72)	**(397)**
Translation difference	–	–	286	–	(25)	–	–	**261**
Carrying value at 31 December 2011	**24,161**	**15,669**	**5,155**	**1,125**	**851**	**526**	**548**	**48,035**
Carrying value at 31 December 2011	**24,161**	**15,669**	**5,155**	**1,125**	**851**	**526**	**548**	**48,035**
Disposals	(23,879)	–	–	–	–	–	(1)	**(23,880)**
Unrealized gain (loss)	–	–	–	–	–	–	239	**239**
Share of profit/(loss) after tax	(604)	1,083	1,216	(51)	(16)	(16)	749	**2,361**
Redetermination of fair value at the date of disposal	319	–	–	–	–	–	–	**319**
Change in ownership structure	3	–	–	–	6	20	–	**29**
Dividends received from associate and jointly controlled entities	–	–	–	–	–	(5)	(31)	**(36)**
Translation difference	–	–	(388)	–	7	–	(5)	**(386)**
Carrying value at 31 December 2012	**–**	**16,752**	**5,983**	**1,074**	**848**	**525**	**1,499**	**26,681**

JSC Bashkirenergo

As a result of placing additional shares in the 1st half 2011, JSC INTER RAO UES acquired 26.65% of the total shares of JSC Bashkirenergo. At the date of acquisition the investment was initially classified as available-for-sale financial asset.

At the end of December 2011 the Group's management agreed with the shareholders of JSC Bashkirenergo that the Group will acquire a controlling stake in generating segment of JSC Bashkirenergo once it is reorganized. Accordingly, at that date, the Group re-classified its non-controlling stake in JSC Bashkirenergo from available-for-sale financial asset into investment in associated company.

On 27 July 2012 the shareholders of JSC Bashkirenergo approved its reorganization in the form of spin off to JSC Bashkirskaya Electrosetevaya Companiya and JSC Bashenergoactive with subsequent acquisition of control over JSC Bashenergoactive by JSC INTER RAO UES (Note 5). On 6 November 2012 the Group recognized difference between carrying value and fair value of investment in JSC Bashkirenergo as associated entity in the amount of RUR 319 million within share of profit of associates and jointly controlled entities.

	31 December 2011
Non-current assets	97,502
Current assets	11,264
Non-current liabilities	(12,795)
Current liabilities	(5,271)

	From 1 January to 6 November 2012	*Year ended 31 December 2011*
Revenue	43,692	–
Loss for the period	(2,254)	–

(in million of RUR)

9. Investments in associates and jointly controlled entities (continued)

NVGRES Holding Limited and CJSC Nizhnevartovskaya GRES

The Group holds a 75% interest in NVGRES Holding Limited, including its wholly-owned subsidiary CJSC Nizhnevartovskaya GRES consolidated using the equity method. In accordance with the terms of the Shareholders Agreement between the Group and TNK-BP (Russian oil and gas company), control over NVGRES Holding Limited is jointly exercised.The following is summarised financial information in respect of NVGRES Holding Limited and its subsidiary CJSC Nizhnevartovskaya GRES:

	31 December 2012	*31 December 2011*
Non-current assets	17,733	11,347
Current assets	6,397	11,006
Non-current liabilities	(719)	(689)
Current liabilities	(1,075)	(772)

	Year ended 31 December 2012	*Year ended 31 December 2011*
Revenue	11,339	12,445
Profit for the period	1,444	2,281

JSC Stantsiya Ekibastuzskaya GRES-2

The Group holds a 50% interest in a jointly controlled entity – JSC Stantsiya Ekibastuzskaya GRES-2 accounted for using the equity method. The Group exercises joint control over JSC Stantsiya Ekibastuzskaya GRES-2 with AO "Samruk-Energo", which is ultimately controlled by the Government of the Republic of Kazakhstan. The following is summarized financial information in respect of JSC Stantsiya Ekibastuzskaya GRES-2:

	31 December 2012	*31 December 2011*
Non-current assets	21,439	11,789
Current assets	1,592	1,143
Non-current liabilities	(10,573)	(1,847)
Current liabilities	(492)	(775)

	Year ended 31 December 2012	*Year ended 31 December 2011*
Revenue	7,539	6,399
Profit for the period	2,432	2,380

RUS Gas Turbines Holding B.V.

In December 2010 the Group established together with General Electric and State Corporation Russian Technologies associate entity, RUS Gas Turbines Holding B.V. The Group's share in the newly-established entity is 25%. The entity was established to participate in production and sales of high-performance industrial gas turbines in the Russian Federation.

The following is summarised financial information in respect of RUS Gas Turbines Holding B.V.

	31 December 2012	*31 December 2011*
Non-current assets	163	–
Current assets	4,165	4,502
Current liabilities	(32)	–

	Year ended 31 December 2012	*Year ended 31 December 2011*
Loss for the period	(204)	(22)

(in million of RUR)

9. Investments in associates and jointly controlled entities (continued)

JSC Akkuyu NPP

In December 2010 the Group established jointly with JSC Rosenergoatom Concern an entity under common control of Russian Federation and CJSC Atomstroyexport a new associate entity, JSC AKKUYU NPP. The Group's share in the newly-established entity was 33.33%. The entity was established in accordance with the agreement between the Government of the Russian Federation and the Government of the Republic of Turkey on cooperation in the construction and operation of a nuclear power plant in Turkey. In December 2011 the Group's share in JSC AKKUYU NPP was diluted to 3.47% after JSC AKKUYU NPP's additional issue of shares was fully bought-out by JSC Rosenergoatom Concern. Since proportion and authority of the Group's participation in Management Board of JSC AKKUYU NPP remained unchanged, the Group continues to demonstrate significant influence on financing and operating activities of the entity and classified the investment in JSC AKKUYU NPP as investment in associates. The following is the summarised financial information in respect of JSC AKKUYU NPP (3.47%)

	31 December 2012	***31 December 2011***
Non-current assets	4,767	2,250
Current assets	20,234	23,330
Current liabilities	(567)	(1,064)

	Year ended 31 December 2012	***Year ended 31 December 2011***
Loss for the period	(470)	482

JSC INTER RAO LED-Systems

On 19 April 2011 JSC INTER RAO UES acquired 35.17% of total shares of JSC INTER RAO LED Systems from third parties. At the date of acquisition the investment in the amount of RUR 600 million was classified as available-for-sale financial asset. On 19 August 2011 the Group entered into joint control over the Company with another participants and the investment was reclassified to investment in jointly controlled entity. Effective Group's share as of 31 December 2012 is 26.55% (31 December 2011: 27.51%).

	31 December 2012	***31 December 2011***
Non-current assets	1,895	1,688
Current assets	1,247	1,257
Non-current liabilities	(736)	(616)
Current liabilities	(429)	(417)

	Year ended 31 December 2012	***Year ended 31 December 2011***
Revenue	1,245	448
Loss for the period	(59)	(53)

Other

As at 31 December 2012 the Group owns shares in several other associates and jointly controlled entities. Movement of other investments in associates for the year 2012 include a partial reversal of previously recognised impairment on share in associated company JSC RUSIA Petroleum Company (RUSIA Petroleum) of RUR 883 million. Reversal of impairment is related to recognition of share in net assets of RUSIA Petroleum, and is represented by fair value of cash to be redeemed to the Group in 2014. Other current assets and other financial income include RUR 3,533 million related to investment in Rusia Petroleum. The following is the summarised financial information in respect of these entities:

	31 December 2012	***31 December 2011***
Non-current assets	3,778	5,544
Current assets	23,155	17,052
Non-current liabilities	(10,887)	(4,891)
Current liabilities	(14,863)	(16,645)

	Year ended 31 December 2012	***Year ended 31 December 2011***
Revenue and other financial income	27,214	6,445
Profit for the period	3,739	218

(in million of RUR)

10. Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Differences between IFRS and relevant tax bases give rise to temporary differences between carrying value of certain assets and liabilities for financial reporting purposes and for income tax purposes. Deferred tax assets and liabilities are measured at the rate expected to be applicable when the temporary differences will reverse, based on rates and legislation enacted or substantively enacted by end of the reporting period.

Deferred tax assets and liabilities are attributable to the following:

	Deferred tax assets		*Deferred tax liabilities*	
	31 December 2012	***31 December 2011***	***31 December 2012***	***31 December 2011***
Property, plant and equipment	2,302	788	(16,307)	(13,938)
Investment property	–	–	–	(133)
Investments in associates and jointly controlled entity	30	24	(2,038)	(1,691)
Trade and other receivables	1,074	743	–	–
Tax loss carry-forwards	4,194	415	–	–
Investments in available for sale financial assets and assets classified as held for sale	–	–	(3,666)	(3,862)
Accounts payable and long-term loans and borrowings	948	1,108	(837)	(1,016)
Other items	753	379	(1,891)	(652)
Tax assets / (liabilities)	9,301	3,457	(24,739)	(21,292)
Set off of tax	(7,327)	(2,353)	7,327	2,353
	1,974	**1,104**	**(17,412)**	**(18,939)**

(b) Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of some of the Group entities located in Armenia, the Russian Federation and Kazakhstan and relate to the following deductible temporary differences:

	31 December 2012	***31 December 2011***
Available-for-sale financial assets	7,177	5,245
Assets classified as held-for-sale	15,967	10,785
Put and Call options	13,542	5,933
Other	2,098	1,889
	38,784	**23,852**

Deductible temporary differences as at 31 December 2012 mainly relate to Put and Call option agreement with SC Vnesheconombank signed in June 2010 (see Note 18, 21 and 22), and acquisition of available for sale financial assets and assets classified as held for sale (mainly relates to JSC Volga TGC, JSC Irkutskenergo and JSC Enel OGK-5). Deferred tax assets have not been recognised in respect of these items because in management's opinion it is not probable that future taxable profit will be available in the respective Group entity against which the Group can utilize respective tax loss. Unrecognized temporary differences can be realized within next 8 years.

(in million of RUR)

10. Deferred tax assets and liabilities (continued)

Movement in tax effects of temporary differences, after offsetting, during the period:

Deferred tax assets:

	1 January 2011 (restated)	***Acquisition of controlling interest***	***Recognised in profit and loss***	***Recognised in OCI (FCTR)***	***Recognised in OCI (Reserves)***	***31 December 2011***
Property, plant and equipment	75	–	705	8	–	788
Trade and other receivables	575	–	(463)	–	–	112
Accounts payable and long-term loans and borrowings	291	–	(249)	2	(24)	20
Other items	436	–	112	–	(411)	137
Tax loss carry-forwards	41	–	6	–	–	47
	1,418	**–**	**111**	**10**	**(435)**	**1,104**

	31 December 2011	***Acquisition of controlling interest***	***Recognised in profit and loss***	***Recognised in OCI (FCTR)***	***Recognised in OCI (Reserves)***	***31 December 2012***
Property, plant and equipment	788	2,088	(973)	(110)	–	1,793
Trade and other receivables	112	–	84	(2)	–	194
Accounts payable and long-term loans and borrowings	20	48	42	(6)	–	104
Other items	137	(1,026)	(45)	61	–	(873)
Tax loss carry-forwards	47	129	589	(9)	–	756
	1,104	**1,239**	**(303)**	**(66)**	**–**	**1,974**

Deferred tax liabilities:

	1 January 2011 (restated)	***Acquisition of controlling interest***	***Recognised in profit and loss***	***Recognised in OCI (FCTR)***	***Recognised in OCI (Reserves)***	***31 December 2011***
Property, plant and equipment	(4,755)	(8,601)	(488)	(94)	–	(13,938)
Investment property	(117)	–	(16)	–	–	(133)
Other non-current assets (C&P)	(508)	–	508	–	–	–
Investments in associates and jointly controlled entity	(1,334)	–	(299)	–	(58)	(1,691)
Investments in available for sale financial assets and assets classified as held for sale	–	–	(3,970)	(17)	125	(3,862)
Accounts payable and long-term loans and borrowings	331	234	(495)	(2)	36	104
Other items	185	61	441	33	(139)	581
	(6,198)	**(8,306)**	**(4,319)**	**(80)**	**(36)**	**(18,939)**

	31 December 2011	***Acquisition of controlling interest***	***Recognised in profit and loss***	***Recognised in OCI (FCTR)***	***Recognised in OCI (Reserves)***	***31 December 2012***
Property, plant and equipment	(13,938)	(6,072)	4,176	36	–	(15,798)
Investment property	(133)	–	133	–	–	–
Other non-current assets (C&P)	–	–	–	–	–	–
Investments in associates and jointly controlled entity	(1,691)	–	(426)	1	78	(2,038)
Investments in available for sale financial assets and assets classified as held for sale	(3,862)	–	(418)	1	613	(3,666)
Accounts payable and long-term loans and borrowings	104	270	(235)	(102)	(31)	6
Other items	581	502	2,910	(9)	100	4,084
	(18,939)	**(5,300)**	**6,140**	**(73)**	**760**	**(17,412)**

(in million of RUR)

10. Deferred tax assets and liabilities (continued)

The Group recognised temporary differences on property, plant and equipment which relate to differences between the accounting and tax bases for depreciation rates, carrying values and statutory tax base of property, plant and equipment.

Deferred tax liability in the amount of RUR 613 million was recognised through other comprehensive income in relation to the decrease in fair value of available for sale financial assets and assets classified as held for sale for the year ended 31 December 2012 (for the year ended 31 December 2011: RUR 125 million) and RUR 73 million in other items in relation to the hedge reserve recognised in RAO Nordic Oy and the Parent Company (for the year ended 31 December 2011: RUR 106 million). Other deferred tax liabilities recognised in other comprehensive income relate to foreign currency translation reserve (FCTR).

For the year ended 31 December 2011 a deferred tax asset in the amount of RUR 435 million was released through other comprehensive income in relation to the hedge reserves in RAO Nordic Oy and the Parent Company.

The Group has not recognised deferred tax liabilities in respect of temporary differences associated with investments in subsidiaries and associates in the amount of RUR 123,849 million (31 December 2011: RUR 143,075 million) as the Group is able to control timing of the reversal of temporary differences and does not intend to realise them in the foreseeable future.

11. Available-for-sale financial assets

As at 31 December 2012 available-for-sale financial assets in the total amount of RUR 32,563 million (31 December 2011: RUR 40,651 million) included investments in quoted shares in the total amount of RUR 31,956 million (31 December 2011: RUR 40,454 million) and investment in unquoted shares in the total amount of RUR 607 million (31 December 2011: RUR 197 million).

Investments in quoted shares

For the year ended 31 December 2012 the amount of RUR 6,291 million was recognised as impairment loss on available-for-sale financial assets through profit and loss in the consolidated statement of comprehensive income (for the year ended 31 December 2011: RUR 20,960 million) (Note 26).

For the year ended 31 December 2012 the amount of RUR 3,025 million, net of tax RUR 613 million was recognised as loss from revaluation of available-for-sale financial assets through other comprehensive income in the consolidated statement of comprehensive income (for the year ended 31 December 2011: RUR 319 million, net of tax RUR 125 million) (Note 10, 18).

	31 December 2012		***31 December 2011***	
	% share capital	**Carrying value**	**% share capital**	**Carrying value**
JSC Volga TGC	41.37%	19,492	39.39%	22,465
JSC RusHydro	1.85%	3,937	1.85%	5,184
JSC Mosenergo	5.05%	2,679	5.05%	3,433
JSC TGC-6	27.71%	1,922	26.09%	3,317
JSC OGK-2	5.70%	1,163	5.70%	2,539
JSC FGC UES	0.37%	928	0.37%	1,298
JSC TGK-9	2.48%	641	1.71%	362
JSC TGK-1	1.97%	523	1.97%	707
JSC Quadra	2.25%	226	2.25%	241
JSC Irkutskenergo	0.29%	208	0.01%	5
Plug Power Inc.	11.80%	72	19.70%	292
JSC Tomskenergosbyt	31.27%	69	–	–
JSC TGK-2	1.38%	45	1.38%	52
JSC IDGC of Centre	0.07%	19	0.07%	19
JSC Yaroslavl Power Sale Company	0.85%	17	0.85%	16
JSC TGK-14	0.60%	13	0.60%	13
JSC Kuzbassenergo	–	–	1.97%	291
JSC Yenisei TGC (TGC-13)	–	–	2.16%	213
JSC Novosibirskenergo	–	–	0.16%	7
Other	–	2	–	–
Total		**31,956**		**40,454**

The Group does not exercise significant influence over JSC Volga TGC, JSC Tomskenergosbyt and JSC TGC-6 with ownership interest of 41.37%, 31.27% and 27.71% at 31 December 2012, respectively. Accordingly, these investments were accounted for as available-for-sale financial assets at 31 December 2012 and 31 December 2011.

(in million of RUR)

11. Available-for-sale financial assets (continued)

Investments in quoted shares (continued)

On 25 January 2012, the Group acquired 0.15% of JSC Irkutskenergo ordinary shares for cash a consideration RUR 158 million from third parties.

On 14 February 2012, the Group acquired 0.36% of JSC Volga TGC ordinary shares for a cash consideration RUR 246 million from third parties.

On 25 April 2012 the Group acquired additional 2.17% of JSC Volga TGC ordinary shares from third parties for total consideration equivalent to RUR 1,355 million, settled by the Group's treasury shares at market quotations at the date of transaction (Note 18).

On 26 April 2012 the Group acquired 1.66% of ordinary shares of JSC TGK-9 from third parties for the total consideration equivalent to RUR 310 million, settled by the Group's treasury shares at market quotations at the date of transaction (Note 18).

On 31 May 2012 the Group acquired 1.61% of JSC TGC-6 ordinary shares from third parties for total consideration equivalent to RUR 195 million, settled by the Group's treasury shares at market quotations at the date of transaction (Note 18).

On 29 June 2012, the Group acquired 0.05% of JSC TGC-6 ordinary shares for a cash consideration of RUR 3 million from third parties.

In March 2012, following the additional issue of shares performed by Plug Power, the Group's share in this entity was diluted from 19.7% to 11.8%.

In April 2012 the Parent Company exercised its rights as provided by the Federal Law on Joint Stock Companies and disposed its 1.97% shareholding in JSC Kuzbassenergo and 2.16% in JSC Yenisei TGC (TGC-13) for total cash consideration of RUR 505 million during the reorganization procedures launched by these companies.

In July 2012 the Group acquired 0.06% of ordinary shares of JSC Volga TGC, 0.36% of ordinary shares of JSC TGK-9, 0.05% of ordinary shares of JSC TGC-6 and 0.13% of ordinary shares of JSC Irkutskenergo for total consideration equivalent of RUR 176 million, settled by the Group's treasury shares at market quotations at the date of transaction (Note 18).

In August and September 2012 the Group sold to the third parties 1.25% of ordinary shares of JSC TGK-9 and 0.09% of ordinary shares of JSC TGK-6 for a cash consideration of RUR 344 million.

On 20 September 2012 the Group sold to the third parties 0.61% of ordinary shares of JSC Volga TGC for a cash consideration of RUR 336 million.

Investments in unquoted shares

As a result of reorganization of JSC Bashkirenergo (Note 5) the Group acquired 1.46% share in JSC Bashkirian Power Grid Company. Fair value of the investment amounting to RR 404 million derived from 1.46% share in JSC Bashkirenergo proportionally split into shares of JSC BGK and JSC BESC at the date of reorganization (6 November 2012).

	31 December 2012		*31 December 2011*	
	% share capital	***Carrying value***	***% share capital***	***Carrying value***
JSC BESC	1.46%	404	–	–
JSC Sangtudinskaya GES-1	14.87%	161	14.87%	161
Other	–	42	–	36
Total		**607**		**197**

Investments in unquoted shares as at 31 December 2011 included impairment of investment in JSC Sangtudinskaya GES-1 in the amount of RUR 530 million.

The Group did not identify any impairment in respect of available-for-sale investments in unquoted shares for the year ended 31 December 2012. For the year ended 31 December 2011 impairment amounted to RUR 170 million and was recognized through profit and loss in the consolidated statement of comprehensive income (Note 26).

(in million of RUR)

12. Other non-current assets

		31 December 2012	31 December 2011
Financial non-current assets		***2,451***	***931***
Non-current trade receivables		892	288
	Less impairment provision	*(321)*	*(82)*
Non-current trade receivables – net		**571**	**206**
Other non-current receivables		1,565	970
	Less impairment provision	*(333)*	*(286)*
Other non-current receivables – net		**1,232**	**684**
Non-current loans issued (including interest)		362	9
	Less impairment provision	*(7)*	*(8)*
Non-current loans issued (including outstanding interest) – net		**355**	**1**
Long-term derivative financial instruments – assets		253	–
Long-term bank deposits		40	40
		293	**40**
Non-financial non-current assets		***2,726***	***3,820***
Non-current advances to suppliers and prepayments		2,052	2,616
VAT recoverable		461	789
Other		213	415
		5,177	**4,751**

As at 31 December 2012 non-current advances to suppliers and prepayments in the amount of RUR 1,919 million relate to advances given to suppliers of equipment to Ecuador and Venezuela (31 December 2011: RUR 2,616 million) (see Note 22).

Included in Other non-current receivables RUR 812 million represents a financial asset recognized by the Group in relation to the concession arrangement by one of the Group's subsidiary, Trakya Elektrik Uretim ve Ticaret A.S. ("Operator"), republic of Turkey. In accordance with the arrangement, the Operator constructs, commissions and operates a natural gas-fired combined cycle power station on a BOT basis under the terms of Implementation Contract between the Operator and the Ministry of Energy and Natural Resources of the Republic of Turkey ("MENR"). As at 31 December 2012 the power station has been constructed and is being operated. The concession arrangement period includes initial period of up to 2019 with an option of the MENR to extend the operating period up to 2046. At the end of the concession arrangement period, the power plant shall be transferred to an enterprise nominated by MENR. Certain state owned domiciled entities in Turkey are currently obliged to purchase on a "take-or-pay" basis minimum quantities of electricity made available by Trakya Elektrik Uretim ve Ticaret A.S. for initial period. The electricity selling price is calculated as the sum of fixed capacity price, variable capacity price and gas energy price.

Movements in the provision for impairment of other non-current assets are as follows:

	Non-current trade receivables	*Non-current loans issued incl. interest*	*Other non-current receivables*	*Total provision*
At 31 December 2011	**(82)**	**(8)**	**(286)**	**(376)**
Accrual of provision for receivables impairment	(8)	–	(186)	**(194)**
Release of provision	–	–	215	**215**
Receivables written off as uncollectible	45	–	–	**45**
Accrual of discount effect	(60)	–	(75)	**(135)**
Unwinding of discount	12	–	36	**48**
Reclassification of short-term portion	(70)	–	22	**(48)**
Acquisition of controlling interest	(161)	–	(57)	**(218)**
Translation difference	3	1	(2)	**2**
At 31 December 2012	**(321)**	**(7)**	**(333)**	**(661)**

(in million of RUR)

12. Other non-current assets (continued)

	Non-current trade receivables	*Non-current loans issued incl. interest*	*Other non-current receivables*	*Total provision*
At 1 January 2011 (restated)	**(65)**	**(10)**	**(408)**	**(483)**
Accrual of provision for receivables impairment	(11)	–	(67)	**(78)**
Release of provision	15	–	81	**96**
Accrual of discount effect	(18)	–	(70)	**(88)**
Unwinding of discount	3	–	46	**49**
Reclassification of short-term portion	–	–	44	**44**
Acquisition of controlling interest	–	–	88	**88**
Loans written off as uncollectible	–	2	–	**2**
Translation difference	(6)	–	–	**(6)**
At 31 December 2011	**(82)**	**(8)**	**(286)**	**(376)**

13. Inventories

	31 December 2012	*31 December 2011*
Fuel	6,979	5,325
Spare parts	2,739	2,272
Materials and consumables	2,984	2,214
Other	252	134
	12,954	**9,945**

Provision for inventory obsolescence amounted to RUR 411 million as at 31 December 2012 (31 December 2011: RUR 236 million). The increase in provision in the amount of RUR 347 million was due to acquisition of Bashkir Generation. The release of provision for the year ended 31 December 2012 in the amount of RUR 172 million (for the year ended 31 December 2011: charge in the amount of RUR 120 million) was recognised in Other provisions within Operating expenses in consolidated statement of comprehensive income.

As at 31 December 2012 the Group has a technological inventory in the amount RUR 8,147 million, mostly represented by fuel and spare parts (31 December 2011: RUR 4,033 million).

14. Accounts receivable and prepayments

		31 December 2012	*31 December 2011*
Financial assets:		***50,443***	***34,391***
Trade receivables		61,354	41,134
	Less impairment provision	*(16,604)*	*(12,956)*
Trade receivables – net		**44,750**	**28,178**
Other receivables		6,511	5,798
	Less impairment provision	*(1,830)*	*(1,487)*
Other receivables – net		**4,681**	**4,311**
Short-term loans issued (including interest)		1,054	423
	Less impairment provision	*(252)*	*(5)*
Short-term loans issued (including interest)		**802**	**418**
Short-term outstanding interest on bank deposits		205	1,259
Dividends receivable		5	225
Non-financial assets:		***12,637***	***10,097***
Advances to suppliers and prepayments		5,452	2,582
	Less impairment provision	*(738)*	*(152)*
Advances to suppliers and prepayments – net		**4,714**	**2,430**
Short-term VAT recoverable		3,770	4,390
Taxes prepaid		4,153	3,277
		63,080	**44,488**

(in million of RUR)

14. Accounts receivable and prepayments (continued)

As at 31 December 2012 short-term VAT recoverable included RUR 781 million of VAT for construction of Yujnouralskaya GRES, Djubginskaya TES, Permskaya GRES and Cherepetskaya GRES (31 December 2011: RUR 874 million), RUR 625 million of VAT on advances given by LLC Bashkir Generation Company for construction of PGU TEC-5 and PGU TEC-2, RUR 404 million of VAT recoverable on export operations.

Movements in the provision for impairment of receivables are as follows:

	Trade receivables	*Advances to suppliers and prepayments*	*Short-term loans issued (incl. interest)*	*Other receivables*	*Total provision*
At 31 December 2011	**(12,956)**	**(152)**	**(5)**	**(1,487)**	**(14,600)**
Accrual of provision	(9,929)	(687)	–	(1,042)	**(11,658)**
Accrual of provision for loans issued	–	–	(250)	–	**(250)**
Release of provision	6,179	140	–	777	**7,096**
Accrual of discount effect	–	–	–	(10)	**(10)**
Receivables written off as uncollectible (provided as at year beginning)	741	35	–	78	**854**
Reclassification, other	(24)	–	–	24	**–**
Reclassification of long-term portion	48	–	–	–	**48**
Foreign exchange gain	14	–	–	2	**16**
Acquisition of controlling interest	(805)	(79)	–	(183)	**(1,067)**
Disposal of controlling interest	2	–	3	–	**5**
Translation difference	126	5	–	11	**142**
At 31 December 2012	**(16,604)**	**(738)**	**(252)**	**(1,830)**	**(19,424)**

	Trade receivables	*Advances to suppliers and prepayments*	*Short-term loans issued (incl. interest)*	*Other receivables*	*Total provision*
At 1 January 2011 (restated)	**(9,747)**	**(160)**	**(2)**	**(688)**	**(10,597)**
Accrual of provision	(7,700)	(63)	–	(980)	**(8,743)**
Release of provision	4,348	39	–	738	**5,125**
Unwinding of discount	–	–	–	15	**15**
Receivables written off as uncollectible (provided as at year beginning)	1,108	19	–	73	**1,200**
Reclassification, other	–	14	–	(14)	**–**
Reclassification of long-term portion	–	–	–	(44)	**(44)**
Acquisition of controlling interest	(747)	–	–	(570)	**(1,317)**
Disposal of controlling interest	–	–	(3)	1	**(2)**
Foreign exchange (loss)/gain	(10)	–	–	1	**(9)**
Translation difference	(208)	(1)	–	(19)	**(228)**
At 31 December 2011	**(12,956)**	**(152)**	**(5)**	**(1,487)**	**(14,600)**

Carrying value of financial assets included in accounts receivable are presented as follows:

At 31 December 2012	*Trade receivables*	*Short-term loans issued (including interest)*	*Other receivables*	*Dividends receivable*	*Short-term outstanding interest on bank deposits*	*Total*
Not past due not impaired	11,095	799	1,942	5	205	**14,046**
Past due but not impaired	26,290	–	2,655	–	–	**28,945**
Past due and impaired	23,969	255	1,914	–	–	**26,138**
Total	**61,354**	**1,054**	**6,511**	**5**	**205**	**69,129**

At 31 December 2011	*Trade receivables*	*Short-term loans issued (including interest)*	*Other receivables*	*Dividends receivable*	*Short-term outstanding interest on bank deposits*	*Total*
Not past due not impaired	15,437	418	2,578	225	1,259	**19,917**
Past due but not impaired	6,549	–	572	–	–	**7,121**
Past due and impaired	19,148	5	2,648	–	–	**21,801**
Total	**41,134**	**423**	**5,798**	**225**	**1,259**	**48,839**

(in million of RUR)

14. Accounts receivable and prepayments (continued)

As at 31 December 2012 accounts receivable in the amount of RUR 28,945 million (31 December 2011: RUR 7,121 million) were past due but not impaired. These relate to a number of independent counterparties with no recent history of default as well as none expected. The ageing analysis of these receivables is as follows:

Past due but not impaired	*31 December 2012*	*31 December 2011*
Up to 3 month	26,007	4,125
3 to 6 month	723	330
6 to 12 month	916	1,040
Over 12 months	1,299	1,626
Total	**28,945**	**7,121**

The impaired accounts receivable mainly comprise amounts due from wholesalers. The ageing of these receivables is as follows:

Past due and impaired	*31 December 2012*	*31 December 2011*
Up to 3 month	9,361	6,567
3 to 6 month	2,396	1,305
6 to 12 month	3,042	3,119
Over 12 months	11,339	10,810
Total	**26,138**	**21,801**

The Group does not hold any collateral as a security.

15. Cash and cash equivalents

	31 December 2012	*31 December 2011*
Cash at bank and in hand, national currency	18,811	9,757
Cash at bank and in hand, foreign currency	3,244	3,026
Bank deposits with maturity of three months or less	25,994	30,735
Total	**48,049**	**43,518**

As at 31 December 2012 Bank deposits with maturity of three months or less in the amount of RUR 22,843 million of are nominated in Russian roubles (31 December 2011: RUR 30,510 million), RUR 2,851 million are nominated in US dollars (31 December 2011: RUR 105 million) and RUR 299 million are nominated in Georgian lari (31 December 2011: RUR 103 million).

16. Assets classified as held-for-sale

	31 December 2011	*Impairment*	*Disposal*	*Reclassification*	*31 December 2012*
JSC Irkutskenergo	38,048	–	–	–	38,048
JSC Enel OGK-5	18,463	–	(18,463)	–	–
JSC Fortum	652	–	(652)	–	–
JSC Tomskenergosbyt	104	(33)	–	(71)	–
JSC E.ON Russia	4,395	–	(4,395)	–	–
Total	**61,662**	**(33)**	**(23,510)**	**(71)**	**38,048**

	The date of acquisition	*Impairment*	*Disposal*	*Reclassification*	*31 December 2011*
JSC Irkutskenergo	38,048	–	–	–	38,048
JSC Enel OGK-5	19,260	(797)	–	–	18,463
JSC Fortum	1,210	(558)	–	–	652
JSC Tomskenergosbyt	729	(625)	–	–	104
JSC Kubanenergosbyt	635	–	(635)	–	–
JSC Kuban Generation Company	41	–	(41)	–	–
JSC E.ON Russia	–	–	–	4,395	4,395
Total	**59,923**	**(1,980)**	**(676)**	**4,395**	**61,662**

(in million of RUR)

16. Assets classified as held-for-sale (continued)

As a result of placing additional shares in the 1st half 2011, JSC INTER RAO UES acquired 40.00% of ordinary shares of JSC Irkutskenergo. On the date of acquisition (25 March 2011) the Group classified the investment as asset held-for-sale in the amount of RUR 38,048 million being the cost of consideration given. At 31 December 2012 the Group was in process of negotiations to sell the stake.

As a result of placing additional shares in the 1st half 2011, JSC INTER RAO UES acquired 3.04% of ordinary shares of JSC Fortum. On 26 January 2012 the Group disposed 3.04% of ordinary shares of JSC Fortum in order to settle the liability to FORTUM POWER AND HEAT OY under share-purchase agreement of JSC PSK and recognized a gain in the amount of RUR 488 million (Note 21).

As a result of placing additional shares in the 1st half 2011, JSC INTER RAO UES acquired 3.26% of ordinary shares of JSC E.ON Russia. At the date of acquisition the investment was recognised as available-for-sale financial asset. At 31 December 2011 the investment was reclassified to assets classified as held-for-sale in the amount of RUR 4,395 million as management decided to sell this investment. On 23 January 2012, the Group sold the investment for a cash consideration of RUR 4,830 million to third parties.

As a result of placing additional shares in the 1st half 2011, JSC INTER RAO UES acquired 26.43% of ordinary shares of JSC Enel OGK-5. On 11 May 2012, the Group disposed 26.43% of ordinary shares of JSC Enel OGK-5 under the agreement for sale the investment to the consortium of investors for RUR 18,868 million (USD 625 million). Structure of the deal involves the Group’s share in future income of JSC Enel OGK-5 to be distributed as dividends in 2012-2014.

As a result of placing additional shares in the 1st half 2011, JSC INTER RAO UES acquired 31.27% of total shares of JSC Tomskenergosbyt. At the date of acquisition the investment was recognised in the amount of RUR 729 million (31 December 2011: RUR 104 million). At the acquisition date, management had plans to sell these investments during twelve months from the date of acquisition. At 31 December 2012 the investment was classified as available-for-sale due to expiration of the suggested available deal execution term. The fair value of the investment at 31 December 2012 was RUR 69 million. For the period before reclassification the impairment of investment in the amount of RUR 33 million was recognised through profit and loss in the consolidated statement of comprehensive income (Note 26).

Net gain on acquisition of available-for-sale financial assets and assets classified as held-for-sale in the amount of RUR 333 million was recognised within the excess of the acquired share in the fair value of the identifiable assets and liabilities over the cost of investment and gain from acquisition of available-for-sale financial assets and assets classified as held-for-sale, net in the consolidated statement of comprehensive income for the year ended 31 December 2011 (for the year ended 31 December 2012: nil).

17. Other current assets

	31 December 2012	*31 December 2011*
Bank deposits with maturity of 3-12 months	6,110	38,667
Restricted cash	286	259
Short-term derivative financial instruments	245	606
Promissory notes	–	2,865
Other	345	272
Total	**6,986**	**42,669**

As at 31 December 2011 promissory notes included six short-term promissory notes held by the Parent Company issued by CJSC VTB-Leasing with carrying value of RUR 2,865 million; nominal value per each promissory note amounts to RUR 500 million. The promissory notes were settled in October 2012.

As at 31 December 2012 short-term derivative financial instruments included fair value of electricity derivatives in the amount of RUR 65 million (31 December 2011: RUR 468 million) in RAO Nordic Oy held for the purposes of hedging future sales (Note 21).

As at 31 December 2012 short-term derivative financial instruments included foreign currency forward contracts in the amount of RUR 180 million (31 December 2011: RUR 17 million) (Note 18). As at 31 December 2011 short-term derivative financial instruments included fair value of foreign currency option contract of the Parent Company with expiry date of 28 December 2012 in the amount of RUR 121 million.

(in million of RUR)

17. Other current assets (continued)

As at 31 December 2012 restricted cash balances include cash deposited in OKO Bank (held as collateral in favour of Fingrid) and Nordea (held as collateral in favour of NASDAQ OMX AB) in the aggregate amount of RUR 72 million (as at 31 December 2011: RUR 93 million), cash deposited in VTB Bank Armenia (security interest in favour of EBRD according to the loan agreement) in the amount of RUR 72 million (as at 31 December 2011: RUR 161 million) and cash deposited in the total amount of RUR 142 million held by Group Trakya, JSC Telasi, Inter RAO Lietuva, Inter RAO Latvia, LLC Bashkir Generation company, and Inter Green AB..

As at 31 December 2012 bank deposits with maturity of 3-12 months included RUR 2,318 million placed by JSC INTER RAO – Electric Power Plants in Peresvet Bank CJSC, VTB Bank JSC, Credit bank of Moscow JSC and Sberbank JSC are retained for the purpose of future settlement of payables for construction (see Note 31).

As at 31 December 2011 bank deposits with maturity of 3-12 months included RUR 27,792 million placed by JSC WGC-3 in Rosselkhozbank JSC, Svyaz-bank JSC, VTB Bank JSC, Gazprombank JSC, Credit bank of Moscow JSC and Bank Zenit JSC are retained for the purpose of settlement of payables for construction (see Note 31).

18. Equity

Share capital

	31 December 2012	*31 December 2011*
Number of ordinary shares issued and fully paid (in units)	10,440,000,997,683	9,716,000,000,000
Par value (in RUR)	0.02809767	0.02809767
Share capital (in million RUR)	293,340	272,997

Change in retained earnings as a result of acquisition of controlling interests

As described in the paragraph "Predecessor accounting" (see Note 2) the Company accounted for acquisitions of controlling interests from entities under common control using pooling-of-interests method. As a result, the Group consolidated the entities acquired and presented the consolidated financial statements from the earliest period presented as if these entities had been always consolidated. The difference in the amount of RUR 35,397 million between net assets acquired and non-controlling interest was recognised in retained earnings as at 1 January 2011. The table below represents changes in retained earnings for the period from 1 January 2011 as a result of acquisition of subsidiaries under common control.

Balance at 1 January 2011 (restated)	**35,397**
Profit of entities acquired through additional issue of shares	3,974
Dividends to shareholders	(460)
Foreign currency translation reserve related to JSC RazTES	(48)
Change in the Group structure	(2)
Nominal value of shares issued and transferred by JSC INTER RAO UES for controlling interests acquired from entities under common control	(27,124)
Balance at 31 December 2011	**11,737**

As at 31 December 2012 retained earnings includes the effect of acquisition of subsidiaries under common control in the amount of RUR 11,737 million.

(in million of RUR)

18. Equity (continued)

Movements in outstanding and treasury shares

	Issued shares		*Treasury shares*		*Total*	
	thousand units	*million RUR*	*thousand units*	*million RUR*	*thousand units*	*million RUR*
1 January 2011 (restated)	**2,893,027,370**	**81,287**	**(41,763,974)**	**(1,173)**	**2,851,263,396**	**80,114**
Additional issue of ordinary shares	5,857,622,717	164,586	–	–	**5,857,622,717**	**164,586**
Acquisition of treasury shares	–	–	(2,918,303,817)	(81,998)	**(2,918,303,817)**	**(81,998)**
Sale of treasury shares	–	–	1,726,571,437	48,513	**1,726,571,437**	**48,513**
Acquisition of entities under common control	965,349,913	27,124	–	–	**965,349,913**	**27,124**
Redemption of treasury shares under the share option plan	–	–	1,647,564	46	**1,647,564**	**46**
31 December 2011	**9,716,000,000**	**272,997**	**(1,231,848,790)**	**(34,612)**	**8,484,151,210**	**238,385**

	Issued shares		*Treasury shares*		*Total*	
	thousand units	*million RUR*	*thousand units*	*million RUR*	*thousand units*	*million RUR*
31 December 2011	**9,716,000,000**	**272,997**	**(1,231,848,790)**	**(34,612)**	**8,484,151,210**	**238,385**
Additional issue of ordinary shares	724,000,998	20,343	(339,791,216))	(9,547)	**384,209,782**	**10,796**
Sale of treasury shares	–	–	328,179,786	9,220	**328,179,786**	**9,220**
Acquisition of treasury shares	–	–	(228,643,163)	(6,424)	**(228,643,163)**	**(6,424)**
31 December 2012	**10,440,000,998**	**293,340**	**(1,472,103,383)**	**(41,363)**	**8,967,897,615**	**251,977**

2011

The shareholders meeting held on 25 June 2010 authorized the issue of 13.8 billion ordinary shares of JSC INTER RAO UES with nominal value of RUR 0.02809767 each. In June 2011, JSC INTER RAO UES completed placement of additional shares. 6,822,972,629,771 additional shares were issued.

As a result of the additional issue of shares in the 1st half of 2011, the authorized share capital of JSC INTER RAO UES increased by RUR 191,710 million and as at 31 December 2011 consists of 9,716 billion of ordinary shares.

2012

On 1 October 2012 the Group completed the reorganization through incorporation of assets and liabilities of JSC OGK-1 and JSC WGC-3 into JSC INTER RAO – Electric Power Plants, which is a 100% subsidiary of the Parent Company (Note 5). Shares owned by non-controlling shareholders who did not exercise the right to sell shares, were converted into ordinary shares of JSC INTER RAO UES. 664,956,390,935 additional shares were issued with nominal value of RUR 0.02809767 each, out of each 323,719,701,623 were included in treasury shares. As a result, the authorized share capital increased by RUR 18,684 million and treasury shares increased by RUR 9,096 million.

On 6 November 2012 JSC Bashkirenergo was reorganized in the form of spin off to JSC Bashkirskaya Electrosetevaya Companiya and JSC Bashenergoactive (Note 5, 9). At the same date JSC INTER RAO UES acquired control over 100% of JSC Bashenergoactive shares. Part of consideration transferred to the shareholders of JSC Bashkirenergo was represented by 59,044,606,748 ordinary shares of JSC INTER RAO UES with nominal value of RUR 0.02809767 each, out of each 16,071,514,535 were included in treasury shares. As a result, the issued share capital increased by RUR 1,659 million, share premium decreased by RUR 121 million and treasury shares increased by RUR 451 million (Note 5).

During the year 2012 due to Russian legislation requirements related to reorganization, the Company acquired 228,643,163 thousand of treasury shares at nominal value of RUR 6,424 million from third parties for cash consideration in the amount of RUR 6,493 million, and difference between consideration paid and nominal value of these shares in the amount of RUR 69 million was recognised in retained earnings in the consolidated statement of changes in equity.

During the year 2012 73,629,881 thousand of treasury shares in the amount of RUR 2,069 million have been placed as a purchase consideration to third parties for available for sale financial assets equivalent to RUR 2,036 million in accordance with quotations on the date of transaction (Note 11).

(in million of RUR)

18. Equity (continued)

Movements in outstanding and treasury shares (continued)

During the year 2012 253,271,643 thousand of treasury shares in the amount of RUR 7,116 million have been placed as a purchase consideration to third parties for non-controlling interest in subsidiaries equivalent to RUR 7,370 million in accordance with quotations on the date of transaction (Note 5).

During the year 2012 1,278,262 thousand of treasury shares in the amount of RUR 35 million have been sold to third parties for RUR 40 million.

Call option

In September 2011 the Group entered into a call option agreement with JSC Mejregionenergostroy. On 6 September, 2011 the Group signed an addendum to the loan agreement under which the Group granted JSC Mejregionenergostroy the option to buy shares held in collateral of RUR 0.0535 per share as a settlement for the loan and accrued interest. The Group signed the collateral agreement with JSC Mejregionenergostroy to secure payments under long-term loan agreement (Note 20 (v)). On 20 September 2011 the Group transferred to JSC Mejregionenergostroy 324,915,627,887 of the Parent Company's ordinary shares as the collateral. Fair value of the call option equalled to RUR 2,352 million was recognised in the consolidated statement of comprehensive income for the year ended 31 December 2011 as a loss.

Share premium

As at 31 December 2010 share premium amounted to RUB 11,460 million.

2012

In the year 2012 the effect from additional issue of shares in the amount of RUR 454 million was recognised as decrease of share premium in the consolidated statement of financial position and consolidated statement of changes in equity. The decrease of share premium represents the difference between the stock quotation of JSC INTER RAO UES shares and their nominal value at the date of conversion of non-controlling stakes in JSC OGK-1, JSC WGC-3 and JSC Bashkirenergo into ordinary shares of JSC INTER RAO UES. Nominal value of shares issued is RUR 0.02809767 each.

2011

In the year 2011 the effect of additional issue of shares in the amount RUR 58,246 million was additionally recognised as share premium in the consolidated statement of financial position and consolidated statement of changes in equity. Share premium represents the difference between the stock quotation of JSC INTER RAO UES shares at the date of acquisition of quoted and unquoted securities (available-for-sale financial assets, assets classified as held-for-sale, associated companies and shares in subsidiaries (acquired from third parties). Nominal value of shares issued is RUR 0.02809767 each.

Effect from additional issue of shares by the Parent Company

The total effect in the amount of RUR 204,585 million included in the consolidated statement of changes in equity for the year ended 31 December 2011 consists of:

- the cost of investments in quoted shares in the amount of RUR 76,335 million;
- the cost of investments in unquoted shares in the amount of RUR 443 million;
- the cost of assets classified as held-for-sale in the amount of RUR 59,256 million;
- the cost of investment in JSC WGC-3 in the amount of RUR 52,108 million and non-controlling interest recognised at the date of acquisition in the amount of RUR 16,393 million;
- cash received from sale of shares to third parties in the amount of RUR 50 million.

Dividends

In accordance with the Russian legislation, the Company distributes profits as dividends or transfers them to reserves on the basis of financial statements prepared in accordance with the Russian Accounting Rules. Statutory accounting reports of the Company form the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as net profit. However, this legislation and other statutory laws and regulations are subject to legal interpretation and accordingly management believes at present it would not be appropriate to disclose an amount for the distributable reserves other than dividends declared in these financial statements. The same is applicable for the entities merged.

On 29 April 2011 LLC RN-Energo declared dividends for the year 2010 in the amount of RUR 353 million, the total amount were payable to previous shareholders and accounted for as a decrease in the retained earnings as a result of acquisition of controlling interests.

On 24 June 2011 the Parent Company declared dividends for the year 2010 of RUR 0.00001544 per share in the amount of RUR 105 million.

(in million of RUR)

18. Equity (continued)

Dividends (continued)

On 12 July 2011 LLC RN-Energo declared dividends for six months ended 30 June 2011 in the amount of RUR 107 million, the total amount were payable to previous owners of shares and accounted as a decrease in the Retained earnings as a result of acquisition of controlling interests.

Dividends in favour of non-controlling interest holders were declared by the Group's subsidiaries in the amount of RUR 2,414 million for the year ended 31 December 2012 (for the year ended 31 December 2011: RUR 477 million).

Cash flow hedge reserve

In April 2009 the Parent Company entered into an interest rate swap agreement in respect of future payments of USD 109 million within the period 13 May 2009 till 12 November 2013 for the purposes of hedging future interest payments under the long-term loan agreement at LIBOR floating interest rate received from State Corporation Vnesheconombank (see Note 20 (iii)). The payment period according to the agreement is six months; the first repayment date is 12 November 2009.

During the year 2012 the Parent Company entered into a number of foreign currency forward and option contracts in order to hedge cash flows related to foreign currency sales denominated in Euro for the year 2013.

During the year 2011 the Parent Company entered into a number of foreign currency forward and option contracts in order to hedge cash flows related to foreign currency sales denominated in Euro for the year 2012. During the year 2012 the accumulated hedge reserve was written-off through other comprehensive income of consolidated statement of comprehensive income in the amount of RUR 7 million, net of tax RUR 2 million due to closing the forward contracts.

During the year 2010 the Parent Company entered into a number of foreign currency forward contracts in order to hedge cash flows related to foreign currency sales denominated in Euro for the year 2011. During the year 2011 the accumulated hedge reserve was written-off through other comprehensive income of consolidated statement of comprehensive income in the amount of RUR 113 million, net of tax RUR 28 million due to closing the forward contracts.

During the year 2011 and 2012 RAO Nordic Oy entered into electricity forward contracts in order to hedge cash flows associated with electricity sales.

The overall effect of above mentioned transactions are provided in the table below:

	Interest rate swap	*Foreign currency forward and option contacts*	*Electricity forward contracts*	*Total*
1 January 2011 (restated)	**(90)**	**113**	**(1,253)**	**(1,230)**
Gain/ (loss) arising on change in fair value of hedge instruments	1	(132)	2,208	**2,077**
Deferred income tax ralated to gains /(losses) recognised in other comprehensive income	–	26	(567)	**(541)**
31 December 2011	**(89)**	**7**	**388**	**306**
Gain / (loss) arising on change in fair value of hedge instruments	52	109	(429)	**(268)**
Deferred income tax related to gains / (losses) recognised in other comprehensive income	(10)	(22)	105	**73**
31 December 2012	**(47)**	**94**	**64**	**111**

(in million of RUR)

18. Equity (continued)

Fair value reserve

	Related to shareholders of the Company	*Related to non-controlling shareholders*	*Total*
1 January 2011 (restated)	**(10)**	**(5)**	**(15)**
Gain / (loss) arising on change in fair value of available-for-sale financial assets	(444)	–	**(444)**
Deferred income tax related to gains / (losses) recognised in other comprehensive income	125	–	**125**
31 December 2011	**(329)**	**(5)**	**(334)**
Gain / (loss) arising on change in fair value of available-for-sale financial assets	(3,638)	–	**(3,638)**
Deferred income tax related to gains /(losses) recognised in other comprehensive income	613	–	**613**
31 December 2012	**(3,354)**	**(5)**	**(3,359)**

19. Earnings per share

The calculation of earnings per share is based on loss or profit for the period and weighted average number of ordinary shares outstanding during the period, calculated as shown below.

As at 31 December 2011 the antidilutive effects of the recognition of Put and Call option signed with SC Vnesheconombank and share-based option programme ii (see Note 33 (b)) are not included in calculation of diluted earnings per share.

As at 31 December 2011 and as at 31 December 2012 antidilutive effect of the recognition of call option signed with JSC Mejregionenergostroy (see Note 18) is not included in calculation of diluted loss per share.

	Year ended 31 December 2011
Weighted average number of shares – basic and diluted	**7,336,720,876,252**
Profit attributable to the shareholders of the Company	**36,144**
Earnings per ordinary share (RUR) – basic and diluted	0.00493

	Year ended 31 December 2012
Weighted average number of shares – basic	**8,689,214,997,079**
Effect of dilution:	
Put option with SC Vnesheconombank	(387,516,903,123)
Weighted average number of shares – diluted	**8,301,698,093,956**
Loss attributable to the shareholders of the Company	**(22,818)**
Loss per ordinary share (RUR) – basic	(0.00263)
Loss per ordinary share (RUR) – diluted	(0.00275)

(in million of RUR)

20. Loans and borrowings

This note provides information about the Group's loans and borrowings. Certain loan agreements include financial and non-financial covenants.

Loans and borrowings	***Currency***	***31 December 2012***	***31 December 2011***
Mejregionenergostroy JSC (v)	RUR	14,045	12,883
Gazprombank JSC	RUR	5,947	4,939
Sberbank JSC	RUR	4,865	2,600
ROSSIYA JSC	RUR	4,117	3,000
Alfa-Bank JSC	RUR	3,400	4,700
Vnesheconombank SC (iv)	RUR	1,817	2,133
UniCredit Bank JSC	RUR	500	500
Total in RUR	**RUR**	**34,691**	**30,755**
Vnesheconombank SC (iii)[1]	USD	4,951	5,252
ING Bank NV (x)	USD	4,387	2,384
Vakifbank (xi)	USD	4,250	–
EBRD (vi)	USD	763	805
Ministry of Finance, Georgia (i,a-b)	USD	–	125
Other	USD	145	219
Total in USD	**USD**	**14,496**	**8,785**
EBRD (vii)	EUR	1,249	1,516
Vnesheconombank SC (viii)	EUR	669	812
SWEDBANK AB	EUR	503	505
Gazprombank JSC	EUR	483	–
Ministry of Finance, Georgia (i,c)	EUR	–	25
ROSSIYA JSC	EUR	–	625
Total in EUR	**EUR**	**2,904**	**3,483**
Government of Armenia (ii)	JPY	695	847
Government of Georgia	JPY	387	473
Total in JPY	**JPY**	**1,082**	**1,320**
Loans denominated in GEL	**GEL**	**97**	**115**
Finance leases			
Financial lease (ix)	RUR	593	823
Financial lease	USD	399	552
Financial lease	EUR	566	678
Financial lease	LTL	32	–
Total long-term loans and borrowings		**54,860**	**46,511**
Less: current portion of long-term loans and borrowings and long-term finance leases		(10,483)	(1,997)
		44,377	**44,514**

Effective interest rates

	31 December 2012	***31 December 2011***
Loans and borrowings at fixed interest rate		
RUR	6.85-11.00%	6.85-10.10%
USD	8.00-18.00%	8.00-20.00%
EUR	3.72-4.80%	4.77-20.00%
JPY	8.00-19.00%	11.20-18.00%
GEL	19.00%	18.00%
Loans and borrowings at variable interest rate		
RUR	8.75%	8.75%
USD	2.76-5.01%	2.64-6.44%
EUR	5.25-6.75%	5.04-8.54%
Finance leases		
RUR	10.50-13.30%	4.55-13.76%
USD	15.40%	15.40%
EUR	4.80-4.90%	4.80-5.00%
LTL	4.80%	–

[1] The Group hedged risks related to LIBOR floating interest rate of SC Vnesheconombank loan nominated in USD (see Note 18).

(in million of RUR)

20. Loans and borrowings (continued)

Effective interest rates (continued)

As at 31 December 2012 fair value of loans and borrowings is 51,883 (31 December 2011: RUR 46,739 million), which is estimated by discounting of contractual future cash flows at the estimated current market interest rates available to the Group for similar financial instruments.

(i) As at 31 December 2011 one of the Group entities, Mtkvari Energy LLC, had three loans assumed by the Group as a result of the acquisition of this entity in 2003.

Initially these loans were borrowed by the State of Georgia from international credit organizations (World Bank, EBRD and KfW) to rehabilitate certain generation assets and these loans were assigned to the Group in the course of privatization.

The loans are payable to:

(a) Ministry of Finance, Georgia (IDA/WB) – USD 36 million payable from 2021 to 2072, nominal interest rate 7%;

(b) Ministry of Finance, Georgia (EBRD) – USD 14.4 million payable from 2021 to 2072, nominal interest rate 8.2%;

(c) Ministry of Finance, Ministry of Fuel and National Bank, Georgia (KfW) – EUR 30 million payable from 2021 to 2070, nominal interest rate 0.75%.

All three loans had common provisions in relation to priority for the repayment of the loans, as follows:

- The entity is required to cover all current operational costs.
- The entity is required to repay the principal and related interest of a loan payable to the Parent Company only up to a maximum aggregate principal amount of USD 50 million.
- The entity is required to repay the “Subordinated Liabilities”, i.e. the loans to the State of Georgia initially taken from the World Bank, EBRD and KfW stipulated above.
- The entity is required to repay all principal and interest repayments due on the loans payable to the Parent Company above the USD 50 million aggregate principal cap set out in the second point above.

In July 2012 these loans were reclassified in equity instruments of JSC Telasi. The difference between the carrying value and the fair value is not significant.

(ii) The credit line of JPY 3,877 million at nominal interest rate of 1.8% was obtained for the purposes of financing the Armenian power system programme “Transmission and distribution of electricity network”. The loan is to be repaid from 10 February 2009 to 10 February 2039.

Since the interest rate stipulated by this loan was significantly lower than the market rates, initially the loan has been recognised at discounted amounts using market rates prevailing at initial recognition (8%). Further to initial recognition, the loan is carried at amortised cost, using the discount rate applied at initial recognition.

(iii) As at 31 December 2012 the Group had a loan in the amount of USD 163 million at effective interest rate of 5.01% (for 2011 – 5.3%), which was obtained to finance acquisition of Freecom Trading Limited, the owner of 49% share in CJSC Moldavskaya GRES. The loan is payable on 11 November 2015.

(iv) The variable interest loan equalled to RUR 1,817 million was obtained by the Group in March 2009 (effective interest rate is 8.75% in 2012 and 8.5% in 2011) for the purpose of construction of second power generating block on Sochinskaya TPS. The loan is payable on 29 September 2018.

In December 2011 in accordance with the new agreement the liability for loans (iii) and (iv) were transferred to one of the Group entities, INTER RAO Credit B.V. As a result, interest rate on the loan (iii) remained unchanged but the margin on the loan (iv) was reduced by 0.9%. The Parent Company acts as a guarantor under this agreement.

(v) On 23 June 2011 direct financing received from JSC Mejregionenergostroy for construction of the second power generation block Kaliningradskaya TEC-2 was novated into long-term loan agreement with the contractual interest rate of 0.83%. The loan and interest are payable in 2015. In June 2011 all obligations related to loan were transferred to one of the Group entities, CJSC Inter RAO UES Capital. The Parent Company act as a guarantor under the agreement. In September 2011 the Group signed an addendum to the long-term loan agreement and entered into a call option with JSC Mejregionenergostroy (Note 18).The loan was discounted using effective interest rate of 9%; related discount in the amount of RUR 4,510 million was recognised as interest income in the consolidated statement of comprehensive income for the year ended 31 December 2011. Interest expense for the year ended 31 December 2012 was recognized in the amount of RUR 1,163 million (for the year ended 31 December 2011: RUR 568 million).

(in million of RUR)

20. Loans and borrowings (continued)

Effective interest rates (continued)

(vi) In February 2011 JSC Telasi obtained a loan from European Bank of Reconstruction and Development (EBRD) amounting to USD 25 million at floating interest rate Libor+3.5%, for financing of the investment programme to rehabilitate electricity distribution low-voltage network system in Georgia. The loan is payable on 4 November 2020.The Parent Company acts as a guarantor under this agreement.

(vii) On 30 April 2009 CJSC Elektricheskie seti Armenii obtained a loan amounting to EUR 42 million at floating interest rate Libor + Margin for the purpose of financing the investment programme on rehabilitation and upgrading of the electricity distribution network system. The margin varies from 3.5% to 5.0%. The loan is payable in October 2018. The Parent Company acts as a guarantor under this agreement.[1]

(viii) On 17 June 2009 CJSC Elektricheskie seti Armenii obtained a loan amounted to EUR 22.5 million at floating interest rate Euribor+7.0% for the purpose of financing the investment programme on rehabilitation and upgrading of the electricity distribution network system. In the first half of 2011, in accordance with terms of agreement, the margin was changed to 5.0%. The loan is payable in October 2018. On 15 October 2009 the Parent Company issued financial guaranty for the joint liability under the above loan agreement. [1]

(ix) Financial lease liability nominated in RUR is mainly comprised of indebtedness to CJSC Busines-Aliance in the amount of RUR 554 million as at 31 December 2012 (31 December 2011: RUR 773 million) and represents Groups' finance lease liabilities for equipment for the second power generating block at Sochinskaya TPS. The power generating block was put into operation at the end of 2009. Under the terms of the lease agreement the Group imposes all the costs arising from change in floating interest rate (EURIBOR) and/or currency rate (SEK/EUR and RUR/EUR).

(x) On 23 September 2011 INTER RAO Credit B.V. obtained a loan from ING Bank N.V. equalled to USD 74 million at nominal interest rate of 2.74%, for the purposes of financing an acquisition of JSC Khramhesi GES I and JSC Khramhesi GES II (see Note 5). The loan is payable in September 2016. The Parent Company acts as a guarantor under this agreement.

On 4 December 2012 INTER RAO Turkey Energy Holding A.S. obtained a loan from ING Bank N.V. equalled to USD 67 million with variable interest rate Libor + 3.75%, with the purpose to finance acquisition of Trakya Elektrik Uretim ve Ticaret A.S. (see Note 5). The loan is payable in December 2017. Parent Company acts as a guarantor under this agreement.

(xi) With the acquisition of controlling interest in Trakya Elektrik Uretim ve Ticaret A.S., the Group obtained two loans from Vakifbank with variable interest rate Libor+ 4.15%, in the amount of USD 140 million as at 31 December 2012. The loanы are payable in June 2019.

In June 2010 JSC Stantsiya Ekibastuzskaya GRES-2, jointly controlled entity, obtained two loans in the amount of USD 385 million and RUR 12,000 million from Eurasian Development Bank and SC Vnesheconombank maturing in 2025. Shareholders of JSC Stantsiya Ekibastuzskaya GRES-2 issued guarantees to the banks at the amount of 50% of two loans value and pledged shares of JSC Stantsiya Ekibastuzskaya GRES-2 as a collateral. The Parent Company's liability under the guarantee and collateral is limited by 50% of the two loans and in the amount of RUR 4,868 million as at 31 December 2012 (as at 31 December 2011: nil); the other 50% were guaranteed and collateralised in the same form by AO Samruk-Energo.

Gross finance lease liabilities – minimum lease payments

	31 December 2012	*31 December 2011*
Less than one year	555	580
Between one and five years	1,254	1,901
After five years	31	7
	1,840	**2,488**
Future finance charges on finance leases	(250)	(435)
Present value of finance lease liabilities	**1,590**	**2,053**

[1] As at 31 December 2012 CJSC Elektricheskie seti Armenii breached a certain covenant under this loan in respect of maintaining EBITDA to Interest Expense ratio. The non-compliance with this covenant affect the classification of loans as current. Subsequently CJSC Elektricheskie seti Armenii got the waiver letters from EBRD and Vnesheconombank SC, so there are no any events of default.

(in million of RUR)

20. Loans and borrowings (continued)

Effective interest rates (continued)

Present value of finance lease liabilities is as follows:

	31 December 2012	*31 December 2011*
Less than one year	436	438
Between one and five years	1,127	1,611
After five years	27	4
	1,590	**2,053**

Changes in interest rates impact loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). The Parent Company has a formal policy of determining how much of the Company's exposure should be to fixed or variable rates. At the time of raising new loans or borrowings management applies the policy to determine whether a fixed or variable rate would be more favourable to the Company over the expected period until maturity. As for other entities of the Group, following the corporate regulative documents, the decisions on raising new loans and borrowings on the subsidiaries level are subject for confirmation by the Parent Company. Management applies the same policy in making decisions in respect of the conditions of raising loans and borrowings on the subsidiary level.

Current loans and borrowings and current portion of non-current loans and borrowings:

	31 December 2012	*31 December 2011*
Current loans and borrowings	4,428	1,358
Current portion of non-current loans and borrowings	10,047	1,559
Current portion of finance lease liability	436	438
Interest payable	123	103
Total	**15,034**	**3,458**

As at 31 December 2012 loan from CJSC HSBC Bank Armenia is collateralised by property, plant and equipment of the Group with carrying amount of RUR 30 million (31 December 2011: RUR 33 million) (see Note 6 (b)).

The Group has the following undrawn borrowing facilities:

	31 December 2012	*31 December 2011*
Floating rate		
Expiring within one year	2,000	7,520
Expiring beyond one year	15,350	11,500
	17,350	**19,020**
Fixed rate		
Expiring within one year	4,987	2,376
Expiring beyond one year	16,130	18,676
	21,117	**21,052**
Total	**38,467**	**40,072**

On 31 July 2012, the Group signed a long-term credit line agreement with EBRD for the purpose repayment of obligations under Put and Call option agreement with SC Vnesheconombank (Note 21) with the credit limit of RUR 9,600 million. No funds were obtained by the Group under this loan agreement as at 31 December 2012.

(in million of RUR)

21. Accounts payable and accrued liabilities

	31 December 2012	*31 December 2011*
Financial liabilities		
Trade payables	34,848	32,850
Short-term derivative financial instruments	13,690	93
Dividends payable	144	79
Other payables and accrued expenses	15,126	5,949
Total	**63,808**	**38,971**
Non-financial liabilities		
Advances received	15,792	14,026
Staff payables	4,953	3,183
Provisions, short-term	2,577	1,752
Total	**23,322**	**18,961**
	87,130	**57,932**

As at 31 December 2012 short-term derivative financial instruments include Put and Call option agreement with SC Vnesheconombank signed by the Parent Company in the amount of RUR 13,542 million (31 December 2011: RUR 5,933 million of long-term portion), fair value of open electricity derivatives of RAO Nordic Oy held for the purposes of hedging future sales equaled to RUR 69 million (31 December 2011: RUR nil), RUR 69 million of interest rate swap of the Parent Company held for the purposes of hedging risks related to LIBOR floating interest rate for the loan received from SC Vnesheconombank nominated in USD (see Note 20) and RUR 10 million of short-term portion of currency rate swap of Vydmantai Wind Park UAB (31 December 2011:nil).

As at 31 December 2011 short-term derivative financial instruments included fair value of foreign currency forward contract and foreign currency option contract in the amount of RUR 83 million and RUR 10 million, respectively.

As at 31 December 2012 other payables and accrued expenses included RUR 10,014 million nominal value of promissory notes issued by Parent Company in favour of JSC Systema-Invest for acquisition of JSC Bashenergoactive and payable in instalments with final settlement by 29 September 2013 (see Note 5) and RUR 463 million of current portion of RAO Intertech B.V. liability for the contribution to the charter capital of RUS Gas Turbines Holding B.V. (31 December 2011: RUR 583 million) (see Note 22).

As at 31 December 2011 other payables and accrued expenses included a liability of the Group to FORTUM POWER AND HEAT OY on the purchase agreement of shares of JSC PSK (group of companies) in the amount of RUR 1,140 million settled in the 1st half of 2012 (Note 16).

As at 31 December 2012 advances received included RUR 2,065 million of advances received by the Parent Company from buyers of equipment in Ecuador and Venezuela (31 December 2011: RUR 275 million) (see Note 31) and RUR 11,565 million of advances received for electricity sales from customers of JSC Mosenergosbyt (Group of companies), JSC PSK (Group of companies), LLC RN-Energo and LLC BGC (31 December 2011: RUR 12,038 million).

As at 31 December 2012 provisions short-term included other provisions related to JSC INTER RAO- Electric Power Plants penalties on delay of fulfilment of power delivery contracts in the amount of RUR 735 million.

As at 31 December 2011 provisions short-term included RUR 1,138 million related for a claim brought against one of the Company's subsidiaries for non-compliance with the Russian legislation on competition which has been settled during 2012 and as at 31 December 2012 amounted to RUR 717 million

(in million of RUR)

21. Accounts payable and accrued liabilities (continued)

Movements in short-term provisions are as follows:

	Provision for legal claims	*Provision for taxes*	*Other provisions*	*Total*
Balance at 1 January 2011 (restated)	**1,228**	**–**	**46**	**1,274**
Additions	188	174	227	**589**
Provision used during the period	(7)	–	(3)	**(10)**
Release of provision	(43)	(865)	–	**(908)**
Acquisition of controlling interest	30	774	–	**804**
Disposal of controlling interest	–	–	(1)	**(1)**
Translation difference	3	1	–	**4**
Balance at 31 December 2011	**1,399**	**84**	**269**	**1,752**
Balance at 31 December 2011	**1,399**	**84**	**269**	**1,752**
Additions	228	47	1,631	**1,906**
Provision used during the period	(165)	(21)	(52)	**(238)**
Release of provision	(1,218)	–	(151)	**(1,369)**
Acquisition of controlling interest	519	–	22	**541**
Translation difference	(7)	(2)	(6)	**(15)**
Balance at 31 December 2012	**756**	**108**	**1,713**	**2,577**

Charge of provision (net of release) for the year ended 31 December 2012 in the amount of RUR 537 million (for the year ended 31 December 2011: release (net of charge) in the amount of RUR 319 million) was recognised in Other provisions within Operating expenses in the consolidated statement of comprehensive income.

22. Other non-current liabilities

	31 December 2012	*31 December 2011*
Financial liabilities		
Long-term derivative financial instruments	278	6,054
Other long-term liabilities	493	554
Total financial liabilities	**771**	**6,608**
Non-financial liabilities		
Pensions liabilities	2,926	2,038
Advances received	1,726	2,453
Restoration provision	896	559
Government grants	455	510
Social taxes payable on pension liabilities	259	179
Total non-financial liabilities	**6,262**	**5,739**
Total	**7,033**	**12,347**

Long-term derivative financial instruments as at 31 December 2012 in the total amount of RUR 278 million (31 December 2011: RUR 6,054 million) are mainly represented by fair value of electricity derivatives in the amount RUR 259 million (31 December 2011:nil) in RAO Nordic Oy (Note 17), and RUR 19 million of long-term portion of currency rate swap of Vydmantai Wind Park UAB (31 December 2011:nil)

As at 31 December 2011 long-term derivative financial instruments included RUR 5,933 million Put and Call option agreement with SC Vnesheconombank signed by the Parent Company and RUR 121 million of interest rate swap of the Parent Company held for the purposes of hedging risks related to LIBOR floating interest rate for the loan received from SC Vnesheconombank nominated in USD

As at 31 December 2012 other long-term financial liabilities included RUR 491 million liability of RAO Intertech B.V. for the contribution to the charter capital of RUS Gas Turbines Holding B.V. (31 December 2011: RUR 542 million), associate entity established with General Electric and Rustechnologies in accordance with shareholders agreement dated 16 September 2011. Total contribution payable also includes current portion in the amount of RUR 463 million (Note 21).

As at 31 December 2012 advances received included RUR 1,726 million (31 December 2011: RUR 2,373 million) received by the Parent Company from buyers of equipment in Ecuador and Venezuela (see Note 31).

Government grants relate to loan arrangements with the Government of Armenia (see Note 20, (vii) and (viii)).

(in million of RUR)

22. Other non-current liabilities (continued)

Restoration provision relates to rehabilitation of land plots used for ash dumps by coal powered plants of the Group. The Group has recognized an obligation to restore the disturbed plots occupied by ash dumps on expiration of their useful lives.

Restoration provision at 1 January 2011 (restated)	**289**
Acquisition of controlling interest	229
Unwinding of discount	25
Changes in estimates of existing obligations	16
Restoration provision at 31 December 2011	**559**
Restoration provision at 31 December 2011	**559**
Unwinding of discount	42
Changes in estimates of existing obligations	295
Restoration provision at 31 December 2012	**896**

Discount rates used to calculate net present value of future cash outflows for land rehabilitation are in the range from 6.75% to 7.58% per annum in 2012 (from 6.05% to 8.03% per annum in 2011).

The Group provides certain post-employment benefits to their employees in accordance with labour agreements. Post employment benefits consist of pension benefits via non state fund, lump sum payments at retirement and towards, employees' jubilees, pension benefits to non-working pensioners-veterans and funeral compensation.

These benefits generally depend on the years of service, terminal salary and amount of benefits provided under labour agreements. The Group pays post employment benefits when they fall due.

The tables below provide information about liabilities related to pension and other post-employment benefits, plan assets and actuarial assumptions used for current and previous reporting periods.

Amounts recognised in the consolidated statement of financial position:

	31 December 2012	*31 December 2011*	*31 December 2010*
Present value of defined benefit obligations	3,517	2,512	1,952
Less: Fair value of plan assets	–	–	–
Deficit in plan	**3,517**	**2,512**	**1,952**
Net actuarial loss not recognised in the balance sheet	(299)	(85)	(164)
Unrecognised past service costs	(292)	(389)	(446)
Pension liabilities in the balance sheet	**2,926**	**2,038**	**1,342**

Amounts recognised in the consolidated Statement of comprehensive income:

	Year ended 31 December 2012	*Year ended 31 December 2011*
Current service cost	123	123
Interest cost	249	186
Recognised actuarial loss	89	3
Recognised past service cost	(56)	18
Total	**405**	**330**
Curtailment and settlement gain	–	(28)
Total	**405**	**302**

(in million of RUR)

22. Other non-current liabilities (continued)

Changes in the present value of the Group's defined benefit obligation and plan assets are as follows:

	31 December 2012	*31 December 2011*
Present value of defined benefit obligations as at the beginning of the period	2,512	1,952
Current service cost	123	123
Interest cost	249	186
Actuarial loss	303	(58)
Past service cost	157	(3)
Benefits paid	(162)	(146)
Curtailment and settlement gain	(309)	(24)
Acquisition of Group entities	638	540
Other	6	(58)
Present value of defined benefit obligations as at the end of the period	**3,517**	**2,512**

Plan assets:

	31 December 2012	*31 December 2011*
Employer contributions	162	146
Benefits paid	(162)	(146)
Fair value of plan assets as at the end of the period	**–**	**–**

Changes in the pension liabilities are as follows:

	31 December 2012	*31 December 2011*
Pension liabilities at start of the year	2,038	1,342
Net expense recognised in the statement of operations	405	302
Benefits paid	(162)	(146)
Other	7	–
Acquisition of Group entities	638	540
Pension liabilities at end of period	**2,926**	**2,038**

Principal actuarial assumptions are as follows:

	31 December 2012	*31 December 2011*	*31 December 2010*
Discount rate	9.00%	8.50%	9.00%
Salary increase	7.50%	7.50%	7.50%
Inflation	6.00%	6.00%	6.00%
Mortality	Russian population mortality table 1998	Russian population mortality table 1998	Russian population mortality table 1998

Staff turnover was assessed using an experience-based model.

The Group’s best estimate of contributions to be paid in next reporting period is RUR 126 million (31 December 2011: RUR 147 million).

Funded status of pension and other post-employment obligations as well as gains / (losses) arising from experience adjustments are as follows:

	31 December 2012	*31 December 2011*
Defined benefit obligation	3,517	2,512
Deficit in plan	3,517	2,512
Experience adjustments on plan liabilities (loss)	(14)	(90)

(in million of RUR)

23. Other taxes payable

	31 December 2012	*31 December 2011*
Value added tax (VAT)	2,019	2,531
Property tax	730	495
Social tax	448	257
Personal income tax	193	137
Other taxes	253	261
	3,643	**3,681**

Included in value added tax payable is RUR 107 million of deferred VAT which is payable to tax authorities when related VAT receivables are either recovered or expensed (31 December 2011: RUR 134 million).

24. Revenue

	Year ended 31 December 2012	*Year ended 31 December 2011*
Electricity and capacity	531,351	517,277
Thermal energy sales	17,136	12,972
Other revenue	7,702	5,995
	556,189	**536,244**

25. Other operating income

	Year ended 31 December 2012	*Year ended 31 December 2011*
Penalties and fines	1,597	1,735
Income from sale of available-for-sale financial assets and assets classified as held for sale	1,525	1,553
Electricity derivatives	1,059	2,859
Rental income	446	383
Other	879	1,245
	5,506	**7,775**

Income from sale of available-for-sale financial assets and assets classified as held for sale for the year ended 31 December 2012 included income from sale of 3.04% of JSC Fortum ordinary shares in the amount of RUR 488 million, 3.26% of JSC E.On Russia ordinary shares in the amount of RUR 435 million, 26.43% of JSC Enel OGK-5 ordinary shares in the amount of RUR 405 million, 0.88% of JSC TGK-9 ordinary shares in the amount of RUR 140 million, 2.16% of JSC Yenisei TGC (TGC-13) ordinary shares in the amount of RUR 27 million, 1.97% of JSC Kuzbassenergo ordinary shares in the amount of RUR 17 million and 0.61% of JSC Volga TGC ordinary shares in the amount of RUR 13 million (Note 11, 16). Income from sale of available-for-sale financial assets and assets classified as held for sale for the year ended 31 December 2011 included income from sale of 0.62% JSC OGK-2 ordinary shares and 3.47% JSC OGK-6 ordinary shares in the amount of RUR 557 million, 26.26% JSC Kuban Generation Company ordinary shares in the amount of RUR 409 million, 26.26% JSC Kubanenergosbyt ordinary shares in the amount of RUR 215 million, 19.27% JSC TGK-11 Holding ordinary shares in the amount of RUR 151 million, 25.88% JSC Tomskenergoremont ordinary shares in the amount of RUR 150 million and other shares.

(in million of RUR)

26. Operating expenses, net

	Year ended 31 December 2012	*Year ended 31 December 2011*
Purchased electricity and capacity	217,391	216,686
Electricity transmission fees	151,279	148,084
Fuel expense	98,152	77,239
Employee benefit expenses and payroll taxes	33,792	28,221
Impairment of property, plant and equipment – charge (Note 6)	27,125	3,758
Depreciation and amortization (Note 6, 7, 8)	16,596	13,016
Impairment of available-for-sale financial assets (Note 11)	6,291	21,130
Provision for impairment of account receivables	4,638	3,624
Other materials for production purposes	4,370	2,960
Repairs and maintenance	3,545	3,699
Taxes other than income tax	3,223	2,816
Agency fees	2,825	2,950
Water supply expenses	2,383	2,199
Operating lease expenses	1,917	2,154
Consulting, legal and auditing services	1,862	2,201
Thermal power transmission expenses	1,119	1,150
Transportation expenses	1,077	965
Impairment of goodwill (Note 7)	805	43
Cost of equipment sold	538	421
Loss from electricity derivatives	538	2,312
Other provisions – charge / (release)	365	(199)
Impairment of intangible assets (Note 7)	153	31
Loss from disposal of controlling interest	56	19
Impairment of assets classified as held-for-sale	33	1,980
Reversal of impairment of investment property	–	(93)
Other	13,360	11,136
	593,433	**548,502**

27. Finance income and expense

	Year ended 31 December 2012	*Year ended 31 December 2011*
Finance income		
Interest income	4,180	7,871
Dividend income	361	881
Foreign currency exchange gain,net	90	151
Other finance income	280	196
	4,911	**9,099**

	Year ended 31 December 2012	*Year ended 31 December 2011*
Finance expenses		
Interest expense	3,796	3,224
Put and Call option agreement	7,609	10,826
Other finance expenses	395	367
	11,800	**14,417**

For the year ended 31 December 2011 the discount of the long-term loan from JSC Mejregionenergostroy (see Note 20(v)) in the amount of RUR 4,510 million was recognized within interest income and RUR 568 million within interest expense (unwinding of discount). Interest expense (unwinding of discount) for the year ended 31 December 2012 was RUR 1,163 million.

The amount of RUR 7,609 million for the year ended 31 December 2012 (RUR 8,474 million for the year ended 31 December 2011), included into Put and Call option agreements, is related to recognition of fair value of the Put and Call option agreement with SC Vnesheconombank signed in June 2010.

The amount RUR 2,352 million for the year ended 31 December 2011, included into Put and Call option agreements, is related to recognition of fair value of the call option agreement with JSC Mejregionenergostroy signed in September 2011 (see Note 18).

(in million of RUR)

28. Income tax expense

	Year ended 31 December 2012	*Year ended 31 December 2011*
Current tax expense	3,878	6,162
Deferred tax (benefit) / expense	(5,837)	4,208
Amended tax returns	41	(3)
Income tax (benefit) / loss	**(1,918)**	**10,367**

The Parent Company's applicable tax rate is the corporate income tax rate of 20% (31 December 2011: 20%). The corporate income tax rate in Finland is 26% (31 December 2011: 26%), in Georgia is 15% (31 December 2011: 15%), in Lithuania is 15% (31 December 2011: 15%) in Armenia is 20% (31 December 2011: 20%), in Kazakhstan 20% (31 December 2011: 20%). The tax system in Transdniestria Republic, Moldova, where Moldavskaya GRES operates, is based on revenue at a rate of 4.0% (31 December 2011: 3.0%).

In accordance with tax legislation, tax losses in various Group entities in the countries where they operate may not be offset against taxable profit of other Group entities. Accordingly, profit tax may be accrued even where there is a net consolidated tax loss.

Loss / (profit) before tax for financial reporting purposes is reconciled to income tax expense as follows:

	Year ended 31 December 2012	*Year ended 31 December 2011*
Loss / (profit) before profit tax	24,273	(51,824)
Theoretical profit tax charge at 20% – (benefit) / expense	(4,855)	10,365
Effect of different tax rates	(225)	(647)
Effect of different tax base	229	180
Tax effect on recognition of Put and Call options and option programme	1,631	1,781
Utilisation of previously unrecognised tax losses	5	310
Tax effect of items which are not deductible or assessable for taxation purposes, net	2,999	659
Effect from acquisition of controlling interest	(2,329)	(8,864)
Recognition of previously unrecognised deductible temporary differences	(430)	126
Effect from acquisition of available-for-sale financial assets and assets classified as held-for-sale (including impairment)	1,273	8,314
Effect from reclassification of investments (JSC Bashkirenergo) – Note 9	(211)	(2,845)
Other	(5)	988
Income tax (benefit) / expense	**(1,918)**	**10,367**

29. Financial instruments and financial risk factors

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency exchange risk, interest rates risk), credit risk and liquidity risk. Risk management is carried out in accordance with risk policy approved by the Management Board.

This risk policy provides principles of overall risk management and policies for specific areas, such as foreign exchange risk, and credit risk. Management considers these measures to be sufficient to control the risks within the Group's business activities.

(in million of RUR)

29. Financial instruments and financial risk factors (continued)

Financial risk factors (continued)

Information on financial instruments in terms of categories is presented below:

As at 31 December 2012	*Note*	*Loans and receivables, held to maturity investments*	*Derivatives used for hedging*	*Available for sale financial assets*	*Total*
Assets as per consolidated statement of financial position					
Available-for-sale financial assets	11	–	–	32,563	**32,563**
Derivative financial instruments	12,17	–	498	–	**498**
Trade and other receivables excluding prepayments	12,14	52,601	–	–	**52,601**
Restricted cash	17	286	–	–	**286**
Bank deposits with maturity exceeding 3 months	12,17	6,150	–	–	**6,150**
Cash and cash equivalents	15	48,049	–	–	**48,049**
Total assets		**107,086**	**498**	**32,563**	**140,147**

As at 31 December 2012	*Note*	*Liabilities at fair value through profit and loss*	*Other financial liabilities at amortised cost*	*Finance lease liabilities*	*Total*
Liabilities as per consolidated statement of financial position					
Loans and borrowings (excluding finance lease liabilities)	20	–	57,821	–	**57,821**
Finance lease liabilities	20	–	–	1,590	**1,590**
Derivative financial instruments	21,22	13,968	–	–	**13,968**
Trade and other payables excluding taxes	21,22	–	50,611	–	**50,611**
Total liabilities		**13,968**	**108,432**	**1,590**	**123,990**

As at 31 December 2011	*Note*	*Loans and receivables, held to maturity investments*	*Derivatives used for hedging*	*Available for sale financial assets*	*Total*
Assets as per consolidated statement of financial position					
Available-for-sale financial assets	11	–	–	40,651	**40,651**
Assets classified as held-for-sale	16	–	–	5,151	**5,151**
Derivative financial instruments	17	–	606	–	**606**
Trade and other receivables excluding prepayments	12,14	35,282	–	–	**35,282**
Restricted cash	17	259	–	–	**259**
Bank deposits with maturity exceeding 3 months	12,17	38,707	–	–	**38,707**
Promissory notes	17	2,865	–	–	**2,865**
Cash and cash equivalents	15	43,518	–	–	**43,518**
Total assets		**120,631**	**606**	**45,802**	**167,039**

As at 31 December 2011	*Note*	*Liabilities at fair value through profit and loss*	*Other financial liabilities at amortised cost*	*Finance lease liabilities*	*Total*
Liabilities as per consolidated statement of financial position					
Loans and borrowings (excluding finance lease liabilities)	20	–	45,918	–	**45,918**
Finance lease liabilities	20	–	–	2,053	**2,053**
Derivative financial instruments	21,22	6,147	–	–	**6,147**
Trade and other payables excluding taxes	21,22	–	39,432	–	**39,432**
Total liabilities		**6,147**	**85,350**	**2,053**	**93,550**

(in million of RUR)

29. Financial instruments and financial risk factors (continued)

(a) Credit risk

The Group is exposed to credit risk, which is the risk that a counterparty will not be able to pay amounts in full when due. Credit risk is managed on the Group basis, as well as at the level of a particular Group entity. Financial assets which are potentially subject to credit risk are presented in the tables below net of provision for impairment and consist principally of trade and other receivables.

The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. The Group's current arrangements include assessing customers' financial position, past experience and other relevant factors. Carrying amount of trade and other receivables, net of provision for impairment, represents the maximum amount exposed to credit risk. Although collection of receivables could be influenced by economic and other factors, management believes that there is no significant risk of loss to the Group beyond the provision for impairment already recorded.

Cash is placed in financial institutions, which are considered to have minimal risk of default. Despite the fact that certain banks do not have international credit ratings they are considered as reliable counterparties that have stable positions in the financial market of the Russian Federation or other countries in which the Group entities operate.

As at 31 December 2012 receivables potentially involving credit risks for the Group consisted mainly of trade receivables in the amount of RUR 45,321 million (31 December 2011: RUR 28,384 million), and other receivables in the amount of RUR 7,280 million (31 December 2011: RUR 6,898 million). Total amount of receivables as at 31 December 2012 was RUR 52,601 million (as at 31 December 2011: RUR 35,282 million).

The Group's general objective in managing credit risk is to ensure continuous revenue collection and stable cash inflow as well as efficient financial assets utilization.

Being mainly linked to trade receivables, the Group's exposure to credit risk is generally affected by quality of debtors. It is considered, that business activities among the diverse entities within the Group differ. Consequently, credit risks are specific for different types of trade receivables (residential sector, wholesale trading, etc.).

Due to impracticability of determining independent credit ratings for each customers and trade partner, as well as taking into account dissimilarity among different groups of them, the Group assesses credit risks allied with trade receivables based upon particular precedent experience and business relationship supported by other factors.

In order to obtain better credit risk monitoring the Group classifies receivables according to understanding of their credit risk rate. The Group makes sure that provision for impairment of accounts receivable reflects the credit risk classification in order to consistently grade and treat different groups of receivables in a similar manner.

As at 31 December 2012	*Nominal value*	*Provision for impairment*	*Carrying amount*	*Share in total, %*
A	44,814	–	44,814	**62%**
B'	5,868	(409)	5,459	**8%**
B''	1,035	(480)	555	**1%**
B'''	3,715	(2,400)	1,315	**5%**
C	16,303	(15,976)	327	**23%**
Loans issued to employees	213	(82)	131	**0%**
Total	**71,948**	**(19,347)**	**52,601**	**100%**

As at 31 December 2011	*Nominal value*	*Provision for impairment*	*Carrying amount*	*Share in total, %*
A	29,798	–	29,798	**59%**
B'	1,375	(154)	1,221	**3%**
B''	4,392	(1,120)	3,272	**9%**
B'''	1,887	(1,105)	782	**4%**
C	12,387	(12,295)	92	**25%**
Loans issued to employees	264	(150)	114	**1%**
Related parties	3	–	3	**0%**
Total	**50,106**	**(14,824)**	**35,282**	**100%**

Certain items in the presentation of receivables according to understanding of credit risk rate as of 31 December 2011 were changed to conform to the current year management assessment.

(in million of RUR)

29. Financial instruments and financial risk factors (continued)

(a) Credit risk

The Group applies three main Credit risk Classes – A (premium), B (medium), C (low-grade).

Class A – parties with stable financial performance who have rarely allowed delayed settlement or defaulted on their financial obligations towards the Group. The credit risk related to those entities and individuals is considered minimal. No provision is applied for such receivables.

Class B – parties, whose capacity to clear their financial obligations towards the Group is to some extent affected by credit risk. This group is sequentially divided into three sub-classes:

Class B' – parties with satisfactory creditworthiness, where any delaying of payments has been only short-term and temporary in character, related agreements are put in place accordingly, credit risk related to those entities and individuals is considered low.

Class B'' – parties with poor creditworthiness, reasonably frequent delays in payments happen from time to time, there is reasonable uncertainty regarding their capacity to clear their financial obligations towards the Group. The credit risk related to those entities and individuals is considered acceptable.

Class B''' – parties with unsatisfactory creditworthiness, frequent delay in payments happen or\and have systematic grounds (reasons), there is significant uncertainty regarding their capacity to clear their financial obligations towards the Group. The credit risk related to those entities and individuals is considered moderate.

The main reason behind dividing Class B into the three sub-classes is to develop a tool for more precise monitoring of the status of receivables and the outcome of credit risk-management measures employed.

Class C – parties with uncertain capacity to meet their financial obligations towards the Group. The credit risk related to those entities and individuals, mainly residential subscribers in the Russian Federation and Georgia, is considered high. The Group cannot switch off the debtors from electricity supply or reject potential debtors of this class due to social and political reasons.

Policies and procedures to address credit risk-management include participation in financial claims and court proceedings. Group entities also use a wide range of proactive credit risk-management procedures where they consider the rules of national energy markets. Such procedures include preliminary credit risk-assessment before setting up a contract or a deal.

There is a number of debtors to whom credit risk classification and policy are applied on a specific basis. These are debtors of CJSC Armenian Nuclear Plant and loans issued to employees by the Parent Company. Management considers these debts as highly probable to be recovered.

(b) Market risk

(i) Foreign exchange risk

Individual subsidiaries and the Group as a whole are exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than their functional currency. The currencies giving rise to this risk are primarily USD and EUR. Since 2010 the Group uses forward contracts to manage the Group's foreign currency risks (see Notes 17 and 21).

The Group has the following foreign-currency denominated financial assets and liabilities (these are disclosed on stand-alone basis inclusive of intercompany balances and exclusive receivables considered as net investments and liabilities related to those assets):

At 31 December 2012	***EUR***	***USD***	***Other***	***Total***
Trade and other receivables (excluding prepayments)	4,524	13,493	66	**18,083**
Long-term bank deposits	40	–	–	**40**
Bank deposits with maturity of 3-12 months	–	–	–	**–**
Cash and cash equivalents	1,103	4,585	4	**5,692**
Restricted cash	96	–	–	**96**
Derivative financial instruments (assets)	83	1	–	**84**
Loans and borrowings (excluding finance lease liabilities)	(6,333)	(21,792)	(1,090)	**(29,215)**
Finance lease liabilities	(1,083)	(399)	–	**(1,482)**
Derivative financial instruments (liabilities)	(98)	–	–	**(98)**
Trade and other payables (excluding taxes)	(626)	(1,219)	(345)	**(2,190)**
Net foreign currency position	**(2,294)**	**(5,331)**	**(1,365)**	**(8,990)**

(in million of RUR)

29. Financial instruments and financial risk factors (continued)

(b) Market risk (continued)

At 31 December 2011	*EUR*	*USD*	*Other*	*Total*
Trade and other receivables (excluding prepayments)	2,312	11,081	48	**13,441**
Bank deposits with maturity of 3-12 months	–	3,708	–	**3,708**
Cash and cash equivalents	819	2,166	3	**2,988**
Restricted cash	164	–	–	**164**
Derivative financial instruments (assets)	138	–	–	**138**
Loans and borrowings (excluding finance lease liabilities)	(4,978)	(17,567)	(1,329)	**(23,874)**
Finance lease liabilities	(1,424)	(552)	–	**(1,976)**
Derivative financial instruments (liabilities)	(92)	(121)	–	**(213)**
Trade and other payables (excluding taxes)	(1,146)	(850)	(220)	**(2,216)**
Net foreign currency position	**(4,207)**	**(2,135)**	**(1,498)**	**(7,840)**

For sensitivity analysis, management estimated the reasonably possible changes in currency exchange rates based on expectations on their volatility. If currency exchange rates had weakened / strengthened within the estimated levels (see table below), with all other variables held constant, the hypothetical effect on income / (loss) and equity for the year ended 31 December 2012 would have been a profit RUR 500 million or loss by RUR 593 million (for the year ended 31 December 2011: an increase / decrease of profit by RUR 153 million and RUR 369 million) in accordance with positive and negative scenario, respectively.

At 31 December 2012	*USD/EUR*	*RUR/USD*	*RUR/EUR*	*AMD/USD*	*AMD/EUR*	*AMD/JPY*	*GEL/USD*	*GEL/EUR*
Upper level	7.97%	12.91%	3.91%	(4.74)%	(12.34)%	(2.31)%	(3.25)%	4.47%
Lower level	(7.97)%	(11.89)%	(4.87)%	4.74%	13.09%	2.67%	3.25%	(4.99)%

At 31 December 2011	*USD/EUR*	*RUR/USD*	*RUR/EUR*	*AMD/USD*	*AMD/EUR*	*AMD/JPY*	*GEL/USD*	*GEL/EUR*
Upper level	11.00%	(13.22)%	(3.68)%	5.38%	16.97%	(3.00)%	(6.35)%	3.95%
Lower level	(11.00)%	14.81%	2.19%	(5.38)%	(15.79)%	3.57%	6.35%	(5.35)%

Expected deviations are based on possible changes in exchange rates based on an analysis of recent trends.

(ii) Interest rate risk

The Group's income / (loss) and operating cash flows are substantially independent of changes in market interest rates. Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). The Group has formal policy to determine how much of the Group's exposure is attributable to fixed or variable rates.

Variable rate debt	*31 December 2012*	*31 December 2011*
Libor	14,351	8,441
EURIBOR	1,918	3,032
CBR	1,817	2,133

The hypothetical effect on income / (loss) for the period due to change in basic points (bp) in the floating interest rates, with all other variables held constant:

	Deviation of LIBOR	
Hypothetical effect on income / (loss) for the year ended 31 December 2012	08 bp decrease	36 bp increase
	10	(41)
Hypothetical effect on income / (loss) for the year ended 31 December 2011	25 bp decrease	90 bp increase
	17	(61)

	Deviation of EURIBOR		*Deviation of CBR*	
Hypothetical effect on income / (loss) for the year ended 31 December 2012	05 bp decrease	74 bp increase	65 bp decrease	83 bp increase
	1	(11)	9	(12)
Hypothetical effect on income / (loss) for the year ended 31 December 2011	15 bp decrease	60 bp increase	25 bp decrease	100 bp increase
	4	(15)	4	(17)

(in million of RUR)

29. Financial instruments and financial risk factors (continued)

(c) Liquidity risk

The Group's approach to manage liquidity is to ensure, as far as possible, that it has sufficient liquidity to satisfy its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking to damage the Group's reputation. The Group adopts prudent approach to liquidity risk management which implies holding a reasonable level of cash and maintaining funding available through an adequate amount of committed borrowing facilities (Note 20).

The table below analyses the Group's financial liabilities allocated to relevant maturity groupings based on remaining contractual maturity date. The amounts disclosed in the table are contractual undiscounted cash flows:

At 31 December 2012	*Less than 1 year*	*Between 1 and 2 years*	*Between 2 and 5 years*	*Between 5 and 20 years*	*Over 20 years*	*Total*
Loans and borrowings	14,404	8,175	39,373	2,765	2,455	**67,172**
Payable on demand	1,918	–	–	–	–	**1,918**
Trade and other payables	50,118	522	3	7	14	**50,664**
Finance lease payables	555	638	616	31	–	**1,840**
Derivative financial liabilities	13,690	99	179	–	–	**13,968**
Total	**80,685**	**9,434**	**40,171**	**2,803**	**2,469**	**135,562**

At 31 December 2011	*Less than 1 year*	*Between 1 and 2 years*	*Between 2 and 5 years*	*Between 5 and 20 years*	*Over 20 years*	*Total*
Loans and borrowings	4,458	10,979	37,078	4,790	13,275	**70,580**
Trade and other payables	39,432	629	3	5	5	**40,074**
Finance lease payables	580	634	1,267	7	–	**2,488**
Derivative financial liabilities	93	121	5,933	–	–	**6,147**
Total	**44,563**	**12,363**	**44,281**	**4,802**	**13,280**	**119,289**

(d) Capital management

The Group's objective in managing capital is to safeguard the Group's ability to continue operations on a going concern basis and to provide returns to shareholders as well as to maintain a strong capital base to provide creditor's and the market with confidence in operating with the Group.

The Company monitors capital based on ratios calculated based on the statutory financial statements of JSC "INTER RAO UES" and management accounts of its subsidiaries prepared according to local statutory requirements. The Group analyses equity and debt financing (see Notes 18 and 20 respectively). As at 31 December 2012 the Group was in compliance with the gearing ratios imposed by loan agreements held with certain banks as well as at 31 December 2011.

Group entities registered in the Russian Federation are individually subject to the following externally imposed capital requirements that are relevant for joint stock companies only:

- share capital cannot be lower than 1,000 minimum wages at the date of the company registration;
- if share capital is greater than its net assets, then share capital must be reduced to a value not exceeding net assets;
- if minimum allowed share capital is greater than net assets, then a liquidation procedure shall follow.

As at 31 December 2012, the Group entities registered in the Russian Federation were in compliance with the above share capital requirements as well as at 31 December 2011.

(e) Electricity derivatives

The Group is exposed to financial risk in relation to electricity derivative instruments traded on NASDAQ OMX[1] by RAO Nordic Oy. The Group has a risk policy in place to ensure that gains and losses on those derivatives are within acceptable limits. The Group accepts the risk related to open electricity derivatives with an aggregate amount of 80% of defined risk capital of EUR 5 million. The Group holds "stop loss" and "take profit" positions to limit potential losses and gains to EUR 2 million and EUR 4 million. If limits are reached, all open risk positions are closed and loss or profit is realised. Other procedures applied within for risk management measures are set up of maximum volume of open positions in electricity derivatives and use of valuation techniques such as stress-test, Value-at-Risk, etc. to form trading portfolio.

[1] Previously Nord Pool

(in million of RUR)

29. Financial instruments and financial risk factors (continued)

(f) Fair values

Fair value is determined either by reference to market or by discounting relevant cash flows using market interest rates for similar instruments. As a result of this exercise management believes that fair value of its financial assets and liabilities approximates their carrying amounts except for loans and borrowings. For loans and borrowings the fair value is disclosed in the Note 20.

Financial assets and liabilities measured using a valuation technique based on assumptions that are supported by observable current market transactions and assets and liabilities for which pricing is obtained via pricing services. In case prices have not been determined in an active market, financial assets with fair values based on broker quotes, investments in private equity funds with fair values obtained via fund managers and assets that are valued using the Group's own models whereby the majority of assumptions are market observable. Non market observable inputs mean that fair values are determined in whole or partly using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions with the same instrument nor they are based on available market data. Main asset classes in this category are unlisted equity investments and debt instruments. Valuation techniques are used to the extent that observable inputs are not available, whereby allow situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, fair value measurement objective remains the same, that is, an exit price for the Group. Therefore, unobservable inputs reflect the Group's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including risk assumptions). These inputs are developed based on the best information available, which might include the Group's own data.

Determination of fair value and fair values hierarchy

The Group uses the following hierarchy to determine and disclose fair value of financial instruments:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques with significant inputs are observable either directly or indirectly; and

Level 3: techniques with inputs which have a significant effect on fair value assessment that are not based on observable market data.

The following table shows an analysis of financial instruments by level of the fair value hierarchy:

At 31 December 2012	*Note*	*Level 1*	*Level 2*	*Level 3*	*Total*
Financial assets					
Derivative financial instruments					
Forward foreign exchange contracts	17	180	–	–	**180**
Electricity derivatives	12,17	318	–	–	**318**
Available-for-sale financial assets					
Quoted investment securities	11	31,956	–	–	**31,956**
Held to maturity financial assets					
Long-term bank deposits	12	–	–	40	**40**
Total financial assets		**32,454**	**–**	**40**	**32,494**
Financial liabilities					
Derivative financial instruments					
Electricity derivatives	21	328	–	–	**328**
Interest rate SWAPs	22	–	69	–	**69**
Foreign exchange SWAPs	21	–	29	–	**29**
Financial liabilities designated at fair value through profit or loss					
Put and Call option agreement	22	–	13,542	–	**13,542**
Financial liabilities at amortised cost					
Loans and borrowings	20	–	51,883	–	**51,883**
Total financial liabilities		**328**	**65,523**	**–**	**65,851**

(in million of RUR)

29. Financial instruments and financial risk factors (continued)

(f) Fair values (continued)

At 31 December 2011	*Note*	*Level 1*	*Level 2*	*Level 3*	*Total*
Financial assets					
Derivative financial instruments					
Forward foreign exchange contracts	17	17	–	–	**17**
Foreign exchange options	17	121	–	–	**121**
Electricity derivatives	17	468	–	–	**468**
Available-for-sale financial assets					
Quoted investment securities	11	40,454	–	–	**40,454**
Assets classified as held-for-sale					
Quoted investment securities	16	5,151	–	–	**5,151**
Held to maturity financial assets					
Long-term bank deposits	12	–	–	40	**40**
Total financial assets		**46,211**	**–**	**40**	**46,251**
Financial liabilities					
Derivative financial instruments					
Foreign exchange options	21	10	–	–	**10**
Forward foreign exchange contracts	21	83	–	–	**83**
Interest rate SWAPs	22	–	121	–	**121**
Financial liabilities designated at fair value through profit or loss					
Put and Call option agreement	22	–	5,933	–	**5,933**
Financial liabilities at amortised cost					
Loans and borrowings	20	–	46,739	–	**46,739**
Total financial liabilities		**93**	**52,793**	**–**	**52,886**

The following is a description of determination of fair value of financial instruments using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

Derivatives

Derivative instruments valued using a valuation technique with market observable inputs (Level 2) are represented by Put and Call option described in Note 18. Applied valuation techniques include Monte-Carlo simulation in the Black-Scholes framework, where underlying stock price follows Geometric Brownian Motion process with the drift corresponding to risk-free rates term structure. The model incorporates various inputs including stock pricing as at valuation dates, volatilities of shares and risk free rates.

During the year ended 31 December 2012 the loss on derivatives in the amount of RUR 7,609 million was recognized in profit and loss in the consolidated statement of comprehensive income (during the year ended 31 December 2011: RUR 8,474 million).

As at 31 December 2012 market price of the Company's shares equalled to RUR 0.02484 per share; as at initial recognition – RUR 0.04770 per share. Put and call option price is RUR 0.05043 and RUR 0.04616 per share, respectively; at initial recognition – RUR 0.04020 and RUR 0.04209 per share, respectively.

If market price of the shares as at 31 December 2012 would have been 10% higher or 10% lower, with all other variables held constant, the hypothetical effect on profit and loss for the year ended 31 December 2012 would have been a decrease of loss / (decrease of profit) by RUR 1,315 million, respectively.

30. Operating leases

Non-cancellable operating leases are payable as follows:

	31 December 2012	*31 December 2011*
Less than one year	1,000	1,315
Between one and five years	3,612	1,689
Over five years	9,325	3,452
Total	**13,937**	**6,456**

(in million of RUR)

30. Operating leases (continued)

The above table includes the Group's lease agreements relating to land plots owned by local governments. Land lease payments are determined by lease agreements. Lease agreements are concluded for different periods. Part of the lease contracts are concluded annually with the right of future prolongation.

During the year ended 31 December 2012 operating lease expenses were recognised in the amount of RUR 1,917 million in the consolidated statement of comprehensive income (for the year ended 31 December 2011: RUR 2,154 million).

31. Commitments

Investment and capital commitments

In accordance with the memorandum signed between the Group and the Government of Georgia in June 2007, the Group has to invest during the period from 1 January 2007 till 31 December 2015 USD 56.3 million in realisation of projects aimed to improve the electricity network which belongs to the Group entity JSC Telasi. In March 2011 the additional memorandum was signed in accordance with which the investment commitments as at 31 December 2012 are as follows:

Year	***Investments, GEL million***
2012-2013	34.3
2014-2016	78.3
2017-2019	66.0
2020-2022	73.6
2023-2025	78.0

As at 31 December 2012 management considers that realisation of investment commitments was in line with schedule for the year 2012.

According to the above memorandum the Parent Company is also committed to finance the construction of a hydroelectric power plant (or number of hydroelectric power plants) with total capacity of 100 MW in Georgia. The power plant (plants) is to be built no later than 1 September 2015. It was also determined that starting from 1 September 2015 JSC Telasi is obliged to purchase within next 7 years the entire volume of electricity provided by the newly constructed plant. Provided that possible increase of electricity purchase tariff for JSC Telasi does not negatively influence consumer tariffs. In case the power plant (plants) will not be put into operation before 1 September 2015 JSC Telasi will be obliged to purchase within next 7 years (starting from 1 September 2015) at least 15% of its total annual electricity purchase from hydro power plants or other power stations working on renewable energy sources which were put into operation in Georgia after 20 June 2007.

As at 31 December 2012 one of the Group jointly controlled entities JSC Stantsiya Ekibastuzskaya GRES-2 has contracted capital commitments for construction of block 3 amounted to RUR 5,158 million.

As at 31 December 2012 capital commitments of subsidiaries of the Company, are as follows:

Subsidiary	***RUR, million***
JSC INTER RAO – Electric Power Plants	44,810
LLC PGU TEC-5	1,074
Trakya Elektrik Uretim ve Ticaret A.S.	932
JSC TGK-11	400
LLC BGC	94
Total	**47,310**

Capital commitments of PGU TEC-5 included contract liabilities in favour of JSC Power Machines on purchase of equipment for energy blocks 1,2 and LLC Energopromspecservice on purchase of waste-heat recovery boilers

Capital commitments of Trakya Elektrik Uretim ve Ticaret A.S.included contract liabilities in favour of Siemens Sanayi ve Ticaret A.S. on purchase of equipment and maintenance services.

Capital commitments of LLC BGC included contract liabilities in favour of Siemens, s.r.o. on purchase of steam turbine for PGU TEC-2.

(in million of RUR)

31. Commitments (continued)

Investment and capital commitments (continued)

Capital commitments of JSC INTER RAO – Electric Power Plants mainly comprise of contract liabilities in favour of Group E4 on construction of Permskaya GRES (block 4), CJSC Atomstroyexport on construction of energy complex of Yuzhnouralskaya GRES-2 (block 1,2), JSC Technopromexport on construction of energy complex of Cherepetskaya GRES (block 8,9) and Urengoyskaya GRES, JSC KubanEnergo for technical connection of Djubginskaya TES and JSC Energy-Service for re-equipment of energy complex of Gusinoozerskaya GRES (block 4).

As at 31 December 2012 capital commitments of power generating units of JSC INTER RAO – Electric Power Plants are as follows:

Power generating units	***RUR, million***
Permskaya GRES	21,312
Yuzhno-Uralskaya GRES-2	16,654
Cherepetskaya GRES	2,576
Djubginskaya TES	1,800
Gusinoozerskaya GRES	1,003
Urengoyskaya GRES	771
Kashirskaya GRES	175
Ivanovskie PGU	137
Sochinskaya TES	117
Other	265
Total	**44,810**

Guarantees

The Group has the following guarantees as at 31 December 2012:

- Guarantee to BNP Paribas S.A. In November 2010 the Group entered into Purchase Contract between Bariven, S.A ("Buyer") and INTER RAO UES ("Seller") for the purpose of sale and purchase of 13 Units of LM2500+G4 Gas Turbine Generator Package. The total amount of the contract is USD 309 million (or RUR 9,385 million at the CB RF exchange rate as of 31 December 2012) with an advance payment of 30% of total contract value or USD 99 million (or RUR 2,930 million at the CB RF exchange rate as of 31 December 2012) against the letter of Guarantee. The price per Unit is USD 24 million (or RUR 729 million at the CB RF exchange rate as of 31 December 2012). As a security for the due performance of Seller's obligations under the Contract BNP Paribas S.A. issued letters of Guarantee in the amount of 15-30% of the price per Unit or USD 3.5-7 million (or RUR 117-235 million at the CB RF exchange rate as of 31 December 2012). All letters of guarantee issued by BNP Paribas S.A in favour of the Buyer. In connection with the letters of Guarantee INTER RAO UES entered into counter-guarantee agreement with VTB Bank JSC (hereafter referred to as "Bank VTB") in favour of BNP Paribas S.A. These guarantees expire in April-May 2015.
- Guarantee to Banco PICHINCHA C.A. In October 2010 the Group entered into Purchase and Installation Contract between HIDROTOAPI EP ("Buyer") and INTER RAO UES ("Seller") for the purpose of sale, purchase and installation of 7 Turbine Generator Blocks for hydroelectric project "Toachi-Pilation" in Ecuador. The total amount of the contract is USD 145 million (or RUR 4,404 million at the CB RF exchange rate as of 31 December 2012) with an advance payment of 20% of total contract value or USD 29 million (or RUR 881 million at the CB RF exchange rate as of 31 December 2012) against the letter of Guarantee. As a security for the due performance of Seller's obligations under the Contract Banco PICHINCHA C.A. issued the letter of Guarantee in the amount of 5% of total contract value or USD 7 million (or RUR 213 million at the CB RF exchange rate as of 31 December 2012). Both letters of guarantee issued by Banco PICHINCHA C.A. in favour of the Buyer. In connection with letters of Guarantee INTER RAO UES entered into counter-guarantee agreement with Nordea Bank (hereafter referred to as "Nordea") in favour of Banco PICHINCHA C.A. These guarantees expire in September 2014.
- On 28 December 2009 one of the Group entities RAO Nordic Oy entered into a certain agreements for the purposes of ensuring its operations. The Parent Company issued a financial guarantee to the amount of EUR 95 million (or at the CB RF exchange rate as of 31 December 2012 RUR 3,822 million) with an interest rate equalled to 16%. The Parent Company acted as guarantor under this agreement.
- Guarantees of the Group share RUR 5,439 million of the jointly-controlled entities contingent liabilities which have been incurred jointly with other investors.

Guarantees given under certain loans and borrowings agreements are disclosed in Note 20.

(in million of RUR)

31. Commitments (continued)

Guarantees (continued)

Restrictions imposed by the Federal Antimonopoly Service

The Federal Antimonopoly Service of the Russian Federation issued a number of restrictions related to acquisition of controlling and non-controlling interest by the Group in 2011: trading restrictions related to JSC Tomskenergosbyt, JSC Bashkirenergo, JSC Volga TGC, JSC TGC-6, JSC Mosenergosbyt, JSC Saint-Petersburg Sale Company, JSC Saratovenergo, JSC WGC-3 and restrictions on the right of ownership for 4 years related to JSC Kubanenergosbyt, JSC Tomskenergosbyt, JSC Bashkirenergo, JSC Volga TGC, JSC TGC-6, JSC Saratovenergo, JSC WGC-3. In compliance with the Federal Antimonopoly Service of the Russian Federation restrictions, at 31 December 2012 following shares were transferred by the Group for trust management: 14.40% of ordinary shares of JSC Volga TGC, 6.08% of ordinary shares of JSC TGC-6, and 6.28% of total shares of JSC Tomskenergosbyt (31 December 2011: 19% of ordinary shares JSC OGK-1, 18% of ordinary shares of JSC WGC-3, 14.40% of ordinary shares of JSC Volga TGC, 1.09% of ordinary shares of JSC TGC-6, 6.28% of total shares of JSC Tomskenergosbyt, 1.66% of total shares of JSC Bashkirenergo). The Group is in compliance with the restrictions of Federal Antimonopoly Service of the Russian Federation as of 31 December 2012 and subsequently.

32. Contingencies

(a) Political environment

The operations and earnings of Group entities continue, from time to time and in varying degrees, to be affected by political, legislative, fiscal and regulatory developments, including those related to environmental protection, in Russia, Georgia, Armenia, Moldavia (including Transdniestria Republic), Lithuania and Kazakhstan.

(b) Insurance

The Russian insurance industry is in a developing stage: insurance market capacity and low variety of product line does not completely meet customers' requirements. Compulsory insurance common in other parts of the world is being introduced in stages and may not be available for some types of insurance.

In May 2008 management of the Parent Company has approved main principles of insurance policy for risks related to the Parent Company's activities. The policy covers risks in relation to property aspects, activities of hydro-technical equipment and highly hazardous equipment.

In 2010 the Board of Directors approved new edition of the regulations on insurance protection of the Group, which establishes standards for insurance coverage and procedure for interaction between the Parent Company and its subsidiaries and associates. Based on these regulations there have been developed the relevant regulations in key subsidiaries. Thus in 2010 the Group has adopted the unified corporate standards for the asset insurance coverage. Since 2011 the Groups' assets located on territory of the Russian Federation are been insured for its replacement value. Also since 2011 the Group regularly performs technical risk assessment and valuation in relation to major assets, including located abroad.

Since 2011 the Group insures Director's responsibility (Board members of the Parent Company and certain Group entities), responsibility of the officials and certain Group entities to cover financial losses of third parties.

(c) Litigation

Legal proceedings

In the normal course of business the Group is a party to legal actions. Other than as discussed below, management of the Group is unaware of any actual, pending or threatened claims as at the date of approval of these financial statements, which would have a material impact on the Group.

	31 December 2012	*31 December 2011*
Subcontractors claims	167	95
Customer's complaints	783	52
	950	**147**

As at 31 December 2012 and 31 December 2011 the Group had a number of legal claims from customers the likelihood of which is not probable, but only possible, and, consequently, no provision has been made in these financial statements.

(in million of RUR)

32. Contingencies (continued)

(d) Tax contingencies

The taxation systems in the Russian Federation and in other countries in which the Group operates are relatively new and characterised by frequent changes in legislation, official pronouncements and court decisions which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during three to five subsequent calendar years; however, under certain circumstances a tax year may remain open longer.

In addition, tax and other legislation do not address specifically all the aspects of the Group's reorganisation related to reforming of the electric utilities industry in the Russian Federation. As such there may be tax and legal challenges to the various interpretations, transactions and resolutions that were a part of the reorganisation and reform process.

These circumstances may create tax risks in the Russian Federation and in the other countries in which the Group operates. Management believes that it has adequately provided for tax liabilities based on its interpretations of applicable relevant tax legislation, official pronouncements and court decisions.

However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

The Parent Company and subsidiaries in the countries where they operate have various transactions with related parties. The pricing policy could give rise to transfer pricing risks. In management's opinion, the Group is in substantial compliance with the tax laws of the countries where Group entities operate. However, relevant authorities could take different positions with regard to interpretive issues or court practice could develop adversely with respect to the positions taken by the Group and the effect could be significant.

The Group includes a number of operating and investment companies located in a number of different tax jurisdictions across Europe and the CIS. Those entities are subject to a complex variety of tax regimes and the nature of current and past trading and investment activities exposes them to areas of tax legislation involving considerable judgement and, consequently, uncertainty. The Group estimates that possible claims in respect of certain open tax positions of Group entities as at 31 December 2012 would be successfully challenged in the amount of RUR 1,138 million (as at 31 December 2011: RUR 464 million).

Effective 1 January 2012 market price defining rules in the Russian Federation were changed and the list of entities that could be recognized as interdependent entities and list of managed deals were expanded. Due to above new rules, absence of law enforcement precedents, and certain contradictions of the new law, such new rules could not be considered as well defined. The Company's management is in the process of developing a new approach to assess consequences of the new tax rules, to prevent substantial negative impact on the Company's consolidated financial statements.

Environmental matters

Group entities operate in the electric power industry in the Russian Federation, Georgia, Armenia, Kazakhstan and Moldova. The enforcement of environmental regulations in these countries is evolving and position of government authorities is continually being reconsidered. Group entities periodically evaluate their obligations under environmental regulations.

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

Restoration provision liabilities relate to reclamation of land plots, used for ash dumps by generating entities, which use coal for production purposes (see Note 22).

(e) Ownership of transmission lines

Current legislation in Georgia is untested in relation to ownership issues with regard to line objects of real estate property, for example, the land over which one of the Group's entities (JSC Telasi) equipment for the transmission of electricity is located. On further clarification of the law, it is possible that JSC Telasi may be required to acquire ownership of certain land plots or to pay rentals to other parties for the use of certain land plots. JSC "Telasi" uses land plots owned by other parties for access to its network facilities which gives rise to servitude relationships with the owners of the land. Rapidly the changing circumstances in the real estate market of Georgia and certain claims that were raised in 2009 to JSC Telasi indicate that servitude in respect of rights may become chargeable for current and prior periods. At the date of approval of these financial statements, management considers that it is not possible to quantify any additional expense, if any, which JSC Telasi might incur and consequently, no provision has been made against such potential liabilities in these financial statements.

(in million of RUR)

33. Related party transactions

(a) Parent Company and control relationships

The Russian Federation is the ultimate controlling party of JSC Inter RAO UES and has a controlling interest in the company of over 50%. Details of operations with entities controlled by the Russian Federation are provided in the note 33 (d).

(b) Transactions with key management personnel

The members of the Management Board own 0.0254% of ordinary shares of JSC INTER RAO as at 31 December 2012 (31 December 2011: 0.028%).

Compensation paid to key management and members of the Board of Directors for their service in that capacity is made up of contractual salary and performance bonuses. Key management and members of the Board of Directors received the following remuneration during the period, which is included in employee benefit expenses and payroll taxes (Note 26):

	Year ended 31 December 2012	***Year ended 31 December 2011***
Salaries and bonuses	659	391

Employee's Share Option Programme. In June 2008 and December 2010 the Company's Board of Directors approved Share Option Programmes (hereinafter referred to as "the Programme (i)" and "the Programme (ii)" correspondingly) in which members of the Management Board and other key employees of the Group were to be participants (hereinafter referred to as "the Programme participants").

For both Programmes the number of shares, which the Programmes participants may purchase within the framework of the Programme, is calculated proportionally based on the number of days worked prior to terminating the employment provided that termination meets certain conditions of Labour Code or in full amount based on decision of Chairman of the Board. In the case of breaching certain defined provisions of the labour agreement and terminating employment at the initiative of the Group the Programme participants will lose their right to purchase the shares.

Programme (i)

Participation in the Programme (i) and the exact number of shares in the participants' individual share option agreements are determined by decision of the Company's Board of Directors. On 21 September 2009 the Company's Board of Directors approved the final form and conditions of the Programme (i). These stipulated exact number of shares to which Programme participants were entitled and their fixed exercise price.

Corresponding agreements with determined share price and quantity were signed by the Programme participants immediately after that date.

Up to 46,000,000,000 ordinary shares were allocated under the Programme (i). 23,000,000,000 ordinary shares were allocated for granting share options to the members of the Company's Management Board, the remaining – to other key employees of the Group. Ordinary shares ultimately allocated under the Programme (i) were allocated from treasury shares obtained by JSC INTER RAO Capital, operator of the Programme (i). The Programme participants could exercise the share option at any time over the period from 23 June 2010 through 23 May 2011. During the year ended 31 December 2011 1,683,880,021 of share options were exercised or forfeited and cash proceeds for the Group amounted to RUR 12 million.

Changes in the amounts of options granted are described in the table below:

	All options granted under the Programme (i)
Number of options as at 31 December 2010	1,683,880,021
Options distributed in 2011	(1,647,564,472)
Options forfeited in 2011	(36,315,549)
Number of options outstanding as at 31 December 2011	–

(in million of RUR)

33. Related party transactions (continued)

(b) Transactions with key management personnel (continued)

Fair value of services received in return for share options granted to employees is measured by reference to fair value of the share options granted. Fair value of the services received is measured based on the Black-Scholes model.

	31 December 2012	*31 December 2011*
Weighted average price (RUR)	–	0.0368
Expected volatility	–	110.59%
Option life, days	–	608
Risk-free interest rate	–	10.05%
Fair value of the option at measurement date (in RUR)	–	0.022703211

Programme (ii)

Participation in the Programme (ii) and the exact number of shares in the participants' individual share option agreements are determined by decision of the Company's Board of Directors. In 2011 the Company's Board of Directors approved the final form and conditions of the Programme (ii). These stipulated exact number of shares to which Programme participants were entitled and their fixed exercise price.

The Programme participants could exercise the share option at any time during 2013-2015.

Changes in the amounts of options granted are described in the table below:

	All options granted under the Programme (ii)	*Attributed to members of the Management Board*
Number of options as at 31 December 2010		
Options agreements signed in 2011	126,763,437,501	65,583,000,000
Number of options outstanding as at 31 December 2011	126,763,437,501	65,583,000,000
Options distributed during the year ended 31 December 2012	–	–
Number of options outstanding as at 31 December 2012	126,763,437,501	65,583,000,000

Fair value of services received in return for share options granted to employees is measured by reference to fair value of the share options granted. The estimate of the fair value of the services received is measured based on the Binomial model.

	31 December 2012	*31 December 2011*
Weighted average price (RUR)	0,0291	0.0368
Expected volatility	40.00%	40.00%
Option life, years	3.9	3.9
Risk-free interest rate	6.6%	6.60%
Fair value of the option at measurement date (in RUR)	0,013601241	0,013601241

To determine volatility the Group used the historical volatility of the market prices of its publicly traded shares. For the year ended 31 December 2012 the Group recognised a loss of RUR 543 million within employee benefit expenses in the consolidated statement of comprehensive income related to fair value of the options agreements signed (for the year ended 31 December 2011 the Group recognised a loss in the amount of RUR 1,134 million).

To implement the Share Option Programme (ii) the Company issued interest-free loans to key-management; as at 31 December 2012 discounted amount of the loans equals to RUR 36 million (31 December 2011: RUR 37 million).

(in million of RUR)

33. Related party transactions (continued)

(c) Transactions with associates and jointly controlled entities

Detailed list of the Group's jointly controlled entities and associates is disclosed in Note 9. Sales to and purchases from jointly controlled and associates are made at terms equivalent to those that prevail in arm's length transactions.

The Group's transactions with associates and jointly controlled entities are disclosed below.

	Year ended 31 December 2012	*Year ended 31 December 2011*
Revenue		
Jointly-controlled entities	1,098	577
Associate	60	–
Other operating income		
Jointly-controlled entity	1	3
Associate	-	17
Interest income		
Jointly-controlled entity	59	36
Dividend income		
Jointly-controlled entity	32	367
Associate	4	–
	1,254	**1,000**
Purchased power		
Jointly-controlled entity	52	
Associates	98	45
		–
Purchased capacity		
Jointly-controlled entity	478	342
Associates	633	–
Other expenses		
Jointly-controlled entity	820	487
Associates	1	–
Interest expenses		
Associates	–	15
	2,082	**889**
Capital expenditures		
Jointly-controlled entity	6,560	1,746

	31 December 2012	*31 December 2011*
Accounts receivable		
Jointly-controlled entities	957	727
Associates	–	239
Loans issued		
Jointly-controlled entities	1,151	416
Accounts payable		
Jointly-controlled entities	344	199
Associates	–	17

(in million of RUR)

33. Related party transactions (continued)

(d) Transactions with entities controlled by the Russian Federation

Information on transactions with entities controlled by the Russian Federation is presented below:

	Year ended 31 December 2012	*Year ended 31 December 2011*
Revenue		
Electricity and capacity	176,211	135,428
Other revenues	886	874
Other operating income	336	135
	177,433	**136,437**
Operating expenses		
Purchased power and capacity	50,565	57,734
Transmission fees	135,646	139,910
Fuel expense (gas)	25,587	24,056
Fuel expense (coal)	485	189
Other purchases	17	36
Other expenses	2,561	6,285
	214,861	**228,210**
Capital expenditures	**2,215**	**1,265**

	Year ended 31 December 2012	*Year ended 31 December 2011*
Finance income (expenses)		
Interest income	1,675	586
Discounting effect on long-term loans (Note 27)	–	4,510
Other finance income	178	31
Dividend income	109	118
Interest expenses	(1,915)	(1,563)
Put and Call option agreements (Note 27)	(7,609)	(10,826)
	(7,562)	**(7,144)**

	31 December 2012	*31 December 2011*
Other non-current assets and liabilities		
Long-term derivative financial instruments – liabilities (Note 22)	13,542	6,054

	Year ended 31 December 2012	*Year ended 31 December 2011*
Investment to other non-current assets	**–**	**662**

	31 December 2012	*31 December 2011*
Long-term accounts receivable		
Other account receivables	76	27
Less impairment provision	*(76)*	*(22)*
Other receivables – net	**–**	**5**
Short-term accounts receivable		
Trade accounts receivable, gross	15,412	12,268
Less impairment provision	(6,164)	(6,058)
Trade receivables – net	**9,248**	**6,210**
Advances issued	1,135	434
Advances issued for capital construction	4	208
Dividend received	–	–
Other receivable	1,440	461
	11,827	**7,313**

(in million of RUR)

33. Related party transactions (continued)

(d) Transactions with entities controlled by the Russian Federation (continued)

	31 December 2012	*31 December 2011*
Accounts payable		
Trade accounts payable	14,391	7,498
Payables for capital construction	1,822	1,203
Other accounts payable	787	303
Advances received	4,114	3,741
	21,114	**12,745**

	31 December 2012	*31 December 2011*
Loans and borrowings		
Short-term loans and borrowings	6,015	1,134
Long-term loans and borrowings	22,748	23,246
Interest on loans and borrowings	37	30
	28,800	**24,410**

	31 December 2012	*31 December 2011*
Cash and cash equivalents	**3,197**	**1,821**

	31 December 2012	*31 December 2011*
Other current assets (bank deposits)	**14,442**	**12,698**

	Year ended 31 December 2012	*Year ended 31 December 2011*
Financial transactions		
Loans and borrowings received	5,768	13,404
Loans and borrowings repaid	(4,467)	(19,290)
	1,301	**(5,886)**

In July 2011 subsidiary of JSC INTER RAO UES entered into an agreement with a state-controlled company for sale of electric power under the “take-or-pay” arrangement through 30 June 2026. The sales to and purchases from enterprises controlled by the Russian Federation are made at terms equivalent to those that prevail in arm’s length transactions.

(e) Transactions with other related parties

Sales to and purchases from other related parties are made at terms equivalent to those that prevail in arm’s length transactions. Amounts of transactions with other related parties (except for those controlled by the Russian Federation, equity investees and joint ventures), for each of the reporting periods are provided below:

	Year ended 31 December 2012	*Year ended 31 December 2011*
Revenue		
Electricity and capacity	3,481	2,155
Other operating income	1	57
Dividends received	234	222
	3,716	**2,434**
Operating expenses		
Purchased electricity and capacity	3,127	1,905

(in million of RUR)

33. Related party transactions (continued)

(e) Transactions with other related parties (continued)

	31 December 2012	*31 December 2011*
Short-term accounts receivable		
Trade and other accounts receivable	303	104
Short-term accounts payable		
Trade and other accounts payable	35	332

	31 December 2012	*31 December 2011*
Loans and borrowings payable		
Long-term loan received	2,484	3,000
Short-term loan received	1,633	625
	4,117	**3,625**

	31 December 2012	*31 December 2011*
Cash and cash equivalents		
Current accounts balances	8,641	1,638
Short-term bank deposits	3,000	–
	11,641	**1,638**

	Year ended 31 December 2012	*Year ended 31 December 2011*
Income and expenses		
Interest expenses	226	203

34. Entities under trust management

The Group held under trust management 100% of voting shares of JSC Khramhesi I and JSC Khramhesi II before 31 March 2011 (Note 5) and CJSC Armenian nuclear power station before 29 March 2012. These entities were not consolidated in these consolidated financial statements while being in trust management. The Group's transactions with the entities under trust management are disclosed below.

	Year ended 31 December 2012	*Year ended 31 December 2011*
Revenue		
Electricity and capacity	7	43

	Year ended 31 December 2012	*Year ended 31 December 2011*
Purchases		
Purchased power and capacity	473	1,666

	Year ended 31 December 2012	*Year ended 31 December 2011*
Interest income and expense		
Interest income	–	2

	31 December 2012	*31 December 2011*
Accounts receivable		
Trade accounts receivable	–	3

	31 December 2012	*31 December 2011*
Accounts payable		
Trade accounts payable	–	210

(in million of RUR)

35. Significant subsidiaries

Significant subsidiaries consolidated in the Group's consolidated financial statements are disclosed in the table below:

	Country of incorporation	*31 December 2012 Ownership/voting*	*31 December 2011 Ownership/voting*
Trading entities			
RAO Nordic Oy[1]	Finland	100.00%	100.00%
UAB INTER RAO Lietuva[1]	Lithuania	51.00%	51.00%
LLP Kazenergoresurs	Kazakhstan	100.00%	100.00%
Distributing entities			
JSC Telasi	Georgia	75.00%	75.00%
CJSC Elektricheskiye seti Armenii	Armenia	100.00%	100.00%
Supply entities			
JSC Mosenergosbyt (group of companies) (Note 5)	The Russian Federation	50.92%	50.92%
JSC PSK (group of companies) (Note 5)	The Russian Federation	100.00%	92.52%
JSC Tambov Energy Retailing Company (Note 5)	The Russian Federation	59.38%	59.38%
JSC Saratovenergo (Note 5)	The Russian Federation	56.97%	56.97%
JSC Altayenergosbyt (Note 5)	The Russian Federation	100.00%	100.00%
JSC Industrial Energetics (Note 5)	The Russian Federation	51.00%	51.00%
LLC RN – Energo (Note 5)	The Russian Federation	100.00%	100.00%
Generating entities			
Mtkvari Energy LLC	Georgia	100.00%	100.00%
CJSC Moldavskaya GRES	Moldova, Transdniestria Republic	100.00%	100.00%
JSC INTER RAO – Electric Power Plants (Note 5)[2]	The Russian Federation	100.00%	100.00%
JSC Khramhesi GES I (Note 5)	Georgia	100.00%	100.00%
JSC Khramhesi GES II (Note 5)	Georgia	100.00%	100.00%
JSC OGK-1 (group of companies) (Note 5)[2]	The Russian Federation	–	75.15%
JSC WGC-3 (group of companies) (Note 5)[2]	The Russian Federation	–	85.47%
JSC TGK-11 (group of companies) (Note 5)	The Russian Federation	100.00%	67.71%
LLC Bashkir Generation Company (Note 5)	The Russian Federation	100.00%	–
LLC Bashkir Heat Distribution (Note 5)	The Russian Federation	100.00%	–
JSC RazTES (Note 5)	Armenia	100.00%	100.00%
Trakya Elektrik Uterim Ve Ticaret A.S. (Note 5)	Turkey	90.00%	–
Other entities			
CJSC INTER RAO UES Capital	The Russian Federation	100.00%	100.00%
LLC INTER RAO – Procurement Centre	The Russian Federation	100.00%	100.00%
JSC Eastern energy company	The Russian Federation	100.00%	100.00%
JSC Electrolutch (Note 5)	The Russian Federation	100.00%	98.03%
JSC United Energy Retailing Company	The Russian Federation	100.00%	100.00%
INTER RAO Credit B.V.	Netherlands	100.00%	100.00%

[1] RAO Nordic Oy and UAB INTER RAO Lietuva also act as holding companies for certain Group entities.

[2] On 1 October 2012 the Group completed the reorganization through incorporation of assets and liabilities of JSC OGK-1 and JSC WGC-3 into JSC INTER RAO – Electric Power Plants.

(in million of RUR)

36. Events after the reporting period

1. Group structure

18 March 2013 JSC United Energy Retailing Company's Board of Directors approved the decision on liquidation of Company - the management company of the segment Supply in the Russian Federation.

2. Other

Fitch Ratings has affirmed JSC INTER RAO UES global credit rating of BB+, outlook stable, on the global scale and AA (rus) on the national scale (the rating was assigned in March, 2012). The agency stressed the steadiness of the Group's credit quality and state support.