Joint stock company
Territorial Generating Company №1

International Financial Reporting Standards
Consolidated Financial Statements and
Independent Auditor's Report

2012

Independent Auditor's Report

To the Shareholders and Board of Directors of Joint Stock Company Territorial Generating Company №1

We have audited the accompanying consolidated financial statements of Joint Stock Company Territorial Generating Company №1 and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2012 and the consolidated statements of comprehensive income, changes in equity and cash flows for 2012, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to express an opinion on the fair presentation of these consolidated financial statements.

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Independent Auditor's Report (Continued)

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 its cash flows for 2012 in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

15 March 2013

Moscow, Russian Federation

V.Y. Sokolov, Director (licence no. 01-000024), ZAO PricewaterhouseCoopers Audit

Audited entity: Joint Stock Company Territorial Generating Company № 1

Certificate of inclusion in the Unified State Register of Legal Entities № 1057810153400 issued on 25 March 2005

198188, Russian Federation, St-Petersburg, Bronevaya str., 6, litera B

Independent auditor: ZAO PricewaterhouseCoopers Audit

State registration certificate № 008.890, issued by the Moscow Registration Bureau on 28 February 1992

Certificate of inclusion in the Unified State Register of Legal Entities № 1027700148431 issued on 22 August 2002

Certificate of membership in self regulated organisation non-profit partnership "Audit Chamber of Russia" № 870. ORNZ 10201003683 in the register of auditors and audit organizations

Joint Stock Company
Territorial Generating Company №1
and its subsidiaries

International Financial Reporting Standards
Consolidated Financial Statements and
Independent Auditor's Report

31 December 2012

Contents

JSC TERRITORIAL GENERATING COMPANY №1 AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2012
(in thousands of Russian Roubles)

	Notes	31 December 2012	31 December 2011
ASSETS			
Non-current assets			
Property, plant and equipment	7	129 056 534	120 546 141
Investment property		105 596	109 808
Intangible assets		383 036	448 505
Investments in associates	8	450 900	50 900
Deferred income tax assets	9	535 692	728 389
Other non-current assets	10	114 899	56 222
Total non-current assets		**130 646 657**	**121 939 965**
Current assets			
Cash and cash equivalents	11	719 975	375 545
Short-term investments	12	8 264	5 847
Trade and other receivables	14	13 854 113	12 131 647
Current income tax prepayments		94 439	525 950
Inventories	15	2 585 733	2 912 669
		17 262 524	**15 951 658**
Non-current assets held for sale	13	26 705	50 512
Total current assets		**17 289 229**	**16 002 170**
TOTAL ASSETS		**147 935 886**	**137 942 135**
EQUITY AND LIABILITIES			
Equity			
Share capital	16	38 543 414	38 543 414
Share premium	16	22 913 678	22 913 678
Merger reserve	16	(6 086 949)	(6 086 949)
Other reserves	1	(1 209 011)	(1 209 011)
Retained earnings		28 699 167	22 926 052
Equity attributable to the Company's owners		**82 860 299**	**77 087 184**
Non-controlling interest		7 909 081	7 619 391
TOTAL EQUITY		**90 769 380**	**84 706 575**
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	9	10 094 780	8 618 980
Long-term borrowings	17	26 159 467	22 467 746
Other non-current liabilities	18	74 769	-
Post-employment benefits obligations	19	914 600	891 625
Total non-current liabilities		**37 243 616**	**31 978 351**
Current liabilities			
Short-term borrowings	20	10 586 306	11 499 426
Trade and other payables	21	8 427 495	8 932 356
Current income tax payable		1 319	82 412
Other taxes payable	22	907 770	743 015
Total current liabilities		**19 922 890**	**21 257 209**
TOTAL LIABILITIES		**57 166 506**	**53 235 560**
TOTAL EQUITY AND LIABILITIES		**147 935 886**	**137 942 135**

Approved for issue and signed on 15 March 2013.

General Director A.N. Filippov

Chief Accountant R.V. Stanishevskaya

The accompanying notes 1 to 33 form an integral part of these consolidated financial statements.

(in thousands of Russian Roubles)

	Notes	Year ended 31 December 2012	Year ended 31 December 2011
Revenue			
Sales of electricity		37 346 956	36 181 480
Sales of heat		24 012 367	23 459 879
Other sales	23	1 124 479	610 401
Total revenue		**62 483 802**	**60 251 760**
Operating expenses	24	(54 691 449)	(53 777 205)
Impairment loss reversed during the year	7	549 368	-
Impairment loss recognised during the year	7	-	(27 417)
Other operating income	25	1 516 905	570 037
Total operating expenses		**(52 625 176)**	**(53 234 585)**
Operating profit		**9 858 626**	**7 017 175**
Finance income	27	78 701	19 694
Finance costs	27	(1 819 449)	(1 750 806)
Finance costs, net		**(1 740 748)**	**(1 731 112)**
Profit before income tax		**8 117 878**	**5 286 063**
Income tax expense	9	(1 875 988)	(1 384 297)
Profit for the year		**6 241 890**	**3 901 766**
Other comprehensive income			
Other comprehensive income for the year		**-**	**-**
Total comprehensive income for the year		**6 241 890**	**3 901 766**
Profit is attributable to:			
Owners of the Company		5 960 980	3 736 690
Non-controlling interests		280 910	165 076
Profit for the year		**6 241 890**	**3 901 766**
Total comprehensive income is attributable to:			
Owners of the Company		5 960 980	3 736 690
Non-controlling interests		280 910	165 076
Total comprehensive income for the year		**6 241 890**	**3 901 766**
Earnings per ordinary share for profit attributable to owners of the Company, basic and diluted (in Russian Roubles)	28	0.0015	0.0010

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2012
(in thousands of Russian Roubles)

	Attributable to owners of the Company								
	Share capital	Treasury shares	Share premium	Merger reserve	Other reserves	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2011	**38 543 414**	**-**	**22 913 678**	**(6 086 949)**	**-**	**19 369 709**	**74 739 852**	**(92 046)**	**74 647 806**
Comprehensive income for the year									
Profit for the year	-	-	-	-	-	3 736 690	**3 736 690**	**165 076**	**3 901 766**
Other comprehensive income									
Income tax on other comprehensive income	-	-	-	-	-	-	-	-	-
Total other comprehensive income	-	-	-	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	-	**3 736 690**	**3 736 690**	**165 076**	**3 901 766**
Transactions with owners									
Property, plant and equipment as a contribution in a subsidiary's share capital (Note 1)	-	-	-	-	(1 209 011)	-	**(1 209 011)**	**7 546 361**	**6 337 350**
Dividends	-	-	-	-	-	(180 347)	**(180 347)**	**-**	**(180 347)**
Total transactions with owners	-	**-**	**-**	**-**	**(1 209 011)**	**(180 347)**	**(1 389 358)**	**7 546 361**	**6 157 003**
Balance at 31 December 2011	**38 543 414**	**-**	**22 913 678**	**(6 086 949)**	**(1 209 011)**	**22 926 052**	**77 087 184**	**7 619 391**	**84 706 575**
Comprehensive income for the year									
Profit/(loss) for the year	-	-	-	-	-	5 960 980	**5 960 980**	280 910	**6 241 890**
Other comprehensive income									
Income tax on other comprehensive income	-	-	-	-	-	-	-	-	-
Total other comprehensive income	-	-	-	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	-	5 960 980	**5 960 980**	280 910	**6 241 890**
Transactions with owners									
Sale of subsidiary	-	-	-	-	-	-	-	8 780	**8 780**
Dividends	-	-	-	-	-	(187 865)	**(187 865)**	-	**(187 865)**
Total transactions with owners	-	-	-	-	-	**(187 865)**	**(187 865)**	**8 780**	**(179 085)**
Balance at 31 December 2012	**38 543 414**	**-**	**22 913 678**	**(6 086 949)**	**(1 209 011)**	**28 699 167**	**82 860 299**	**7 909 081**	**90 769 380**

(in thousands of Russian Roubles)

	Year ended 31 December 2012	Year ended 31 December 2011
Cash flows from operating activities		
Profit before income tax	8 117 878	5 286 063
Adjustments for:		
Depreciation of property, plant and equipment	5 409 322	4 674 793
Amortisation of intangible assets	168 901	144 971
Amortisation of investment property	8 325	-
Impairment loss recognised during the year	-	27 417
Impairment loss reversed during the year	(549 368)	-
Finance expense/(income), net	1 740 748	1 731 112
Change in provision for impairment of accounts receivable	(194 674)	695 603
(Gain)/loss on disposals of property, plant and equipment	(166 349)	13 324
(Gain)/loss on sale of other assets	(560 753)	20 231
Loss on disposal of non-core assets	-	4 670
Gain from sale of subsidiary	(96 057)	-
Change in provision for impairment of inventories	-	(28 818)
Increase/(decrease) of post-employment benefits obligations	22 974	(36)
Other non-cash items	(40 654)	84 145
Operating cash flows before working capital changes	**13 860 293**	**12 653 475**
(Increase) in trade and other receivables	(3 653 438)	(4 541 907)
Decrease/(increase) in inventories	328 432	(343 555)
(Increase) in other non-current assets	(58 190)	(47 616)
Increase in trade and other payables	1 876 152	2 098 391
Increase in other taxes payable	164 755	171 248
Cash generated from operations	**12 518 004**	**9 990 036**
Income taxes refund/(paid)	114 392	(892 676)
Interest paid	(2 691 064)	(2 177 237)
Net cash from operating activities	**9 941 322**	**6 920 123**
Cash flows from investing activities		
Purchase of property, plant and equipment	(12 587 112)	(17 344 898)
Proceeds from sale of property, plant and equipment	339 303	339 017
Proceeds from sale of other assets	580 000	-
Proceeds from sale of subsidiary, net of disposed cash	6 557	-
Purchases of shares	(400 000)	(2 600)
Purchase of intangible assets	(92 759)	-
Interest received	26 505	2 198
Net cash used in investing activities	**(12 127 506)**	**(17 006 283)**
Cash flows from financing activities		
Proceeds from borrowings	34 998 968	63 624 279
Repayments of borrowings	(32 270 802)	(53 262 186)
Dividends paid to the Company's shareholders	(187 865)	(180 347)
Net cash from financing activities	**2 540 301**	**10 181 746**
Effect of exchange rate changes on cash and cash equivalents	(9 687)	2 741
Cash and cash equivalents at the beginning of the year	**375 545**	**277 218**
Cash and cash equivalents at the end of the year	**719 975**	**375 545**

(in thousands of Russian Roubles)

Note 1. The Group and its operations

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) for the year ended 31 December 2012 for Open Joint-Stock Company (OJSC) Territorial Generating Company № 1 (hereinafter "TGC-1", or the "Company") and its subsidiaries (the "Group").

The Company was incorporated and is domiciled in the Russian Federation. It is an open joint stock company and was established in accordance with Russian law.

"TGC-1" was established on 25 March 2005 as part of the restructuring of Russia's electricity sector in accordance with Board of Directors Resolution No. 181 of RAO UES of Russia (hereinafter "RAO UES") on 26 November 2004. The structure and founding principles of TGC-1 were adopted by the RAO UES Board of Directors of RAO UES on 23 April 2004 (Resolution No. 168).

The Group consists of the Company and the following subsidiaries. All Group companies are incorporated in the Russian Federation.

On 1 April 2011 OJSC St Petersburg Heating Grid realised an additional share issue. These shares were purchased by JSC TGC-1 and state-controlled entity GUP TEC SPB. As a result of the transaction JSC TGC-1's share in OJSC St Petersburg Heating Grid decreased from 100.00% to 75.00%. GUP TEC SPB's share totaled 25.00%.

GUP TEC SPB obtained rights for dividends and voting rights before 31 December 2011.

On 24 February 2012, OJSC St Petersburg Heating Grid's share capital registration was finalised.

GUP TEC SPB made a contribution of property, plant and equipment and construction in progress of fair value RUB 7 685 635 thousand in OJSC St Petersburg Heating Grid's share capital. The result of this transaction was recorded in equity as other reserves. On a date of contribution (1 April 2011) the non-controlling interest was calculated as 25.00% of the net assets of OJSC St Petersburg Heating Grid.

	% of ownership as at 31 December		
Subsidiary	**2012**	**2011**	**Immediate parent**
JSC Murmanskaya TPP	90.34	90.34	JSC TGC-1
OJSC St Petersburg Heating Grid	75.00	75.00	JSC TGC-1 (75.00%) GUP TEC SPB (25.00%)
Kolskaya Heating Company LLC (founded on 17 June 2011) *	-	90.34	JSC Murmanskaya TPP (100.00%)

* The Group has sold the subsidiary on 27 April 2012.

As the operator of 55 power plants, the Group is principally engaged in electricity, capacity and heat generation. The Group's generating assets are located in the North-West of Russia, in particular in St. Petersburg, the Leningrad region, the Murmansk region and in Karelia region.

The Company's registered office is located at 6 Bronevaya Str., litera B, St Petersburg, Russia 198188.

Note 2. Operating environment of the Group

The Russian Federation displays certain characteristics of an emerging market. Tax, currency and customs legislation is subject to varying interpretations, which contributes to the challenges faced by companies operating in the Russia (refer to Note 30).

The ongoing uncertainty and volatility of the financial markets, in particular in Europe, and other risks could have significant negative effects on the Russian financial and corporate sectors. Management has determined impairment provisions by considering the economic environment and outlook at the end of the reporting period. Provisions for trade receivables are determined using the "incurred loss" model required by the applicable accounting standards. These standards require recognition of impairment losses for receivables that arose from past events and prohibit recognition of impairment losses that could arise from future events, no matter how likely those future events are. These standards also require recognition of impairment losses for property, plant and equipment that arose from past events and prohibit recognition of impairment losses that could arise from future events, no matter how likely those future events are.

Russia's future economic development depends on external factors as well as domestic measures undertaken by the government aimed at promoting growth and to changing the tax, legal and regulatory environment. Management believes it is taking all necessary measures to support the sustainability and development of the Group's business in the current business and economic environment.

Government relations and current regulation

As at 31 December 2012 and 2011 the Group was controlled by the Gazprom Group (51.75% stake) via its subsidiary Gazprom Energoholding LLC. The Group's other significant shareholder as at 31 December 2012 and 31 December 2011 was Fortum Power and Heat Oy (25.66% stake). The Gazprom Group is controlled by the government of the Russian Federation, which was the Group's ultimate controlling party as at 31 December 2012 and 2011.

The Group's customer base also includes a large number of state-controlled entities. Furthermore, the government also controls a number of the Group's suppliers of fuel and other materials.

The Russian government directly affects the Group's operations through the Federal Tariff Service ("FTS"), which regulates its wholesale energy purchases, and by the St Petersburg Tariff and Leningrad Regional Tariff Service, which regulate its retail electricity, capacity and heat sales. The operations of all generating facilities are coordinated by OJSC System Operator of Unified Energy System, a state-controlled company.

Tariffs which the Group may charge for electricity, capacity and heat sales are governed by regulations specific to the electricity, capacity and heat industry and that apply to natural monopolies. Historically, such tariffs have been based on a "cost-plus" system, meaning the cost of service plus a margin.

As described in Note 30, the government's economic, social and other policies could have a material effect on Group operations.

Financial condition

As at 31 December 2012, the Group's current liabilities exceeded its current assets by RUB 2 633 661 thousand (as at 31 December 2011 the Group's current liabilities exceeded its current assets by RUB 5 255 039 thousand). Management plans to obtain the necessary financial resources to increase its current assets. As a result the Group plans to issue long-term bonds in total amount of RUB 20 000 000 thousand in 2013-2014. Also the Group has already repaid part of its current borrowings in the first quarter of 2013 in total amount of RUB 2 817 883 thousand and received long-term loans of RUB 1 113 785 thousand and short-term loans of RUB 1 378 815 thousand (refer to Note 33).

Note 2. Operating environment of the Group (continued)

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. Management believes that the Group will have a sufficient liquidity to continue its operations in the foreseeable future. The accompanying financial statements do not include any adjustments should the Group be unable to continue as a going concern.

Note 3. Summary of Significant Accounting Policies

Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention as modified by the initial recognition of financial instruments based on fair value. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Consolidated financial statements

Subsidiaries are those companies and other entities in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has the power to determine the financial and operating policies so as to obtain benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date on which control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree. Non-controlling interests that are not present ownership interests are measured at fair value.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed, and reviews the appropriateness of their measurement.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements, but excludes acquisition-related costs such as advisory, legal, valuation and similar professional services. Transaction costs related to the acquisition and incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt as part of the business combination are deducted from the carrying amount of the debt and all other transaction costs associated with the acquisition are expensed.

Intercompany transactions, balances and unrealised gains on transactions between group companies 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.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Company. Non-controlling interest forms a separate component of the Group's equity.

Presentation currency

These consolidated financial statements are presented in Russian Roubles (RUB), unless otherwise stated.

Note 3. Summary of Significant Accounting Policies (continued)

Foreign currency translation.

The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currency of the Company and its subsidiaries, and the Group's presentation currency, is the national currency of the Russian Federation, Russian Roubles ("RR").

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the Central Bank of the Russian Federation ("CBRF") at the respective end of the reporting period.

Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the CBRF are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined. Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

Revenue is translated into each entity's functional currency using the official exchange rate of the CBRF at the respective date of transaction.

At 31 December 2012, the official rate of exchange, as determined by the Central Bank of the Russian Federation, between the Russian Rouble and the US Dollar (USD) was USD 1 = RUB 30.3727 (31 December 2011: USD 1 = RUB 32.1961), and between the Russian Rouble and the Euro (EUR): EUR 1 = RUB 40.2286 (31 December 2011: EUR 1 = RUB 41.6714).

Associates

Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in the Group's share of net assets of an associate are recognised as follows: (i) the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as a share of the financial result of associates, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately; and (iii) all other changes in the Group's share of the carrying value of net assets of associates are recognised in profit or loss within the share of the financial result of associates.

However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

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

Disposals of subsidiaries

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity, are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are recycled to profit or loss.

Note 3. Summary of Significant Accounting Policies (continued)

Classification of financial assets

Financial assets have the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity; and (d) financial assets at fair value through profit or loss. Financial assets at fair value through profit or loss have two sub-categories: (i) assets designated as such upon initial recognition; and (ii) those classified as held for trading.

The Group does not have the following categories of financial assets: financial assets at fair value through profit or loss, financial assets held to maturity and available-for-sale financial assets.

Financial assets that would meet the definition of loans and receivables may be reclassified if the Group intends and is able to hold these financial assets for the foreseeable future or until maturity.

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term.

Classification of financial liabilities

Financial liabilities have the following measurement categories: (a) held for trading which also includes financial derivatives; and (b) other financial liabilities. The Group does not have liabilities held for trading. Other financial liabilities are carried at amortised cost.

Initial recognition of financial instruments

Financial assets and liabilities are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at the trade date, which is the date that the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

After initial recognition, loans issued and accounts receivable are measured at amortized cost using the effective interest rate method ("EIR"), less impairment losses. The EIR amortization is included in Finance income in the profit or loss. The losses arising from impairment are recognised in the profit or loss in finance costs.

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 not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Property, plant and equipment

Property, plant and equipment are stated at cost, restated to the equivalent purchasing power of the Russian Rouble at 31 December 2002 for assets acquired prior to 1 January 2003, less accumulated depreciation and provision for impairment, where required. Cost includes borrowing costs incurred on specific or general funds borrowed to finance construction of qualifying assets.

At the time of the Group's establishment in 2005 property, plant and equipment were recorded at the carrying values determined in accordance with the IFRS at the date of their transfer to the Group by its predecessor entity RAO UES.

(in thousands of Russian Roubles)

Note 3. Summary of Significant Accounting Policies (continued)

Property, plant and equipment (continued)

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount which is determined as the higher of an asset's fair value less selling costs and its value in use. The carrying amount is reduced to the recoverable amount and the difference is recognised as an expense (impairment loss) in the profit or losses. An impairment loss recognised for an asset in prior periods is reversed if there has been a positive change in the estimates used to determine the asset's recoverable amount.

Costs of minor repairs and maintenance are expensed when incurred. The cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired. Gains and losses arising from disposal of property, plant and equipment are included in profit or losses.

Social assets are not included in property, plant and equipment as they are not expected to result in future economic benefits to the Group. Costs associated with fulfilling the Group's social responsibilities are expensed as incurred.

Depreciation of property, plant and equipment is calculated on a straight-line basis over the estimated useful life of the asset when it is available for use. Depreciation commences on the date of acquisition, or for internally constructed assets, from the time the asset is completed and ready for use.

The estimated useful lives, in years, of assets by type of facility are as follows:

Type of facility	Useful lives, years
Production buildings	40-50
Hydrotechnical buildings	50-60
Generating equipment	20-30
Heating networks	25-35
Other	10-25

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated disposal costs, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Investment property

Investment property is property held by the Group to earn rental income or for capital appreciation, or both and which is not occupied by the Group. Investment property includes assets under construction for future use as investment property.

Investment property is initially recognised at cost. Subsequent expenditure is capitalised only when it is probable that future economic benefits associated with the item will flow to the Group, and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to property, plant and equipment.

Operating lease

Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or losses on a straight-line basis over the period of the lease. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

Note 3. Summary of Significant Accounting Policies (continued)

Finance lease liabilities

Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in borrowings. The interest cost is charged to profit or loss over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term, if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

Intangible assets

The Group’s intangible assets have definite useful lives and primarily include capitalised computer software and licences.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring them into use. Amortisation is included in operating expenses (refer to Note 24).

Intangible assets are amortised using the straight-line method over their useful lives:

	Useful lives in years
Software licences	2-15
Capitalised internal software development costs	2-15
Other licences	4-10

If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs to sell.

Income taxes

Income taxes have been provided for in the consolidated financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to, or recovered from, the tax authorities on taxable profits or losses for the current and prior periods. Taxes other than on income are recorded within operating expenses.

The Group's uncertain tax positions are reassessed by management at every reporting date. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities.

The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the reporting date and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management’s best estimate of the expenditure required to settle the obligations at the reporting date.

Note 3. Summary of Significant Accounting Policies (continued)

Income taxes (continued)

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profits will be available against which the deductions can be utilised. Deferred tax assets and liabilities are netted only within the individual entities of the Group.

Deferred tax is not provided for the undistributed earnings of the subsidiaries, as the Group controls the subsidiaries' dividend policy and requires profits to be reinvested. Only insignificant dividends are expected to be declared from future profits of the subsidiaries. Neither these future profits nor the related taxes are recognised in these consolidated financial statements.

Inventories

Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on a weighted average basis. The net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses. The Group established a provision for potential losses from obsolescent and slow moving inventories based on their expected use and estimated selling prices. The provision is recognised in profit or loss.

Trade and other receivables

Accounts receivable are recorded inclusive of VAT. Trade and other receivables are carried at amortised cost using the effective interest method.

Impairment of financial assets carried at amortised cost

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics, and collectively assesses them for impairment. The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and liquidity of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any portion or instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the counterparty is experiencing a significant financial difficulty as evidenced by its financial data that the Group has obtained;
- the counterparty is considering bankruptcy or a financial reorganisation;
- there is an adverse change in the payment status of the counterparty as a result of changes in national or local economic conditions that impact the counterparty; or
- the value of collateral, if any, has significantly decreased as a result of deteriorating market conditions.

Note 3. Summary of Significant Accounting Policies (continued)

Prepayments

Prepayments are carried at cost less any provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after more than one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. 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 offset 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 the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, and other short-term highly liquid short-term investments with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost using the effective interest method.

Non-current assets classified as held for sale

Non-current assets and disposal groups (which may include both non-current and current assets) are classified in the consolidated statement of financial position as “non-current assets held for sale” if their carrying amount will be recovered principally through a sale transaction (including loss of control of a subsidiary holding the assets) within twelve months after the reporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group’s management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for sale at a reasonable price; (d) the sale is expected within one year; and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn.

Non-current assets or disposal groups classified as held for sale in the current period’s consolidated statement of financial position are not reclassified or re-presented in the comparative consolidated statement of financial position to reflect the classification at the end of the current period.

A disposal group is a group of assets (current or non-current) to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. Goodwill is included if the disposal group includes an operation within a cash-generating unit to which goodwill has been allocated on acquisition.

Non-current assets are assets that include amounts expected to be recovered or collected more than twelve months after the reporting period. If reclassification is required, both the current and non-current portions of an asset are reclassified.

Held for sale disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs to sell. Held for sale property, plant and equipment, investment properties and intangible assets are not depreciated or amortised. Reclassified non-current financial instruments, deferred taxes and investment properties held at fair value are not subject to write down to the lower of their carrying amount and fair value less costs to sell.

Liabilities directly associated with the disposal group that will be transferred in the disposal transaction are reclassified and presented separately in the consolidated statement of financial position.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded in equity as a share premium.

Note 3. Summary of Significant Accounting Policies (continued)

Merger reserve

Any difference between the carrying value of the net assets merged into the Group as a result of a transaction under common control, and the nominal value of any shares issued is recorded in equity, as a merger reserve. Merger reserve is not distributable to shareholders and not taxable for income tax purposes.

Other reserves

Difference between the carrying value of the net assets merged into the Group as a result of contribution in OJSC St Petersburg Heating Grid's share capital, and the nominal value of the shares issued is recorded in equity, as other reserves (refer to Note 1).

Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared and approved before or on the reporting date. Dividends are disclosed in subsequent events note when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements are authorised for issue.

Value added tax

Output value added tax (VAT) related to sales is payable to the tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the consolidated statement of financial position on a gross basis and disclosed separately as an asset and liability. Where provision has been made for the impairment of receivables, an impairment loss is recorded for the gross amount of the debtor, including VAT.

Trade and other payables

Trade payables and accounts payable for capital construction are accrued when the counterparty performs its contractual obligations under the contract and are carried at amortised cost using the effective interest method.

Borrowings

Borrowings are carried at amortised cost using the effective interest method.

Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to prepare for its intended use or sale (a qualifying asset) are capitalised as part of the cost of that asset.

The Group capitalises borrowing costs that would have been avoided if it had not made capital expenditures on qualifying assets. Capitalised borrowing costs are calculated at the Group's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining acquiring a qualifying asset. Where this occurs, the actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised. The commencement date for capitalisation is when the Group (i) incurs expenditures for the qualifying asset; (ii) it incurs borrowing costs; and (iii) it undertakes activities that are necessary to prepare the asset for its intended use or sale. Capitalisation ceases upon completion of all the activities necessary for preparing the qualifying asset for its intended use or sale.

Note 3. Summary of Significant Accounting Policies (continued)

Provisions for liabilities and charges

Provisions for liabilities and charges are non-financial liabilities of uncertain timing and amount. They are recognised when the Group has a present 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 can be made. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

Revenue recognition

Revenue is recognised on the delivery of electricity, capacity and heat. Revenues from sales of non-utility goods are recognised at the point of transfer of risks and rewards of ownership of the goods. Correspondingly, when in accordance with the utilities market regulation in the Russian Federation, utilities companies are required to conclude transactions for the sale and repurchase of electricity (for bilateral contracts concluded or for electricity consumed in the production process) or when these transactions are performed for the purpose of the price risk hedging, these transactions are recorded on a net basis. Capacity sales are recognized when the capacity obligations have been fulfilled.

Revenues from sales of services are recognised in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Revenue amounts are presented net of VAT. Revenues are measured at the fair value of the consideration received or receivable.

Mutual cancellations

A portion of sales and purchases are settled by mutual cancellations or non-cash settlements. These transactions are generally in the form of cancellation of mutual balances.

Sales and purchases that are expected to be settled by mutual settlements or non-cash settlements are recognised based on management's estimate of the fair value to be received or given up in non-cash settlements.

Non-cash transactions have been excluded from the Consolidated Stetement of Cash Flow. Investing and financing activities and the total of operating activities represent actual cash flows.

Pension and post-employment benefits

In the normal course of business the Group contributes to the Russian Federation defined contribution state pension scheme defined by the Russian Federation on behalf of its employees. Mandatory contributions (social insurance contributions) to the governmental pension scheme are expensed when incurred.

The Group also operates defined benefit plans. For some of these plans the Group has a contract with a non-governmental pension fund, whilst the other plans are operated by the Group without engaging pension funds.

Cash paid by the Group to the solidarity account with the non-governmental pension fund is refundable to the Group until it is allocated to individual pensioners' bank accounts, and, on that basis, is accounted for by the Group as an asset (accounts receivable from the pension fund).

Note 3. Summary of Significant Accounting Policies (continued)

Pension and post-employment benefits (continued)

Defined benefit plans determine the amount of pension benefit that an employee will receive on 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 operated by the Group is the present value of the defined benefit obligation at the reporting date, together with adjustments for unrecognised actuarial gains or losses and past service cost. All defined benefit plans are considered to be fully unfunded. The defined benefit obligations are calculated using the projected unit credit method. The present value of the defined benefit obligations is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits associated with the operations of the plan will be paid, and that have terms to maturity approximating the terms of the related post-employment benefits.

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

Employee benefits

Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services and kindergarten services) are accrued in the year in which the associated services are rendered by the employees of the Group.

Environmental liabilities

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

Earnings per share

Earnings per share are determined by dividing the profit attributable to the Company's ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the reporting period.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Segment reporting

Segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately. Operating segments are defined as types of operations that generate revenue and incur expenses that are covered by separate financial information regularly submitted to the decision-making body which is represented by the Company's Management Board. The primary activity of the Group is production of electric and heat power and capacity. The Group generates its revenues from the generation of electricity, capacity and heat in the Russian Federation, so the Group holds assets in the same geographical area, i.e. the Russian Federation. The technology of electricity, capacity and heat production does not allow for the segregation of the electricity, capacity and heat segments (refer to Note 32).

Note 3. Summary of Significant Accounting Policies (continued)

Changes in presentation

Where necessary, corresponding figures have been adjusted to conform to the presentation of the current year amounts.

The Group has revised the 2011 Consolidated Statement of Financial Position to reflect reclassification of certain balances. The previously reported and reclassified items of the Consolidated Statement of Financial Position are disclosed below:

In thousands of Russian Roubles	**As originally presented**	**Reclassification**	**As reclassified at year ended 31 December 2011**
Property, plant and equipment	120 655 949	(109 808)	120 546 141
Investment property	-	109 808	109 808
Intangible assets	-	448 505	448 505
Other non-current assets	504 727	(448 505)	56 222
Trade and other receivables	12 657 597	(525 950)	12 131 647
Current income tax prepayments	-	525 950	525 950
Short-term borrowings	11 399 436	99 990	11 499 426
Trade and other payables	9 032 346	(99 990)	8 932 356

The Group has revised the 2011 Consolidated Statement of Comprehensive Income to reflect reclassification of certain other operating income and operating expenses. The previously reported amounts of other operating income and operating expenses have been reclassified as follows:

In thousands of Russian Roubles	**As originally presented**	**Reclassification**	**As reclassified for the year ended 31 December 2011**
Operating expenses	(53 207 168)	(570 037)	(53 777 205)
Other operating income	-	570 037	570 037

The changes in presentation adopted in 2012 did not have significant impact on the Consolidated Statement of Financial Position, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows and therefore the Group does not present the Consolidated Statement of Financial Position and information in the notes as of 1 January 2011.

Note 4. Critical Accounting Estimates and Judgments in Applying Accounting Policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities and carrying amounts of assets and liabilities within the next financial year. 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. Judgments that have the most significant effect on the amounts recognised in the consolidated financial statements, and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Provision for impairment of property, plant and equipment

At each reporting date the carrying amounts of the Group's property, plant and equipment and assets under construction are reviewed to determine whether there is any indication of impairment. If any such indication exists, then the assets' recoverable amount is estimated.

The recoverable amount of property, plant and equipment and assets under construction is the higher of an asset's fair value less costs to sell and its value in use. When such recoverable amount has declined below the carrying value, the carrying amount is reduced to the recoverable amount. The amount of the reduction is recorded in the consolidated statement of comprehensive income in the period in which the reduction is identified. If conditions change and management determines that the value of property, plant and equipment and assets under construction has increased, the impairment provision will be fully or partially reversed. See effect of these critical accounting estimates and assumptions in Note 7.

Useful lives of property, plant and equipment

The estimation of the useful life based on an item of property, plant and equipment is a matter of management's judgment based upon experience with similar assets. In determining the useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear and tear and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments for future depreciation rates.

Were the estimated useful lives to differ by 10% from management's estimates, the impact on depreciation for the year ended 31 December 2012 would be an increase of RUB 579 063 thousand or a decrease it by RUB 489 711 thousand (for the year ended 31 December 2011: increase by RUB 481 317 thousand or decrease by RUB 418 326 thousand).

Recoverability of accounts receivable

Provision for impairment of accounts receivable is based on the Group's assessment of whether the collectability of specific customer accounts deteriorated compared to previous period estimates. If there has been a deterioration in a major customer's creditworthiness or actual defaults are higher than the estimates, the actual results could differ from these estimates (refer to Note 31).

Pension obligation

The principal actuarial assumptions used to calculate the defined benefit obligation as at 31 December 2012 are listed in Note 19.

Note 4. Critical Accounting Estimates and Judgments in Applying Accounting Policies (continued)

Deferred income tax asset recognition

The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the consolidated statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on the medium term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances. Key assumptions in the business plan are future heat tariffs and heat output.

Based on the management analysis and expectations deferred tax asset was recognised in these financial statements in amount of RUB 535 692 thousand as at 31 December 2012 (as at 31 December 2011 – RUB 728 389 thousand). If the actual results differ from the management expectations the recognised deferred tax asset will be written-off in full.

Note 5. Adoption of New or Revised Standards and Interpretations

There is no new standards and interpretations adopted in Russian Federation and effective for the Group from 1 January 2012 but International Accounting Standards Board (IASB) adopted the following new standards and interpretations:

"Disclosures Transfers of Financial Assets" – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011). The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party, yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised, but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood.

Other revised standards and interpretations effective for the current period. The amendments to IFRS 1 "First-time adoption of IFRS", relating to severe hyperinflation and eliminating references to fixed dates for certain exceptions and exemptions, did not have any impact on these consolidated financial statements. The amendment to IAS 12 "Income taxes", which introduced a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale, did not have a material impact on these consolidated financial statements.

Certain new standards and interpretations, adopted in Russian Federation, have been issued that are mandatory for the annual periods beginning on or after 1 January 2013 or later, and which the Group has not early adopted.

IFRS 10, Consolidated Financial Statements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation - special purpose entities". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

IFRS 11, Joint Arrangements, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities—Non-Monetary Contributions by Ventures". Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. The new standard has no significant impact on consolidated financial statements.

Note 5. Adoption of New or Revised Standards and Interpretations (continued)

IFRS 12, Disclosure of Interest in Other Entities, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements currently found in IAS 28 “Investments in associates”. IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity’s interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgments and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

IFRS 13, Fair Value Measurement, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. The Group is currently assessing the impact of the standard on its consolidated financial statements.

IAS 27, Separate Financial Statements, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013), was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10, Consolidated Financial Statements. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

IAS 28, Investments in Associates and Joint Ventures, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment of IAS 28 resulted from the Board’s project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged. The new standard has no significant impact on consolidated financial statements.

Amendments to IAS 1, Presentation of Financial Statements (issued June 2011, effective for annual periods beginning on or after 1 July 2012), changes the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to “statement of profit or loss and other comprehensive income”. The Group expects the amended standard to affect the presentation of its consolidated financial statements, but have no impact on the measurement of transactions and balances.

Amended IAS 19, Employee Benefits (issued in June 2011, effective for periods beginning on or after 1 January 2013), makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income. 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 and effective for annual periods beginning on or after 1 January 2013). The amendment requires disclosures that will enable users of an entity’s financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. The amendment will have an impact on disclosures but will have no effect on the measurement and recognition of financial instruments.

Note 5. Adoption of New or Revised Standards and Interpretations (continued)

Improvements to International Financial Reporting Standards (issued in May 2012 and effective for annual periods beginning 1 January 2013). The improvements consist of changes to five standards. IFRS 1 was amended to (i) clarify that an entity that resumes preparing its IFRS financial statements may either repeatedly apply IFRS 1 or apply all IFRSs retrospectively as if it had never stopped applying them, and (ii) to add an exemption from applying IAS 23 "Borrowing costs", retrospectively by first-time adopters. IAS 1 was amended to clarify that explanatory notes are not required to support the third balance sheet presented at the beginning of the preceding period when it is provided because it was materially impacted by a retrospective restatement, changes in accounting policies or reclassifications for presentation purposes, while explanatory notes will be required when an entity voluntarily decides to provide additional comparative statements. IAS 16 was amended to clarify that servicing equipment that is used for more than one period is classified as property, plant and equipment rather than inventory.

IAS 32 was amended to clarify that certain tax consequences of distributions to owners should be accounted for in the income statement as was always required by IAS 12. IAS 34 was amended to bring its requirements in line with IFRS 8.

IAS 34 will require disclosure of a measure of total assets and liabilities for an operating segment only if such information is regularly provided to chief operating decision maker and there has been a material change in those measures since the last annual consolidated financial statements. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12 (issued in June 2012 and effective for annual periods beginning 1 January 2013). The amendments clarify the transition guidance in IFRS 1 "Consolidated Financial Statements". Entities adopting IFRS 10 should assess control at the first day of the annual period in which IFRS 10 is adopted, and if the consolidation conclusion under IFRS 10 differs from IAS 27 and SIC 12, the immediately preceding comparative period (that is, year 2012 for a calendar year-end entity that adopts IFRS 10 in 2013) is restated, unless impracticable. The amendments also provide additional transition relief in IFRS 10, IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosure of Interests in Other Entities", by limiting the requirement to provide adjusted comparative information only for the immediately preceding comparative period. Further, the amendments will remove the requirement to present comparative information for disclosures related to unconsolidated structured entities for periods before IFRS 12 is first applied. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

Amendments to IFRS 1 "First-time adoption of International Financial Reporting Standards - Government Loans" (issued in March 2012 and effective for annual periods beginning 1 January 2013). The amendments, dealing with loans received from governments at a below market rate of interest, give first-time adopters of IFRSs relief from full retrospective application of IFRSs when accounting for these loans on transition. This will give first-time adopters the same relief as existing preparers. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

Other revised standards and interpretations: IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine", considers when and how to account for the benefits arising from the stripping activity in mining industry. The interpretation will not have an impact on the Group's consolidated financial statements.

Moreover IASB has issued other new standards and interpretations not yet adopted in Russia:

IFRS 9, Financial Instruments: Classification and Measurement. IFRS 9, issued in November 2009, replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities and in December 2011 to (i) change its effective date to annual periods beginning on or after 1 January 2015 and (ii) add transition disclosures. Key features of the standard 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.

Note 5. Adoption of New or Revised Standards and Interpretations (continued)

- 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 payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss.
- This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

While adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted. The Group is considering the implications of the standard, the impact on the Group and the timing for adopting it.

Offsetting Financial Assets and Financial Liabilities, Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement. The Group is considering the implications of the amendment, the impact on the Group and the timing for adopting it.

Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment entities (issued on 31 October 2012 and effective for annual periods beginning 1 January 2014). The amendment introduced a definition of an investment entity as an entity that (i) obtains funds from investors for the purpose of providing them with investment management services, (ii) commits to its investors that its business purpose is to invest funds solely for capital appreciation or investment income and (iii) measures and evaluates its investments on a fair value basis. An investment entity will be required to account for its subsidiaries at fair value through profit or loss, and to consolidate only those subsidiaries that provide services that are related to the entity's investment activities.

IFRS 12 was amended to introduce new disclosures, including any significant judgements made in determining whether an entity is an investment entity and information about financial or other support to an unconsolidated subsidiary, whether intended or already provided to the subsidiary. The Group is currently assessing the impact of the amendments on its financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group's financial statements.

Note 6. Balances and Transactions with Related Parties

Parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

(in thousands of Russian Roubles)

Note 6. Balances and Transactions with Related Parties (continued)

Related parties include shareholders that have control or significant influence over the Company, and key management personnel, as well as companies that are controlled by the State.

As at 31 December 2012 and 31 December 2011 the Russian Government was the ultimate controlling party of the Group (refer to Note 1), hence significant transactions with other state-controlled entities were disclosed as related party transactions in accordance with IAS 24 requirements.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions in the years ended at 31 December 2012 and 2011, and had significant outstanding balances as at 31 December 2012 and 31 December 2011 are detailed below.

Gazprom group and its subsidiaries (under common control of the State)

Transactions with Gazprom group and its subsidiaries were as follows:

	Year ended 31 December 2012	Year ended 31 December 2011
Sales		
Sales of electricity	792 423	498 172
Sales of heat	-	522
Total sales	**792 423**	**498 694**
Purchases		
Purchases of electricity	(58 271)	(106 073)
Purchases of fuel	(23 758 143)	(23 120 999)
Interest expense	(32 450)	(42 455)
Other	(603 276)	(361 689)
Total purchases	**(24 452 140)**	**(23 631 216)**

Sales and purchases are generally entered into on an arm’s length basis. LLC Gazprom Mezhregiongaz is a major supplier of fuel (gas) for the Group.

Balances with Gazprom group subsidiaries at the end of the period were as follows:

	31 December 2012	31 December 2011
Trade and other receivables	72 371	47 382
Cash and cash equivalents	929	2
Accounts payable	1 174 756	407 286
Borrowings (loans and bonds)	376 644	352 182

State-controlled entities

In the normal course of business the Group enters into transactions with other entities under Government control. Prices for natural gas and heat are based on tariffs set by FTS, prices for electricity and capacity based on tariffs set by FTS and also based on competitive take-off on the wholesale electricity (capacity) market. Bank loans are obtained at market rates. Taxes are charged and paid under the Russian tax law.

(in thousands of Russian Roubles)

Note 6. Balances and Transactions with Related Parties (continued)

State-controlled entities (continued)

The Group had the following significant transactions with State-controlled entities:

	Year ended 31 December 2012	Year ended 31 December 2011
Sales		
Sales of heating	11 626 550	11 750 374
Sales of electricity	6 421 223	5 820 592
Other sales	166 835	59 670
Total sales	**18 214 608**	**17 630 636**
Expenses		
Water usage expenses	(2 098 373)	(2 098 235)
Electricity purchases	(4 377)	(3 259)
Heat distribution	(558 400)	(533 499)
Interest expenses	(1 641 398)	(1 046 001)
Security services	(287 375)	(275 830)
Operating lease	(107 963)	(102 528)
Transportation expenses	(11 110)	(12 163)
Interest income	14 823	442
Other operating expenses	(888 161)	(974 092)
Total expenses	**(5 582 334)**	**(5 045 165)**

Other operating expenses are mainly presented by expenses under the agreement with the System Operator of United Energy System for the year ended 31 December 2012 in amount of RUB 660 012 thousand (for the year ended 31 December 2011 – RUB 608 611 thousand).

The Group had the following significant balances with State-controlled entities:

	31 December 2012	31 December 2011
Cash and cash equivalents	23 506	97 068
Trade and other receivables	7 728 734	6 079 512
Borrowings	20 553 408	19 163 395
Trade and other payables	752 593	1 120 672

Movements in impairment provision for receivables in respect to State-controlled entities are as follows:

	Year ended 31 December 2012	Year ended 31 December 2011
Provision for impairment as at 1 January	**1 611 358**	**989 829**
Impairment loss recognised during the period	86 422	786 897
Impairment loss reversed during the period	(531 569)	(165 369)
Consumed	(272)	-
Provision for impairment as at 31 December	**1 165 939**	**1 611 357**

Some of the transactions on the wholesale electricity and capacity market are conducted through commission agreements with CJSC Centre of Financial Settlements (CFS). CFS's current financial settlement system of CFS does not provide the final counterparty with automated information about transactions and settlement balances with end consumers. Government-related entities, Gazprom Group and its subsidiaries may also act as counterparties.

The Group had the following significant transactions with CFS:

	Year ended 31 December 2012	Year ended 31 December 2011
Sales of electricity	23 043 003	22 343 553
Electricity purchases	(5 688 716)	(6 473 299)

The Group had the following significant balances with CFS:

	31 December 2012	31 December 2011
Trade and other receivables	1 309 405	846 384
Trade and other payables	269 179	401 980

(in thousands of Russian Roubles)

Note 6. Balances and Transactions with Related Parties (continued)

Transactions with other related parties

Other related parties are mainly represented by the Company's shareholder with a significant influence (Fortum Power and Heat OY), associate (LLC TGC-1 Service) and the Parent (Gazprom Energoholding LLC).

The Group had the following significant transactions and balances with other related parties:

	Year ended 31 December 2012	Year ended 31 December 2011
Receipt of loan from Gazprom Energoholding LLC (refer to Note 17)	2 000 000	-
Sales of electricity (Fortum Power and Heat OY)	49 944	1 082 095
Repairs and maintenance (LLC TGC-1 Service)	(1 282 814)	(1 093 715)

	31 December 2012	31 December 2011
Loan from Gazprom Energoholding LLC (refer to Note 17)	2 002 322	-
Trade and other receivables (LLC TGC-1 Service)	66 618	17 530
Trade and other receivables (Fortum Power and Heat OY)	-	67 995
Accounts payable (LLC TGC-1 Service)	(665 575)	(598 144)

Transactions and balances with the non-state pension fund of the electrical energy industry are disclosed in Note 19.

As at 31 December 2012, the Group had outstanding contractual commitments relating to the construction of property, plant and equipment connected to related parties in the amount of RUB 239 098 thousand (31 December 2011: 689 506 RUB thousand). Sales commitments are disclosed in Note 29.

The Group has already allocated the necessary resources to meet these commitments. The Group believes that future net income and funding will be sufficient to cover this and any similar such commitments.

	Year ended 31 December 2012	Year ended 31 December 2011
State-controlled entities	1 572	567 263
Other related parties	237 526	122 244
Total	**239 098**	**689 507**

Transactions with the key management personnel

Key management personnel includes members of the Board of Directors, General Director, members of Management Board.

Key management compensation in types is presented below:

	Year ended 31 December 2012	Year ended 31 December 2011
Salaries	60 815	52 849
Short-term bonuses	54 278	68 379
Benefits to the Board of Directors	24 338	12 734
Termination benefits	5 110	27 708
Jubilee benefits	148	-
Total	**144 689**	**161 670**

The Group had the following balances with key management personnel:

	31 December 2012	31 December 2011
Payables to key management	2 145	603

(in thousands of Russian Roubles)

Note 7. Property, Plant and Equipment

Movements in the carrying amount of property, plant and equipment were as follows:

Cost	Production buildings	Hydrotechnical buildings	Generating equipment	Heating networks	Construction in progress	Other	Total
Balance as at 31 December 2011	**20 550 508**	**16 662 713**	**44 967 657**	**39 247 988**	**24 378 957**	**26 075 149**	**171 882 972**
Effect of reclassifications	186 357	166 174	655 151	15 905	-	(1 023 587)	-
Balance as at 31 December 2011	**20 736 865**	**16 828 887**	**45 622 808**	**39 263 893**	**24 378 957**	**25 051 562**	**171 882 972**
Additions	24 206	-	8 737	32 388	13 299 827	278 021	13 643 179
Transfers	2 248 849	45 158	8 869 556	2 553 656	(23 513 042)	9 795 823	-
Disposals	(46 165)	(2 982)	(38 597)	(263 834)	(50 640)	(260 234)	(662 452)
Reclassification to non-current assets held for sale	-	-	-	-	-	(20 612)	(20 612)
Balance as at 31 December 2012	**22 963 755**	**16 871 063**	**54 462 504**	**41 586 103**	**14 115 102**	**34 844 560**	**184 843 087**
Accumulated depreciation (including impairment)							
Balance as at 31 December 2011	**(5 957 904)**	**(7 236 078)**	**(11 842 365)**	**(16 305 040)**	**(59 316)**	**(9 936 128)**	**(51 336 831)**
Effect of reclassifications	(102 997)	(37 696)	(804 569)	(2 521)	-	947 783	-
Balance as at 31 December 2011	**(6 060 901)**	**(7 273 774)**	**(12 646 934)**	**(16 307 561)**	**(59 316)**	**(8 988 345)**	**(51 336 831)**
Charge for the year	(633 986)	(281 870)	(1 753 640)	(1 216 643)	-	(1 523 183)	(5 409 322)
Disposals	35 323	1 761	44 122	211 186	-	116 008	408 400
Reclassification to non-current assets held for sale	-	-	-	-	-	1 832	1 832
Impairment losses reversed during the year	158 804	-	26 797	250 535	38 652	74 580	549 368
Balance as at 31 December 2012	**(6 500 760)**	**(7 553 883)**	**(14 329 655)**	**(17 062 483)**	**(20 664)**	**(10 319 108)**	**(55 786 553)**
Net book value as at 31 December 2011	**14 675 964**	**9 555 113**	**32 975 874**	**22 956 332**	**24 319 641**	**16 063 217**	**120 546 141**
Net book value as at 31 December 2012	**16 462 995**	**9 317 180**	**40 132 849**	**24 523 620**	**14 094 438**	**24 525 452**	**129 056 534**

(in thousands of Russian Roubles)

Note 7. Property, Plant and Equipment (continued)

Cost	Production buildings	Hydrotechnical buildings	Generating equipment	Heating networks	Construction in progress	Other	Total
Balance as at 31 December 2010	**17 576 894**	**16 644 373**	**28 521 382**	**31 453 991**	**31 415 949**	**20 414 722**	**146 027 311**
Effect of reclassifications	(70 178)	(1)	2 726 936	(186 256)	4	(2 470 505)	**-**
Balance as at 31 December 2010	**17 506 716**	**16 644 372**	**31 248 318**	**31 267 735**	**31 415 953**	**17 944 217**	**146 027 311**
Additions	589 859	-	85 029	6 895 464	18 597 517	485 607	**26 653 476**
Transfers	2 741 616	38 761	13 712 084	1 136 776	(25 455 588)	7 826 351	**-**
Disposals	(241 973)	(2 552)	(71 687)	(51 987)	(178 925)	(91 428)	**(638 552)**
Reclassification to non-current assets held for sale	(45 710)	(17 868)	(6 087)	-	-	(89 598)	**(159 263)**
Balance as at 31 December 2011	**20 550 508**	**16 662 713**	**44 967 657**	**39 247 988**	**24 378 957**	**26 075 149**	**171 882 972**
Accumulated depreciation (including impairment)							
Balance as at 31 December 2010	**(5 271 431)**	**(6 972 277)**	**(8 083 841)**	**(15 244 018)**	**(46 946)**	**(11 389 277)**	**(47 007 790)**
Effect of reclassifications	1 081	(1)	(2 433 252)	31 744	-	2 400 428	**-**
Balance as at 31 December 2010	**(5 270 350)**	**(6 972 278)**	**(10 517 093)**	**(15 212 274)**	**(46 946)**	**(8 988 849)**	**(47 007 790)**
Charge for the year	(797 688)	(277 767)	(1 394 014)	(1 123 612)	-	(1 081 712)	**(4 674 793)**
Disposals	94 576	1 886	65 273	30 846	-	71 838	**264 419**
Reclassification to non-current assets held for sale	21 765	12 081	3 949	-	-	70 955	**108 750**
Impairment losses recognised during the year	(6 207)	-	(480)	-	(12 370)	(8 360)	**(27 417)**
Balance as at 31 December 2011	**(5 957 904)**	**(7 236 078)**	**(11 842 365)**	**(16 305 040)**	**(59 316)**	**(9 936 128)**	**(51 336 831)**
Net book value as at 31 December 2010	**12 236 366**	**9 672 094**	**20 731 225**	**16 055 461**	**31 369 007**	**8 955 368**	**99 019 521**
Net book value as at 31 December 2011	**14 592 604**	**9 426 635**	**33 125 292**	**22 942 948**	**24 319 641**	**16 139 021**	**120 546 141**

Note 7. Property, Plant and Equipment (continued)

Construction in progress represents the carrying amount of property, plant and equipment that has not yet been made available for use in production, including generating stations under construction.

Other property, plant and equipment include electricity transmission equipment, motor vehicles, computer equipment, office fixtures and other equipment.

As at 31 December 2012 the advances given to contractors, which amounted to RUB 1 824 972 thousand, net of VAT (as at 31 December 2011: RUB 2 004 201 thousand), are recognised within the construction in progress balance. The respective input VAT is recognised within other non-current assets balance (refer to Note 10) and within accounts receivable and prepayments (refer to Note 14).

As at 31 December 2012 and 2011 The Group had no property, plant and equipment pledged as collateral according to loan agreements.

The total amount of capitalised interests that were calculated using a 8% capitalization rate for the year ended 31 December 2012 is RUB 981 301 thousand (7% capitalization rate for the year ended 31 December 2011: RUB 699 099 thousand).

Non-cash additions to property, plant and equipment equal to RUB 800 997 thousand (in 2011 – RUB 8 497 895 thousand). Non-cash additions to property, plant and equipment in 2012 mostly relate to mutual settlements (in 2011 mostly relate to capital contributions of property, plant and equipment to OJSC St Petersburg Heating Grid (refer to Note 1)).

Included in other property, plant and equipment are assets held under finance leases with a carrying value of RUB 96 130 thousand (as at 31 December 2011: RUB 117 606 thousand).

Impairment

As described in Note 3, management determined whether there was any indication of impairment of the Group's property, plant and equipment as at 31 December 2012.

The determination of indication of impairment was performed for six cash-generating units: the Thermal Power Plants (TPP) of the Nevsky branch, the Hydro-electric Power Stations (HPS) of the Nevsky branch, the Heating Network, Kolsky, and Karelsky branches and the Murmanskaya TPP.

There was no indication of impairment for any cash-generating units. Management considered recent changes in operation and the market and reassessed recoverable amount of the Group's property, plant and equipment as at 31 December 2012. In 2012, the Group's management revisited the estimate of the heat tariff used in the calculation of cash flows for cash-generating unit Murmanskaya TPP. The revised estimate is 1 918 RUB / Gkcal (2011: 1 730 RUB / Gkcal). The change in the accounting estimate was accounted for prospectively and resulted in reversal of an impairment loss in the property, plant and equipment and construction in progress of the Murmanskaya TPP in the amount of RUB 549 368 thousand (as at 31 December 2011 management recognised an impairment loss in respect of the property, plant and equipment of Murmanskaya TPP in the amount of RUB 27 417 thousand).

The indexes used by management in forecasting the future cash flows for 2013 – 2015 are based on the Parameters of Forecasting Social and Economic Development of the Russian Federation for 2013 and the 2014 - 2015 Planning Period, published by the Ministry of Economic Development of the Russian Federation on 20 September 2012. Further forecasting was based on the Parameters of Forecasting Social and Economic Development of the Russian Federation for the period up to 2030, published by the Ministry of Economic Development of the Russian Federation on the 27 April 2012. The following key parameters were used in forecasting the further cash flows: forecasts of electricity and capacity prices and heat tariffs for 2013, cost of fuel for 2013 and planned production volumes for forecasting period.

Management considers that a forecast period greater than five years is appropriate as electricity, capacity and heat market is expected to change significantly over the forecast period and cash flow projections will be not stabilized within five years. However a forecast period of cash flows was defined as the average remaining useful life of the assets of the cash generating units tested.

(in thousands of Russian Roubles)

Note 7. Property, Plant and Equipment (continued)

Impairment (continued)

Management made the following significant assumptions when estimating the value in use of property, plant and equipment and determining the levels of impairment provisions as at 31 December 2012:

- The average remaining useful lives have been estimated by management for separate cash generating units on the basis of a report by a consortium of independent appraisers as at 31 December 2006 and taking into account the latest capital investment programme of the Group, as follows:

Name of cash generating unit	Pre-tax discount rate, % p.a.	Average remaining useful lives, years
Kolsky branch	15.40	21
Karelsky branch	15.05	20
Nevsky branch HPS	15.31	26
Nevsky branch TPP	14.44	23
St Petersburg Heating Grid	14.64	18
Murmanskaya TPP	17.18	10

The cash generating units are the same as the reportable segment to which the assets belong (refer to Note 32).

However, the calculation of the recoverable amounts from cash-generating units is highly sensitive to the pre-tax discount rate. If the pre-tax discount rate was 1 percent higher in the forecasted period, there would be an impairment loss of RUB 2 953 960 thousand recognised as at 31 December 2012 (as at 31 December 2011: RUB 1 869 328 thousand).

Note 8. Investments in Associates

	31 December 2012	31 December 2011
Investments in LLC TGC-1 Service	2 600	2 600
Investments in JSC HHC	448 300	48 300
Total investments	**450 900**	**50 900**

As at 31 December 2012 and 31 December 2011 the ownership interest in JSC HHC was 50%. Management of the Group believes that there is a significant influence over JSC HHC as taking into account its current Board of Directors composition there is no joint control over the entity. Therefore, the investment in JSC HHC was accounted as investment in associate.

In February-May 2012 additional cash contributions to share capital of JSC HHC in the amount of RUB 400 000 thousand was made by the Group which did not result in change of its interest held, as the other participant invested equal cash contribution.

At 31 December 2012, the Group's interests in its principal associates and their summarised financial information, including total assets, liabilities, revenues and profit or loss, were as follows:

Name	Total assets	Total liabilities	Revenue	Profit	% interest held	Country of incorporation
LLC TGC-1 Service	1 016 440	951 122	1 694 839	13 743	26%	Russia
JSC HHC	2 037 641	1 137 934	4 844	2 620	50%	Russia
Total	**3 054 081**	**2 089 056**	**1 699 683**	**16 363**		

At 31 December 2011, the Group's interests in its principal associates and their summarised financial information, including total assets, liabilities, revenues and profit or loss, were as follows:

Name	Total assets	Total liabilities	Revenue	Profit	% interest held	Country of incorporation
LLC TGC-1 Service	798 916	746 851	1 271 476	45 470	26%	Russia
JSC HHC	612 815	515 728	-	1 489	50%	Russia
Total	**1 411 731**	**1 262 579**	**1 271 476**	**46 959**		

(in thousands of Russian Roubles)

Note 9. Income Taxes

Income tax expense comprises the following:

	Year ended 31 December 2012	Year ended 31 December 2011
Current income tax charge	(236 034)	(30 679)
Deferred income tax charge	(1 639 954)	(1 353 618)
Income tax charge	**(1 875 988)**	**(1 384 297)**

All companies of the Group were subject to tax rates of 20% on taxable profits in the Russian Federation for 2012 and 2011. Reconciliation between the expected and the actual taxation charge is provided below:

	Year ended 31 December 2012	Year ended 31 December 2011
Profit before tax	**8 117 878**	**5 286 063**
Theoretical tax charge at the statutory tax rate of 20%	(1 623 576)	(1 057 213)
Tax effects of items which are non-deductible for income tax purposes	(252 412)	(264 617)
Income tax provision charge	-	(62 467)
Income tax charge	**(1 875 988)**	**(1 384 297)**

Deferred income tax assets and liabilities

Differences between IFRS and Russian statutory taxation regulations cause temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and their tax bases. Deferred income tax assets and liabilities were measured at a rate of 20% as at 31 December 2012 and 2011, which is expected to be applied to the period when the assets are realised and liabilities are settled.

In the context of the Group’s current structure, the tax losses and current tax assets of different consolidated entities may not be offset against the current tax liabilities and taxable profits of other consolidated entities and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred income tax assets and liabilities are offset only when they relate to the same taxable entity.

Deferred income tax liabilities:	**31 December 2012**	**Recognised in profit or losses**	**Recognised in equity**	**31 December 2011**
Property, plant and equipment	(9 980 562)	(1 623 339)	-	(8 357 223)
Investments	2 166	105	-	2 061
Trade and other receivables	(587 914)	(84 232)	-	(503 682)
Trade and other payables	238 760	19 358	-	219 402
Tax loss carried forward	207 358	207 358		
Long-term loans	-	1 016	-	(1 016)
Other	25 412	3 934	-	21 478
Total deferred income tax liability	**(10 094 780)**	**(1 475 800)**	-	**(8 618 980)**

Deferred income tax liabilities:	**31 December 2011**	**Recognised in profit or losses**	**Recognised in equity**	**31 December 2010**
Property, plant and equipment	(8 357 223)	(1 136 507)	(1 396 294)	(5 824 422)
Investments	2 061	(844)	-	2 905
Trade and other receivables	(503 682)	(258 951)	-	(244 731)
Trade and other payables	219 402	40 766	-	178 636
Long-term loans	(1 016)	43 059	-	(44 075)
Other	21 478	(12 954)	-	34 432
Total deferred income tax liability	**(8 618 980)**	**(1 325 431)**	**(1 396 294)**	**(5 897 255)**

(in thousands of Russian Roubles)

Note 9. Income Taxes (continued)

Deferred income tax assets and liabilities (continued)

Deferred income tax assets	31 December 2012	Recognised in profit or losses	Disposal of subsidiary	31 December 2011
Property, plant and equipment	(2 942)	(120 410)	(4 165)	121 633
Tax loss carried forward	404 747	10 978	(24 378)	418 147
Trade and other receivables	108 727	(54 807)	-	163 534
Trade and other payables	25 052	219	-	24 833
Other	108	(134)	-	242
Total deferred income tax assets	**535 692**	**(164 154)**	**(28 543)**	**728 389**

Deferred income tax assets	31 December 2011	Recognised in profit or losses	31 December 2010
Property, plant and equipment	121 633	(9 715)	131 348
Tax loss carried forward	418 147	6 946	411 201
Trade and other receivables	163 534	(10 339)	173 873
Trade and other payables	24 833	(12 113)	36 946
Other	242	(2 966)	3 208
Total deferred income tax assets	**728 389**	**(28 187)**	**756 576**

Note 10. Other Non-Current Assets

	31 December 2012	31 December 2011
Long-term receivables (interest free)	92 889	4 127
Loan issued	15 041	20 010
Promissory notes	6 969	1 051
Total financial receivables	**114 899**	**25 188**
VAT in prepayments on capital construction	-	31 034
Total other non-current assets	**114 899**	**56 222**

Note 11. Cash and Cash Equivalents

	31 December 2012	31 December 2011
Cash in bank and in hand in RUB	668 874	303 902
Foreign currency accounts in Euro	51 101	71 643
Total cash and cash equivalents	**719 975**	**375 545**

Note 12. Short-term Investments

	31 December 2012	31 December 2011
Loan issued	8 164	5 847
Promissory notes	100	-
Total short-term investments	**8 264**	**5 847**

Note 13. Non-current Assets Held for Sale

As at 31 December 2012 the property, plant and equipment with a total net book value amounting to RUB 26 705 thousand were classified as assets held for sale (31 December 2011: RUB 50 512 thousand). Movements of non-current assets held for sale for current and prior periods were as follows:

31 December 2011	Sale	Classification as assets held for sale	31 December 2012
50 512	46 439	22 632	26 705

31 December 2010	Sale	Classification as assets held for sale	31 December 2011
184 324	184 324	50 512	50 512

(in thousands of Russian Roubles)

Note 14. Trade and other receivables

	31 December 2012	31 December 2011
Trade receivables, net of provision for impairment of RUB 1 774 328 (31 December 2011: RUB 2 008 002)	12 782 984	9 671 241
Other receivables, net of provision for impairment of RUB 0 (31 December 2011: RUB 0)	219 834	222 826
Total financial receivables	**13 002 818**	**9 894 067**
Value-added tax receivables	750 693	2 057 122
Advances to suppliers	96 939	165 337
Other taxes receivable	3 663	15 121
Total trade and other receivables	**13 854 113**	**12 131 647**

Total financial receivables by customer type are presented in the table below:

	31 December 2012	31 December 2011
Ultimate domestic customers	8 847 858	7 053 203
Wholesale customers	2 844 569	1 892 652
Free market	1 309 405	846 384
Export customers	986	101 828
Total	**13 002 818**	**9 894 067**

Total financial receivables on a contract basis as at the reporting date are presented in the table below:

	Fully performing	Past due but not impaired	Impaired
Total financial receivables as at 31 December 2012	7 596 050	5 406 768	1 774 328
Total financial receivables as at 31 December 2011	5 578 553	4 315 514	2 008 002

Fully performing trade receivables involve a number of independent customers who have no recent history of default. Individually insignificant end-user customers make up the majority of performing trade receivables; therefore the credit risk is widely spread.

Past due but not impaired financial receivables have the following ageing structure:

	31 December 2012	31 December 2011
Up to 45 days	1 157 624	1 084 021
From 45 to 90 days	597 548	344 096
More than 90 days	3 651 596	2 887 397
Total	**5 406 768**	**4 315 514**

Impaired financial receivables represent overdue accounts receivables from customers which are not expected to be settled. Reversal relates to previously impaired financial receivables which have been collected in current year or expected to be collected in 2013.

Movements in impairment provision for financial receivables are as follows:

	Year ended 31 December 2012	Year ended 31 December 2011
Provision for impairment as at 1 January	**2 008 002**	**1 326 951**
Impairment loss recognised during the period	333 684	925 274
Impairment loss reversed during the period	(531 569)	(243 099)
Consumed	(35 789)	(1 124)
Provision for impairment as at 31 December	**1 774 328**	**2 008 002**
Account receivable directly written-off to profit and loss	3 211	13 429

Note 15. Inventories

	31 December 2012	31 December 2011
Fuel	1 808 324	1 969 934
Spare parts	295 469	472 969
Raw materials and other supplies	481 940	469 766
Total inventories	**2 585 733**	**2 912 669**

Raw materials and other supplies are recorded net of provision for impairment in the amount of RUB 5 430 thousand (31 December 2011: RUB 5 430 thousand).

(in thousands of Russian Roubles)

Note 16. Share capital

Share capital

The Group's share capital as at 31 December 2012 and as at 31 December 2011 was RUB 38 543 414 thousand comprising 3 854 341 416 571 ordinary shares with a par value of RUB 0.01. All shares authorised are issued and fully paid.

Share premium

Share premium represents the excess of contributions received over the nominal value of shares issued.

Merger reserve

As at 31 December 2012 and as at 31 December 2011 the merger reserve amounted to RUB 6 086 949 thousand.

Dividends

All dividends are declared and paid in Russian Roubles. In accordance with Russian legislation, the Group distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of financial statements prepared under Russian Accounting Rules. The Company's statutory accounting reports form the basis for profit distribution and other appropriations. Russian legislation identifies net profit as the basis for distribution. For 2012, the current year statutory net profit for the Company, as reported in the published annual statutory reporting forms, was RUB 3 353 415 thousand (2011: RUB 3 757 318 thousand) and the closing balance of the accumulated profit including the current year statutory net profit totaled RUB 4 417 195 thousand (31 December 2011: RUB 1 123 429 thousand). However, this legislation and other statutory laws and regulations are open to legal interpretation and, accordingly, management believes that at present it would not be appropriate to disclose an amount for the distributable reserves in these consolidated financial statements.

At the General Shareholders' Meeting held on 18 June 2012, the decision was made to pay a total of RUB 187 865 thousand in annual dividends for 2011 (2011: RUB 180 347 thousand for 2010).

Note 17. Long-term Borrowings

	31 December 2012	31 December 2011
Finance lease liabilities (non-current portion)	-	25 331
Bank borrowings and bonds issued	26 159 467	22 442 415
Total long-term borrowings	**26 159 467**	**22 467 746**

(in thousands of Russian Roubles)

Note 17. Long-term Borrowings (continued)

	Currency	Contractual interest rate	Maturity	31 December 2012	31 December 2011
Long-term bonds	RUB	6.7%	2014	2 894 187	2 894 187
Long-term bonds	RUB	7.6%	2014	409 918	1 166 747
Long-term bonds	RUB	7.6%	2021	2 002 500	2 002 260
Long-term bonds	RUB	7.6%	2022	2 052 500	-
Gazprom Energoholding	RUB	8.5%	2015	2 002 322	-
Mosenergo	RUB	1.5%	2011	-	8
NORDIC Investment Bank	Euro	EURIBOR + 3%	2014	283 446	491 763
Nordic Environment Finance Corporation	Euro	EURIBOR + 2%	2015	50 658	73 740
Alfabank	Euro	EURIBOR + 3.5%	2014	10 980	-
AB Russia	RUB	7-8.5%	2013	-	1 200 000
TransCreditBank	RUB	9.2-9.5%	2014	7 054 546	4 568 544
VTB	RUB	6.7-9.5%	2014	4 010 287	4 686 495
Sberbank RF	RUB	9%	2014	8 506 940	8 205 803
Unicreditbank	RUB	9.25%	2014	2 494 983	2 805 328
Unicreditbank	Euro	EURIBOR + 2.8%	2014	885 310	-
Alfabank	RUB	9.3%	2014	1 001 524	2 001 835
AKB MBRR	RUB	6.7%	2013	-	600 661
MTS Bank	RUB	6.7%	2013	600 659	-
VBRR	RUB	3.75-4.1%	2013	-	295
AKB ROSBANK	RUB	9.1%	2014	1 505 451	1 984 665
Bank Saint-Petersburg	RUB	9.3%	2014	100 000	-
				35 866 211	**32 682 331**
Less: current portion					
Long-term bonds issued	RUB	7.6%	2013	(9 267)	(1 166 747)
Long-term bonds issued	RUB	6.7%	2013	(2 894 187)	-
Long-term bonds issued	RUB	7.6%	2013	(2 500)	(2 260)
Long-term bonds issued	RUB	7.6%	2013	(52 500)	-
Gazprom Energoholding	RUB	8.5%	2013	(2 322)	-
Mosenergo	RUB	1.5%	2011	-	(8)
NORDIC Investment Bank	Euro	EURIBOR + 3%	2013	(190 610)	(203 268)
Nordic Environment Finance Corporation	Euro	EURIBOR + 2%	2013	(20 487)	(21 651)
VTB	RUB	6.7-9.5%	2013	(10 287)	(1 209 995)
AKB ROSBANK	RUB	9.1%	2013	(855 651)	(213 455)
Alfabank	RUB	9.3%	2013	(1 524)	(2 001 835)
Unicreditbank	RUB	6.7-9.5%	2013	(4 983)	(1 680 823)
Unicreditbank	Euro	EURIBOR + 2.8%	2013	(281)	-
TransCreditBank	RUB	9.2-9.5%	2013	(54 546)	(33 115)
Sberbank RF	RUB	6.7-9.45%	2013	(5 006 940)	(3 705 803)
MTS Bank	RUB	6.7%	2013	(600 659)	-
AKB MBRR	RUB	6.7%	2012	-	(661)
VBRR	RUB	3.75-4.1%	2013	-	(295)
Total long-term bank borrowings and bonds issued				**26 159 467**	**22 442 415**

Compliance with covenants

Under long-term borrowings facility agreements, the Group is required to comply with certain financial and non-financial covenants.

The most significant and most important of these being:

- to maintain particular ratios, i.e. the EBITDA to Finance Charges, the total debt to equity and the Current Ratio;
- to maintain certain liquidity and debt-to-assets ratio.

If any of these covenants are breached, the repayment can be altered by the respective lender, up to immediate repayment. There were no breaches of covenants in 2012 and 2011 except for breach of one covenant under agreement with VTB in 2012 but the Group has received waiver from the bank before 31 December 2012.

(in thousands of Russian Roubles)

Note 18. Other Non-Current Liabilities

	31 December 2012	31 December 2011
Long-term accounts payable	74 769	-
Total other non-current liabilities	**74 769**	**-**

Note 19. Post-Employment Benefits Obligations

The Group operates defined benefit and defined contribution pension plans. The Group has a contract with the "Non-state pension fund of the electrical energy industry" ("NPFE") for some of these pension plans and contracts with NPF "Gazfond" ("Gazfond"). The Group runs the other plans independently of external pension funds. Defined contribution pension plans are considered immaterial for disclosure.

Through the NPFE, the defined benefit pension plan provides for the payment, on retirement, of monthly pension benefits. The Group makes annual contributions to the solidarity account in the non-state pension fund. Contribution size is defined by the Group's budget and is considered to be at least enough to finance running pension benefits. No part of this contribution is recognised as plan asset as far as the Group can recall this money. Pension benefits are paid from the solidarity account on a "pay-as-you-go" basis.

Through the Gazfond, the defined benefit pension plan provides for the payment, on retirement, of monthly pension benefits. Upon retirement the pension liability of the Group is completely settled by contributions to individual account of each individual participant. Contribution size is defined by the Group's budget and is considered to be at least enough to finance running pension benefits. There are no accumulations on the individual accounts of active employees of the plan and therefore there are no plan assets.

In addition to the NPFE and Gazfond pension plans, the Group provides defined-benefit financial support to old-age pensioners, who have completed certain service periods with the Group, and other post-employment benefits such as lump-sum payments on retirement, lump-sum financial aid, etc.

The tables below provide information about the benefit obligations, plan assets and actuarial estimates used for the years ended 31 December 2012 and 31 December 2011.

Amounts recognised in the Consolidated Statement of Financial Position:

	31 December 2012	31 December 2011
Defined benefit obligations	812 427	821 946
Present value of unfunded obligations	812 427	821 946
Unrecognised net actuarial losses	146 466	130 330
Unrecognised past service cost	(44 293)	(60 651)
Net liability on the balance sheet	**914 600**	**891 625**

Amounts recognised in profit or loss in the Consolidated Statement of Comprehensive Income:

	Year ended 31 December 2012	Year ended 31 December 2011
Current service cost	31 734	53 703
Interest cost	66 890	74 421
Past service cost	9 140	11 781
Actuarial losses on obligation	(20 977)	(8 710)
Termination benefits	-	(50 835)
Total	**86 787**	**80 360**

(in thousands of Russian Roubles)

Note 19. Post-Employment Benefits Obligations (continued)

Changes in the present value of the Group's defined benefit obligations are as follows:

	Year ended 31 December 2012	Year ended 31 December 2011
Benefit obligations as at the beginning of the period	821 946	919 323
Current service cost	31 734	53 703
Interest cost	66 890	74 421
Past service cost	(7 218)	8 133
Benefits paid	(63 813)	(80 396)
Actuarial losses	(37 112)	(153 238)
Benefit obligations as at the end of the period	**812 426**	**821 946**

Experience adjustments	Year ended 31 December 2012	Year ended 31 December 2011
Present value of defined benefit obligations	812 426	821 946
Gains/(losses) arising of experience adjustments on plan liabilities	83 084	(34 600)

The principal actuarial assumptions are as follows:

	31 December 2012	31 December 2011
Discount rate for benefits at accumulation phase	7%	8.30%
Future salary increase	9.1%	7.10%
Future inflation rate	4.80%	5.60%
Turnover rate	5.40%	4.90%

Best estimate of contributions expected to be paid to the plan during the annual period beginning after 31 December 2012 equals to RUB 71 674 thousands.

The effect of an increase of one percentage point and the effect of a decrease of one percentage point in the assumed discount rate and the effect of an increase of one percentage points and the effect of a decrease of one percentage points in the assumed turnover rate are as follows:

	Benefit obligations as at the end of the period	Discount rate		Turnover rate	
		8%	6%	6,5%	4,5%
To employees	621 491	560 817	695 690	606 839	629 923
To pensionaries	190 935	176 387	207 814	190 937	190 937
Total	**812 426**	**737 204**	**903 504**	**797 776**	**820 860**

Note 20. Short-Term Borrowings

	31 December 2012	31 December 2011
Finance lease liabilities (current portion)	25 330	47 618
Bank borrowings and bonds issued	10 560 976	11 451 808
Total short-term borrowings	**10 586 306**	**11 499 426**

(in thousands of Russian Roubles)

Note 20. Short-Term Borrowings (continued)

Name of lender	Currency	Contractual interest rate	31 December 2012	31 December 2011
VTB	RUB	13.02-13.53%	617 566	1 211 892
Gazprombank	RUB	11.5-12%	236 666	-
Current portion of long-term borrowings:				
Long-term bonds issued	RUB	6.7%	2 894 187	-
Long-term bonds issued	RUB	7.6%	9 267	1 166 747
Long-term bonds issued	RUB	7.6%	2 500	2 260
Long-term bonds issued	RUB	7.6%	52 500	-
Gazprom Energoholding	RUB	8.5%	2 322	-
Mosenergo	RUB	1.5%	-	8
Nordic Environment Finance Corporation	Euro	EURIBOR+2%	20 487	21 651
NORDIC Investment Bank	Euro	EURIBOR+3%	190 610	203 268
VTB	RUB	6.7%	10 287	1 209 995
AKB ROSBANK	RUB	9.1%	855 651	213 455
Alfabank	RUB	9.3%	1 524	2 001 835
Unicreditbank	RUB	6.7-9.5%	4 983	1 680 823
Unicreditbank	Euro	EURIBOR + 2.8%	281	-
TransCreditBank	RUB	9.2-9.5%	54 546	33 115
Sberbank RF	RUB	6.7-9.45%	5 006 940	3 705 803
MTS Bank	RUB	6.7%	600 659	-
AKB MBRR	RUB	6.7%	-	661
VBRR	RUB	3.75-4.1%	-	295
Total bank borrowings and bonds issued			**10 560 976**	**11 451 808**

Note 21. Trade and other payables

	31 December 2012	31 December 2011
Trade accounts payable	3 920 819	3 671 020
Accounts payable for capital construction	2 524 663	3 272 017
Accrued liabilities and other payables	232 475	469 772
Total financial payables	**6 677 957**	**7 412 809**
Advances from customers	1 122 818	990 771
Current employee benefits	626 720	528 776
Total trade and other payables	**8 427 495**	**8 932 356**

Note 22. Other Taxes Payable

	31 December 2012	31 December 2011
VAT payable	561 617	340 979
Property tax	175 937	255 043
Employee taxes	94 001	72 480
Personal Income Tax	55 403	47 914
Water usage tax	14 635	13 553
Other taxes	6 177	13 046
Total taxes payable	**907 770**	**743 015**

As at 31 December 2012 and as at 31 December 2011 the Group had no past due tax liabilities.

Note 23. Other Sales

	31 December 2012	31 December 2011
Connection of customers to heating network	670 714	386 960
Installation of heating meters	139 671	-
Maintenance of electrical facilities	63 632	24 878
Revenue from transit of rail cars	56 622	51 031
Handling of heating oil	22 748	26 043
Other	171 092	121 489
Total other sales	**1 124 479**	**610 401**

(in thousands of Russian Roubles)

Note 24. Operating Expenses

	Year ended 31 December 2012	Year ended 31 December 2011
Fuel	27 213 524	24 893 005
Employee benefits	6 566 947	6 381 293
Electricity, capacity and heat purchases	4 901 280	5 939 366
Depreciation of property, plant and equipment	5 409 322	4 674 793
Repairs and maintenance	2 768 670	2 831 077
Water usage expenses	2 098 396	2 098 235
Taxes other than income tax	755 467	1 175 910
Fees of electricity market operators	714 339	785 307
Provision/(release) for impairment of accounts receivable	(194 674)	695 603
Other materials	692 864	575 677
Heat distribution	558 400	533 499
Operating lease expenses	270 443	216 678
Insurance cost	251 800	245 676
Amortisation of intangible assets	168 901	144 971
Amortisation of investment property	8 325	-
(Gain)/Loss on disposal of property, plant and equipment	(166 349)	13 324
(Reversal of provision)/provision for inventory obsolescence	-	(28 818)
Security expenses	396 297	376 951
IT services	331 358	316 137
Telecommunication expenses	235 676	225 224
Services of acceptance of payments	194 097	206 020
Consulting, legal and audit expenses	134 731	222 336
Other operating expenses	1 381 635	1 254 941
Total operating expenses	**54 691 449**	**53 777 205**

Employee benefits are generally presented by wages and salaries. Social insurance contributions are included in “Employee benefits” in the amount of RUB 1 197 118 thousand (in 2011 – in the amount of RUB 1 273 283 thousand).

In 2012 amount of RUB 1 215 497 thousand of purchases and sales was settled by mutual cancellation (in 2011 – RUB 930 873 thousand).

(in thousands of Russian Roubles)

Note 25. Other Operating Income

	Year ended 31 December 2012	Year ended 31 December 2011
Gain/(loss) on sale of other assets	560 753	(20 231)
Fines and penalties	332 319	273 978
Insurance	211 172	8 227
Operating lease income	150 820	125 126
Gain from sale of subsidiary (Note 26)	96 057	-
Gain on sale of inventory	14 866	29 129
Other operating income	150 918	153 808
Total other operating income	**1 516 905**	**570 037**

Gain/(loss) on sale of other assets in 2012 are mainly presented by sale of non-current assets held for sale.

Note 26. Disposal of Subsidiary

On 27 April 2012 the Group sold 100% of shares of its subsidiary LLC Kolskaya Heating Company to a third party for cash consideration of RUB 13 950 thousand.

Net assets of the subsidiary disposed of at the respective dates of sale were as follows:

	Date of disposal
Non-current assets	31 093
Current assets	81 053
Current liabilities	(203 033)
Non-current liabilities	-
Net assets	**(90 887)**
The Group's share in net assets disposed of	(82 107)
Consideration received	13 950
(Loss)/gain on disposal of subsidiaries	**96 057**

Note 27. Finance Income and Finance Costs

	Year ended 31 December 2012	Year ended 31 December 2011
Interest income	26 505	2 198
Exchange differences (net)	14 022	-
Effect of discounting of financial instruments	38 174	17 496
Finance income	**78 701**	**19 694**
Interest expense	(1 769 183)	(1 521 854)
Exchange differences (net)	-	(13 637)
Effect of discounting of financial instruments	(50 266)	(215 315)
Finance costs	**(1 819 449)**	**(1 750 806)**

Note 28. Earnings per Share

	Year ended 31 December 2012	Year ended 31 December 2011
Profit attributable to owners of the Company	5 960 980	3 736 690
Weighted average number of ordinary shares issued (thousands)	3 854 341 417	3 854 341 417
Earnings per ordinary share attributable to the owners of the Company after tax – basic and diluted – in Russian Roubles	**0.0015**	**0.0010**

(in thousands of Russian Roubles)

Note 29. Commitments

Sales commitments

The Group entities sell electricity, capacity and heat in the wholesale market's regulated and free trading sectors. Regulated sector contracts are primarily signed with trading companies. Tariffs for electricity, capacity and heat sold under regulated delivery contracts are set by the FTS. Electricity can be bought in the free trading sector under contracts with CJSC FSC in order to fulfil obligations under regulated contracts.

Long-term contracts with CJSC FSC and short-term bilateral contracts with market entities were concluded for electricity, capacity and heat sales (not covered by regulated contracts) in the free trading market.

The Group also concluded export contracts with Fortum Power and Heat OY and RAO Nordic Oy. The Group's sales commitments under these contracts, as at 31 December 2012, were: 500 GW/h for Fortum Power and Heat OY and 775 million KW/h for RAO Nordic Oy (as at 31 December 2011 - between 150 GW/h and 700 GW/h for Fortum Power and Heat OY and 745 million KW/h for Scaent Europower).

Fuel commitments

The Group has also concluded a number of fuel supply contracts. The main gas supplier is CJSC Gazprom Mezhregiongaz St Petersburg (a state controlled subsidiary of Gazprom Group) and the main coal supplier is OJSC Plant Polymer. The prices for natural gas and coal set in these contracts are mainly determined on the basis of tariffs established by the FTS, published inflation rates and current market prices.

Contractual capital commitments

As at 31 December 2012, the Group had outstanding contractual commitments relating to the construction of property, plant and equipment in the amount of RUB 14 122 870 thousand (31 December 2011: RUB 10 113 507 thousand).

The Group has already allocated the necessary resources to meet these commitments. The Group believes that future net income and funding will be sufficient to cover this and any similar such commitments.

Operating lease

The Group leases a number of land plots owned by local authorities under operating leases. Land lease commitments are determined by lease agreements and are as follows:

	31 December 2012	31 December 2011
Not later than one year	100 995	110 355
Later than one year and not later than five years	380 463	413 497
Later than five years	2 071 193	2 354 872
Total operating lease	**2 552 651**	**2 878 724**

Note 30. Contingencies

Political environment

The Group's operations and earnings continue, intermittently and to varying degrees, to be affected by ongoing political, legislative, fiscal and regulatory developments (including those related to environmental protection) in Russia.

Insurance

The insurance industry in the Russian Federation is in the process of development, and many forms of insurance protection common in developed markets are not yet generally available.

The Group has limited insurance policies in relation to its assets, operations, public liability or other insurable risks. Accordingly, the Group is exposed to risks for which it does not have insurance.

Management understands that until the Group obtains adequate insurance coverage there is a risk that the loss or destruction of certain operating assets could have a material adverse effect on the Group's operations and financial position.

Legal proceedings

The Group is a party to certain legal proceedings arising in the ordinary course of business. It is management's view that there are no current legal proceedings or other claims outstanding and not provided for which, on their conclusion, will have an adverse material effect on the Group's financial standing.

Tax legislation

Russian tax legislation which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be successfully challenged by relevant authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Amended Russian transfer pricing legislation took effect from 1 January 2012. The new transfer pricing rules appear to be more technically elaborate and, to a certain extent, better aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD).

The new legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not arm's length.

Management believes that its pricing policy is arm's length and it has implemented internal controls to be in compliance with the new transfer pricing legislation.
Given that the practice of implementation of the new Russian transfer pricing rules has not yet developed, the impact of any challenge of the Group's transfer prices cannot be reliably estimated; however, it may be significant to the financial conditions and/or the overall operations of the Group.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible, with the evolution of the interpretation of the transfer pricing rules, that such transfer prices could be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

As at 31 December 2012 and 2011 the Group estimates that it has no potential liabilities from exposure to probable or possible tax risks.

Note 30. Contingencies (continued)

Tax legislation (continued)

In addition, tax and other legislation do not specifically address all the aspects of the Group's reorganisation related to the electricity and utilities sector reforms. Therefore, the various interpretations, transactions and resolutions that were part of the reorganisation and reform process may give rise to tax/legal challenges.

Environmental matters

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately.

The Group owns the ash dumps on the territory of Russian Federation. In accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" the Group has a liability for a land reclamation in respect of the lands used as the ash dumps. The Group's management considers that the liability cannot be reliably estimated because there are no plans on transferring the station on other types of fuel resulting in impossibility of definition the terms of ash dumps liquidation and land reclamation works. The Group's management also considers that estimated liability for the land reclamation does not influence significantly the Group's Statements of Financial Position, Comprehensive Income and Cash Flows.

Management believes that there are no other legal or contractual obligations related to decommissioning or other disposal of assets.

Potential liabilities might arise as a result of changes in legislation and regulation, or as a result of 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 relating to environmental damage.

Note 31. Financial Risk Management

Within the Group, the risk management function is carried out with regard to financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk, and other price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure remains within these limits. The operational and legal risk management functions are intended to ensure the proper functioning of internal policies and procedures, in order to minimise operational and legal risks.

Credit risk

The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group's sales of products on credit terms and other transactions with counterparties giving rise to financial assets.

Financial assets, which potentially subject the Group to credit risk exposure, consist principally of trade receivables. Although the collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provision for impairment of receivables already recorded.

Cash transactions are conducted through high-credit-quality financial institutions. Cash is placed in financial institutions, which are considered at time of deposit to be at minimal risk of default.

(in thousands of Russian Roubles)

Note 31. Financial Risk Management (continued)

Credit risk (continued)

The table below shows the rating of and balances with major banks at the reporting dates:

	Rating agency	National scale ratings	Long-term RDE* in foreign currency	31 December 2012	31 December 2011
Cash at bank and cash equivalents					
Sberbank RF	Fitch	AAA(rus)	BBB	1 186	4 508
NB Trust	RusRating	A-	BB+	-	9
Alfabank	Fitch	AA(rus)	BBB-	38 525	48 602
VTB	Fitch	AAA (rus)	BBB	22 154	92 553
AB Russia	Standard & Poor's	AA- (rus)	BB-	650 107	226 170
UnicreditBank	Fitch	AAA (rus)	BBB+	4 295	4
Sobinbank	RusRating	BBB+	BB	70	73
TransCreditBank	Standard & Poor's	AAA (rus)	BBB-	166	-
Gazprombank	Standard & Poor's	AAA (rus)	BBB-	929	-
Other	-	-	-	2 543	3 626
Total cash at bank and cash equivalents				**719 975**	**375 545**

** Rating of default of the bank*

At the reporting date there were no significant credit risk concentrations. The maximum exposure to credit risk at the reporting date without taking account of any collateral held is as follows:

	31 December 2012	31 December 2011
Cash and cash equivalents (Note 11)	719 975	375 545
Short - term investments (Note 12)	8 264	5 847
Total short-term financial receivables (Note 14)	13 002 818	9 894 067
Total long-term financial receivables (Note 10)	114 899	25 188
Total	**13 845 956**	**10 300 647**

The Group structures the levels of credit risk it takes on by limiting on the amount of risk accepted in relation to individual counterparties or groups of counterparties. Limits on the level of credit risk are approved regularly by management. Such risks are monitored on a revolving basis and are subject to an annual, or more frequent, review.

Market risk

The Group takes on exposure to market risks. Market risks arise from open positions in (a) foreign currencies, (b) interest bearing assets and liabilities and (c) equity products, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that is deemed acceptable, and this is monitored on a daily basis. However, the use of this approach does not prevent losses outside these limits in the event of more significant market movements.

Sensitivities to the market risks detailed below are based on a change in one factor while all other factors remain constant. In practice this is unlikely to occur and there may be correlations between changes in some factors – such as, for example, changes in interest rate and foreign currency rates.

(in thousands of Russian Roubles)

Note 31. Financial Risk Management (continued)

Currency risk

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates in its financial position and cash flows. As at 31 December 2012, the Group had the following currency positions:

	RUB	EURO	Total
Monetary financial assets			
Cash and cash equivalents	668 874	51 101	719 975
Short - term investments	8 264	-	8 264
Total short-term financial receivables	12 963 134	39 684	13 002 818
Total long-term financial receivables	114 899	-	114 899
Total financial assets	**13 755 171**	**90 785**	**13 845 956**
Monetary financial liabilities			
Long-term borrowings	(25 140 451)	(1 019 016)	(26 159 467)
Short-term borrowings	(10 374 928)	(211 378)	(10 586 306)
Total other financial liabilities	(6 752 726)	-	(6 752 726)
Total financial liabilities	**(42 268 105)**	**(1 230 394)**	**(43 498 499)**
Net balance sheet position	**(28 512 934)**	**(1 139 609)**	**(29 652 543)**

As at 31 December 2011, the Group had the following currency positions:

	RUB	EURO	Total
Monetary financial assets			
Cash and cash equivalents	303 902	71 643	375 545
Short - term investments	5 847	-	5 847
Total short-term financial receivables	9 792 239	101 828	9 894 067
Total long-term financial receivables	25 188	-	25 188
Total financial assets	**10 127 176**	**173 471**	**10 300 647**
Monetary financial liabilities			
Long-term borrowings	(22 127 162)	(340 584)	(22 467 746)
Short-term borrowings	(11 274 507)	(224 919)	(11 499 426)
Total other financial liabilities	(7 412 809)	-	(7 412 809)
Total financial liabilities	**(40 814 478)**	**(565 503)**	**(41 379 981)**
Net balance sheet position	**(30 687 302)**	**(392 032)**	**(31 079 334)**

As at 31 December 2012, if the Russian Rouble had weakened/strengthened 20% (2011: 20%) against the EURO with all other variables remaining constant, the year's profit would have been RUB 227 924 thousand (2011: RUB 78 407 thousand) lower/higher.

Since the Group does not hold any financial instruments re-valued through equity, the effect of changes to the exchange rate on equity would be the same as those on post-tax profit.

(in thousands of Russian Roubles)

Note 31. Financial Risk Management (continued)

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's liquidity risk management includes maintaining sufficient cash to fund operations and the investment programme, and the availability of funding from an adequate amount of committed credit facilities.

The table below analyses the Group's financial liabilities, dividing them into relevant maturity groupings based on the remaining period to the contractual maturity date in the consolidated statement of financial position and the contractual undiscounted amounts.

		Contractual cash flows				
As at 31 December 2012	**Carrying amount**	**Total**	**Less than 1 month**	**From 1 to 3 months**	**From 3 months to 1 year**	**From 1 to 5 years**
Long-term and short-term bonds	9 361 427	11 588 383	2 354	132 897	3 347 105	8 106 027
Long-term and short-term loans	27 384 346	30 435 208	243 032	819 464	8 651 009	20 721 703
Total other financial liabilities	6 752 726	6 787 249	4 503 952	742 050	1 431 954	109 293
Total financial liabilities	**43 498 499**	**48 810 840**	**4 749 338**	**1 694 411**	**13 430 068**	**28 937 023**

		Contractual cash flows				
As at 31 December 2011	**Carrying amount**	**Total**	**Less than 1 month**	**From 1 to 3 months**	**From 3 months to 1 year**	**From 1 to 5 years**
Long-term and short-term bonds	6 063 194	7 511 252	13	48 460	1 472 883	5 989 896
Long-term and short-term loans	27 903 978	30 682 821	325 496	1 278 359	10 575 856	18 503 110
Total other financial liabilities	7 412 809	7 412 809	4 552 087	772 133	2 088 589	-
Total financial liabilities	**41 379 981**	**45 606 882**	**4 877 596**	**2 098 952**	**14 137 328**	**24 493 006**

Interest rate risk

The Group's operating profits and cash flows from operating activity are largely independent of changes in market interest rates. The Group's interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

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

	Carrying amount	
	31 December 2012	**31 December 2011**
Fixed rate instruments		
Long-term loans and borrowings	22 025 480	20 127 162
Short-term loans and borrowings	10 320 209	11 272 247
Variable rate instruments		
Long-term loans and borrowings	4 133 987	2 340 584
Short-term loans and borrowings	266 097	227 179
Total financial instruments	**36 745 773**	**33 967 172**

The Group analyses its interest rate exposure on a regular basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing.

Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift.

Note 31. Financial Risk Management (continued)

Interest rate risk (continued)

A general increase/decrease of one percent in interest rates would have decreased/increased the Group's profit after income tax for the year ended 31 December 2012 by approximately RUB 17 375 thousand (for the year ended 31 December 2011: RUB 5 752 thousand). The effect on equity (retained earnings) would be the same as on post-tax profit.

Fair value sensitivity analysis for fixed rate instruments

In 2012 the Group did not hold any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group did not designate derivatives as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rate at the reporting date would not affect profit or loss.

Fair values

The fair value of long-term bonds (including the current portion), as estimated by management on the basis of future contracted cash flows and marketable interest rates on similar instruments applicable to the Group, is less than its carrying value in the amount of RUB 0 thousand as at 31 December 2012 (as at 31 December 2011: RUB 5 081 thousand).

Management believes that the fair values of the Group's other financial assets and liabilities approximate their carrying values as of both year ends and determines the appropriate level of the financial assets and liabilities using a three –tiered hierarchy on the basis of the lowest level input that is significant in fair value measurements.

Capital management

The Group's capital management objectives are to safeguard its ability to continue as a going concern in order to provide returns to equity holders, benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to equity holders, return capital to equity holders or issue new shares. The amount of capital defined as equity attributable to shareholders that the Group managed as of 31 December 2012 was RR 82 860 299 thousand (2011: RR 77 087 184 thousand). Capital management is linked to maintaining certain financial ratios to comply with bank-imposed covenants (refer to Notes 17 and 20).

Note 32. Segment Information

The Group generates its revenues from electricity and heat power generation in one geographical segment: the Russian Federation (refer to Note 3). The Group's major customers are regional electricity wholesalers. The Group has no single customer that accounts for 10% or more of its total revenue.

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM) and for which discrete financial information is available. The CODM is the person or group of persons who allocates resources and assesses the performance for the entity. The functions of the CODM are performed by Company's Management Board.

The Group's primary activity is producing electricity and heat power and capacity. The technology of electricity and heat power production does not allow the segregation of electricity and heat power segments.

The Group's segments are strategic business units that focus on different customers. They are managed separately due to significant decentralisation and the distances that separate Company branches. The Group uses seven primary reportable segments: TPP of Nevsky branch, HPS of Nevsky branch, St Petersburg Heating Grid, Kolsky branch, Karelsky branch, Murmanskaya TPP and Kolskaya Heating Company. All reportable segments are located within the Russian Federation. In evaluating segment results and allocating the Group's economic resources the Management Board uses the financial information provided below prepared in accordance with Russian Accounting Standards (RAS). Differences between the above-mentioned financial indicators analysed by the Management Board and IFRS financial information are caused by different approaches applied in IFRS and RAS. The main differences relate to the respective carrying values of property, plant and equipment.

(in thousands of Russian Roubles)

Note 32. Segment Information (continued)

Year ended 31 December 2012	TPP of Nevsky branch	HPS of Nevsky branch	St Petersburg Heating Grid	Kolsky branch	Karelsky branch	Murman-skaya TPP	Kolskaya Heating Company	Unallocated segments	Total segments	Eliminations	Adjust-ments	Total operating segments
Revenue:	35 297 462	3 689 536	6 074 615	9 524 159	5 787 145	4 373 073	46 182	5 846 751	**70 638 923**	(6 708 642)	(1 446 479)	**62 483 802**
including export	-	49 944	-	747 378	-	-	-	-	**797 322**	-	-	**797 322**
Depreciation of property, plant, equipment	4 636 222	279 810	2 040 301	422 844	357 959	39 844	440	22 600	**7 800 020**	-	(2 390 698)	**5 409 322**
Reportable segment profit / (loss)	(66 335)	2 348 762	410 341	3 975 610	1 295 054	82 925	(55 799)	(3 147 494)	**4 843 064**	-	3 274 813	**8 117 877**
Other material non-cash items:												
Impairment loss reversal	-	-	-	-	-	549 368	-	-	**549 368**	-	-	**549 368**
Impairment loss recognized	-	-	-	-	-	-	-	-	-	-	-	-

Year ended 31 December 2011	TPP of Nevsky branch	HPS of Nevsky branch	St Petersburg Heating Grid	Kolsky branch	Karelsky branch	Murman-skaya TPP	Kolskaya Heating Company	Unallocated segments	Total segments	Eliminations	Adjust-ments	Total operating segments
Revenue:	33 418 981	4 384 570	5 469 594	9 583 666	4 870 335	4 467 158	39 296	5 433 254	**67 666 854**	(6 135 012)	(1 280 082)	**60 251 760**
including export	-	1 082 094	-	1 034 175	-	-	-	-	**2 116 269**	-	-	**2 116 269**
Depreciation of property, plant, equipment	3 162 774	227 689	1 771 220	348 825	371 642	42 013	401	147 418	**6 071 982**	-	(1 397 189)	**4 674 793**
Reportable Segment profit / (loss)	172 031	2 318 476	373 975	4 297 646	690 802	32 218	(65 357)	(3 883 297)	**3 936 494**	-	1 349 569	**5 286 063**
Other material non-cash items:												
Impairment loss reversal	-	-	-	-	-	-	-	-	-	-	-	-
Impairment loss recognized	-	-	-	-	-	(27 417)	-	-	**(27 417)**	-	-	**(27 417)**

(in thousands of Russian Roubles)

Note 32. Segment Information (continued)

A reconciliation of management financial information prepared based on RAS to IFRS figures is provided as follows:

	Year ended 31 December 2012	Year ended 31 December 2011
Elimination of bilateral contract's revenue	(1 392 258)	(1 280 082)
Other adjustments	(54 221)	-
	(1 446 479)	**(1 280 082)**
Depreciation adjustment	2 390 698	1 397 189
(Charge)/reversal of property, plant and equipment impairment, net	549 368	(27 417)
Provision for impairment of trade and other receivables	-	53 159
Actuarial losses	(22 974)	36
Effect of discounting	(12 093)	(197 819)
Sale of subsidiary	106 435	-
Elimination of electricity purchase on bilateral contracts	1 392 258	1 280 082
Other adjustments	317 600	124 421
	4 721 292	**2 629 651**
Total adjustments to profit before income tax	**3 274 813**	**1 349 569**

Segment's assets are disclosed below:

	31 December 2012	31 December 2011
TPP of Nevsky branch	67 313 575	69 625 782
HPS of Nevsky branch	8 854 449	7 914 704
St Petersburg Heating Grid	37 046 113	35 931 383
Kolsky branch	11 144 521	10 800 764
Karelsky branch	5 068 172	4 784 007
Murmanskaya TPP	3 107 776	2 806 604
Kolskaya Heating Company	-	67 038
Unallocated segments	29 292 670	22 717 794
Total segments	**161 827 276**	**154 648 076**
Eliminations	(17 234 421)	(17 191 010)
Adjustments	3 343 031	485 069
Total assets	**147 935 886**	**137 942 135**

A reconciliation of management financial information prepared based on RAS to IFRS figures is provided as follows:

	Year ended 31 December 2012	Year ended 31 December 2011
Property, plant and equipment adjustment	3 614 834	470 730
Impairment of trade and other receivables	-	-
Deferred tax assets	(67 553)	193 364
Discounting of accounts receivables and investments	(41 535)	(11 802)
Other adjustments	(162 715)	(167 223)
Total assets adjustments	**3 343 031**	**485 069**

Unallocated assets are the assets which cannot be directly related to a particular operating segment, and also those which from the decision-making perspective fall outside the operating segment's control. These assets include short- and long-term trade receivables, cash in bank, deposits, inventories and fixed assets which are the subject to headquarter control.

The Group's management does not review the information relating to the operating segment's liabilities in order to make decisions about resource allocation since a significant proportion of the payment transactions are centralised.

V.Y. Sokolov, Director, ZAO PricewaterhouseCoopers Audit
15 March 2013

57 (fifty five)pages are numbered, binded and sealed.