

**Joint Stock Company  
Territorial Generating Company №1  
and its subsidiaries**

Brief Intermediate Consolidated Financial  
Statements  
prepared in accordance with  
International Financial Reporting Standards  
for SIX MONTHS ended 30 June 2012 (not  
audited)

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JSC TERRITORIAL GENERATING COMPANY №1 AND ITS SUBSIDIARIES  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2012  
(in thousands of Russian Roubles)

	Notes	30 June 2012	31 December 2011
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	6	122 692 719	120 655 949
Investments in associates	7	450 900	50 900
Deferred income tax assets		728 989	728 389
Other non-current assets	8	615 838	504 727
<b>Total non-current assets</b>		<b>124 488 446</b>	<b>121 939 965</b>
<b>Current assets</b>			
Cash and cash equivalents	9	149 854	375 545
Short-term investments	10	4 989	5 847
Trade and other receivables	12	12 544 307	12 657 597
Inventories	13	2 730 783	2 912 669
		<b>15 429 933</b>	<b>15 951 658</b>
Non-current assets held for sale	11	37 090	50 512
<b>Total current assets</b>		<b>15 467 023</b>	<b>16 002 170</b>
<b>TOTAL ASSETS</b>		<b>139 955 469</b>	<b>137 942 135</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	14	38 543 414	38 543 414
Share premium	14	22 913 678	22 913 678
Merger reserve	14	(6 086 949)	(6 086 949)
Other reserves	1	(1 209 011)	(1 209 011)
Retained earnings		25 854 730	22 926 052
<b>Equity attributable to the Company's owners</b>		<b>80 015 862</b>	<b>77 087 184</b>
Non-controlling interest		7 690 473	7 619 391
<b>TOTAL EQUITY</b>		<b>87 706 335</b>	<b>84 706 575</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Deferred income tax liabilities		9 456 435	8 618 980
Long-term borrowings	15	16 390 964	22 467 746
Post-employment benefits obligations		925 100	891 625
Other non-current liabilities	16	60 316	-
<b>Total non-current liabilities</b>		<b>26 832 815</b>	<b>31 978 351</b>
<b>Current liabilities</b>			
Short-term borrowings	17	15 447 284	11 399 436
Trade and other payables	18	9 007 263	9 032 346
Current income tax payable		-	82 412
Other taxes payable	19	961 772	743 015
<b>Total current liabilities</b>		<b>25 416 319</b>	<b>21 257 209</b>
<b>TOTAL LIABILITIES</b>		<b>52 249 134</b>	<b>53 235 560</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>139 955 469</b>	<b>137 942 135</b>

Approved for issue and signed on behalf of the Board of Directors on 27 August 2012.

General Director  
Chief Accountant

  
A.N. Filippov  
R.V. Stanishevskaya  


JSC TERRITORIAL GENERATING COMPANY №1 AND ITS SUBSIDIARIES  
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR SIX MONTHS ENDED 30 JUNE 2012  
(in thousands of Russian Roubles)

	Notes	Six months ended 30 June 2012	Six months ended 30 June 2011
<b>Revenue</b>			
Sales of electricity		18 092 597	19 725 746
Sales of heat		13 716 490	14 451 395
Other sales		228 513	149 950
<b>Total revenue</b>		<b>32 037 600</b>	<b>34 327 091</b>
Operating expenses, net	20	(27 086 287)	(27 355 671)
<b>Total operating expenses</b>		<b>(27 086 287)</b>	<b>(27 355 671)</b>
<b>Operating profit</b>		<b>4 951 313</b>	<b>6 971 420</b>
Finance income	22	35 936	20 506
Finance costs	22	(921 887)	(311 745)
<b>Finance costs, net</b>		<b>(885 951)</b>	<b>(291 239)</b>
<b>Profit before income tax</b>		<b>4 065 362</b>	<b>6 680 181</b>
Income tax expense		(886 516)	(852 729)
<b>Profit for the year</b>		<b>3 178 846</b>	<b>5 827 452</b>
<b>Total comprehensive income for the year</b>		<b>3 178 846</b>	<b>5 827 452</b>
<b>Profit is attributable to:</b>			
Owners of the Company		3 116 544	5 815 473
Non-controlling interests		62 302	11 979
<b>Profit for the year</b>		<b>3 178 846</b>	<b>5 827 452</b>
<b>Total comprehensive income is attributable to:</b>			
Owners of the Company		3 116 544	5 815 473
Non-controlling interests		62 302	11 979
<b>Total comprehensive income for the year</b>		<b>3 178 846</b>	<b>5 827 452</b>

JSC TERRITORIAL GENERATING COMPANY №1 AND ITS SUBSIDIARIES  
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR SIX MONTHS ENDED 30 JUNE 2012  
(in thousands of Russian Roubles)

	Attributable to owners of the Company							Non - controlling interest	Total equity	
	Share capital	Treasury shares	Share premium	Merger reserve	Fair value reserve	Other reserves	Retained earnings			Total
<b>Balance at 1 January 2011</b>	<b>38 543 414</b>	-	<b>22 913 678</b>	<b>(6 086 949)</b>	-	-	<b>19 369 709</b>	<b>74 739 852</b>	<b>(92 046)</b>	<b>74 647 806</b>
<b>Comprehensive income for the year</b>										
Profit/(loss) for the year	-	-	-	-	-	-	3 736 690	3 736 690	165 076	3 901 766
<b>Other comprehensive income</b>										
Income tax on other comprehensive income	-	-	-	-	-	-	-	-	-	-
<i>Total other comprehensive income</i>	-	-	-	-	-	-	-	-	-	-
<b>Total comprehensive income for the year</b>	-	-	-	-	-	-	<b>3 736 690</b>	<b>3 736 690</b>	<b>165 076</b>	<b>3 901 766</b>
<b>Transactions with owners</b>										
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)
<b>Total transactions with owners</b>	-	-	-	-	-	<b>(1 209 011)</b>	<b>(180 347)</b>	<b>(1 389 358)</b>	<b>7 546 361</b>	<b>6 157 003</b>
<b>Balance at 31 December 2011</b>	<b>38 543 414</b>	-	<b>22 913 678</b>	<b>(6 086 949)</b>	-	<b>(1 209 011)</b>	<b>22 926 052</b>	<b>77 087 184</b>	<b>7 619 391</b>	<b>84 706 575</b>
<b>Comprehensive income</b>										
Profit/(loss)	-	-	-	-	-	-	3 116 544	3 116 544	66 302	3 178 846
<b>Total comprehensive income</b>	-	-	-	-	-	-	<b>3 116 544</b>	<b>3 116 544</b>	<b>66 302</b>	<b>3 178 846</b>
<b>Transactions with owners</b>										
Sale of subsidiary	-	-	-	-	-	-	-	-	8 780	8 780
Dividends	-	-	-	-	-	-	(187 866)	(187 866)	-	(187 866)
<b>Total transactions with owners</b>	-	-	-	-	-	-	<b>(187 866)</b>	<b>(187 866)</b>	<b>8 780</b>	<b>(179 086)</b>
<b>Balance at 30 June 2012</b>	<b>38 543 414</b>	-	<b>22 913 678</b>	<b>(6 086 949)</b>	-	<b>(1 209 011)</b>	<b>25 854 730</b>	<b>80 015 862</b>	<b>7 690 473</b>	<b>87 706 335</b>

JSC TERRITORIAL GENERATING COMPANY №1 AND ITS SUBSIDIARIES  
CONSOLIDATED STATEMENT OF CASH FLOWS FOR SIX MONTHS ENDED 30 JUNE 2012  
*(in thousands of Russian Roubles)*

	Six months ended 30 June 2012	Six months ended 30 June 2011
<b>Cash flows from operating activities</b>		
Profit before income tax	4 065 362	6 680 181
Adjustments to non-cash items	3 395 022	2 299 418
<b>Operating cash flows before working capital changes</b>	<b>7 460 384</b>	<b>8 979 599</b>
Capital changes	748 515	(5 025 934)
<b>Cash generated from operations</b>	<b>8 208 899</b>	<b>3 953 665</b>
Income taxes paid and Interest paid	(1 671 723)	(2 264 938)
<b>Net cash from operating activities</b>	<b>6 537 176</b>	<b>1 688 727</b>
<b>Net cash used in investing activities</b>	<b>(4 733 261)</b>	<b>(6 596 110)</b>
<b>Net cash from financing activities</b>	<b>(2 029 606)</b>	<b>5 153 873</b>
Cash and cash equivalents at the beginning of the year	375 545	277 218
<b>Cash and cash equivalents at the end of the year</b>	<b>149 854</b>	<b>523 708</b>

## Note 1. The Group and its operations

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) for six months ended 30 June 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 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%. On 24 February 2012, OJSC St Petersburg Heating Grid’s share capital was officially registered.

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.

Subsidiary	% of ownership		Immediate parent
	As at 30 June 2012	As at 31 December 2011	
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)	00.00	90.34	JSC Murmanskaya TPP (100.00%)

As the operator of 55 power plants, the Group is principally engaged in electricity 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.

The Company’s registered office is located at 6 Bronevaya Street, 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.

The international sovereign debt crisis, stock market volatility and other risks could have a negative effect on the Russian financial and corporate sectors. Management has determined impairment provisions by considering the economic situation 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.

## **Note 2. Operating environment of the Group (continued)**

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.

As at 30 June 2012 and as at 31 December 2011 the Group was controlled by the Gazprom Group (51.79% stake) via its subsidiary Gazprom Energoholding LLC. The Group's other significant shareholder as at 30 June 2012 and 31 December 2011 was Fortum Power and Heat Oy (25.66% stake). The Gazprom Group is controlled by the Russian Federation government, which was the Group's ultimate controlling party of the Group as at 30 June 2012 and as at 31 December 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 Tarrif and Leningrad Regional Tariff Service, which regulate its retail electricity 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 and heat sales are governed by regulations specific to the electricity 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 26, the government's economic, social and other policies could have a material effect on Group operations.

### ***Financial condition***

As at 30 June 2012, the Group's current liabilities exceeded its current assets by RUB 9 949 296 thousand (as at 31 December 2011 the Group's current liabilities exceeded its current assets by RUB 5 255 039 thousand). Management plans to find the necessary financial resources to increase its current assets.

### ***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. The recoverability of the Group's assets, as well as the future operations of the Group, may be significantly affected by the current and future economic environment. 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.



### **Note 3. Summary of Significant Accounting Policies (continued)**

#### ***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 (other than those acquired from parties under common control). 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.

At 30 June 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 32.8169 (31 December 2011: USD 1 / RUB 32.1961), and between the Russian Rouble and the Euro (EUR): EUR 1 = RUB 41.3230 (31 December 2011: EUR 1 / RUB 41.6714).

### **Note 3. Summary of Significant Accounting Policies (continued)**

#### ***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.

#### ***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.

Trading investments are financial assets which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Group classifies securities as trading investments if it intends to sell them within a short period after purchase, i.e. within six months. The Group may choose to reclassify a non-derivative trading financial asset out of the fair value through profit or loss category if the asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables may be reclassified out of the fair value through profit or loss category only in rare circumstances arising from a single event that is unusual and highly unlikely to reoccur in the near term.

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.

Other financial assets at fair value through profit or loss are financial assets designated irrevocably, at initial recognition, under this category. Management designates financial assets under this category only if (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information on that basis is regularly provided to and reviewed by the Group's key management personnel. Recognition and measurement of this category of financial assets is consistent with the accounting policy for trading investments.

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.

Held-to-maturity assets include quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at the end of each reporting period.

### **Note 3. Summary of Significant Accounting Policies (continued)**

#### ***Classification of financial assets (continued)***

All other financial assets are included in the available-for-sale category, which includes investment securities which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Available-for-sale investments are carried at fair value.

#### ***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. Liabilities held for trading are carried at fair value with changes in value recognised in profit or loss for the year (as financial income or financial costs) in the period in which they arise. Other financial liabilities are carried at amortised cost.

#### ***Initial recognition of financial instruments***

Trading investments, derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other 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.

#### ***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.

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.

### **Note 3. Summary of Significant Accounting Policies (continued)**

#### ***Property, plant and equipment (continued)***

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:

<b>Type of facility</b>	<b>Useful lives, years</b>
Production buildings	50
Hydrotechnical buildings	50
Generating equipment	20-30
Heating networks	25
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.

#### ***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.

#### ***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.

### **Note 3. Summary of Significant Accounting Policies (continued)**

#### ***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.

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

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

#### ***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.

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.

### **Note 3. Summary of Significant Accounting Policies (continued)**

#### ***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.

#### ***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.

#### ***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.

### **Note 3. Summary of Significant Accounting Policies (continued)**

#### ***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.

#### ***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.

#### ***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.

#### ***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.

Long-term input VAT is recorded upon initial recognition at its nominal amount. Any IAS 36-type impairment indicator, which would include a delay in cash flows beyond those initially expected, would result in impairment. The impairment would be the difference between the carrying amount (nominal) and the present value of the latest expected cash flows.

### **Note 3. Summary of Significant Accounting Policies (continued)**

#### ***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.

Interest or other investment income is not deducted when calculating the amount of borrowing costs available for capitalisation, except where the Group obtains specific borrowings for the purpose of acquiring a qualifying asset and has investment income on the temporary investment of funds obtained through such specific borrowings.

#### ***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.

Where the Group expects a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

#### ***Revenue recognition***

Revenue is recognised on the delivery of electricity 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. 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 exclusive of VAT. Revenues are measured at the fair value of the consideration received or receivable.



### **Note 3. Summary of Significant Accounting Policies (continued)**

#### ***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 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).

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.

#### ***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***

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 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 and heat production does not allow for the segregation of the electricity and heat segments.

#### **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.

##### ***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.

##### ***Recoverability of accounts receivable***

Provision for impairment of accounts receivable is based on the Group's assessment of whether the collectibles 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.

##### ***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.

## Note 5. Adoption of New or Revised Standards and Interpretations

The following new standards and interpretations became effective for the Group on 1 January 2011:

***Amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011).*** IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. As a result of the revised standard, the Group now also discloses contractual commitments to purchase and sell goods or services to its related parties.

***Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011).*** The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation; (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements; and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements.

IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation; (ii) to provide guidance on the acquiree's share-based payment arrangements that were not replaced, or were voluntarily replaced as a result of a business combination; and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3.

IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks; (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired; (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect; and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date, and not the amount obtained during the reporting period.

IAS 1 was amended to clarify the requirements for the presentation and content of the statement of changes in equity (this amendment was adopted previously by the Group in its prior year's financial statements). IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008). IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments. and IFRIC 13 was amended to clarify measurement of fair value of award credits.

The above amendments resulted in additional or revised disclosures, but had no material impact on measurement or recognition of transactions and balances reported in these financial statements. The financial effect of collateral required to be disclosed by the amendments to IFRS 7 is presented in these financial statements by disclosing collateral values separately for (i) those financial assets where collateral and other credit enhancements are equal to, or exceed, carrying value of the asset ("over-collateralised assets"); and (ii) those financial assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets").

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

**Other revised standards and interpretations effective for the current period.** IFRIC 19 “Extinguishing financial liabilities with equity instruments”, amendments to IAS 32 on classification of rights issues, clarifications in IFRIC 14 “IAS 19 “The limit on a defined benefit asset, minimum funding requirements and their interaction” relating to prepayments of minimum funding requirements and amendments to IFRS 1 “First-time adoption of IFRS”, did not have any impact on these financial statements.

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2012 or later, and which the Group has not early adopted.

**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 must be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity’s business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity’s business model is to hold the asset to collect the contractual cash flows; and (ii) the asset’s contractual cash flows represent 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.

**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 Group is currently assessing the impact of the new standard on its 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 Group is currently assessing the impact of the amended standard on its consolidated financial statements.

**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. The Group is currently assessing the impact of the amended standard on disclosures in its 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.

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

**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.

**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.

**Other revised standards and interpretations:** 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, the amendment to IAS 12 “Income taxes”, which introduces a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale, and IFRIC 20, “Stripping Costs in the Production Phase of a Surface Mine”, which considers when and how to account for the benefits arising from the stripping activity in mining industry, will not have any impact on these consolidated financial statements.

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

## Note 6. 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	20 732 850	16 662 713	44 967 657	39 247 988	24 378 957	26 085 853	172 076 018
Effect of reclassifications	(791)	-	-	791	-	-	-
<b>Balance as at 31 December 2011</b>	<b>20 732 059</b>	<b>16 662 713</b>	<b>44 967 657</b>	<b>39 248 779</b>	<b>24 378 957</b>	<b>26 085 853</b>	<b>172 076 018</b>
Additions	1 344	-	535	13 022	4 754 655	126 390	4 895 946
Transfers	26 064	3 775	159 276	527 954	(2 216 107)	1 499 038	-
Disposals	(22 597)	(6 172)	(110 914)	(119 291)	26 766	(240 362)	(472 570)
Reclassification to non-current assets held for sale	-	-	-	-	-	(6 741)	(6 741)
<b>Balance as at 30 June 2012</b>	<b>20 736 870</b>	<b>16 660 316</b>	<b>45 016 552</b>	<b>39 670 464</b>	<b>26 944 271</b>	<b>27 464 179</b>	<b>176 492 652</b>
<b>Accumulated depreciation (including impairment)</b>							
Balance as at 31 December 2011	(6 034 928)	(7 236 078)	(11 842 365)	(16 305 040)	(59 316)	(9 942 342)	(51 420 069)
Charge for the year	(312 270)	(137 382)	(857 954)	(602 383)	-	(734 934)	(2 644 923)
Disposals	21 195	6 172	81 878	101 068	-	51 312	261 625
Reclassification to non-current assets held for sale	-	-	-	-	-	3 434	3 434
<b>Balance as at 30 June 2012</b>	<b>(6 326 006)</b>	<b>(7 367 287)</b>	<b>(12 618 442)</b>	<b>(16 806 352)</b>	<b>(59 316)</b>	<b>(10 622 530)</b>	<b>(53 799 933)</b>
<b>Net book value as at 31 December 2011</b>	<b>14 697 131</b>	<b>9 426 635</b>	<b>33 125 292</b>	<b>22 943 739</b>	<b>24 319 641</b>	<b>16 143 511</b>	<b>120 655 949</b>
<b>Net book value as at 30 June 2012</b>	<b>14 410 864</b>	<b>9 293 029</b>	<b>32 398 110</b>	<b>22 864 112</b>	<b>26 884 955</b>	<b>16 841 649</b>	<b>122 692 719</b>

**Note 6. Property, Plant and Equipment (continued)**

Cost	Production buildings	Hydrotechnical buildings	Generating equipment	Heating networks	Construction in progress	Other	Total
<b>Balance as at 31 December 2010</b>	<b>17 576 894</b>	<b>16 644 373</b>	<b>28 521 382</b>	<b>31 453 991</b>	<b>31 415 949</b>	<b>20 414 722</b>	<b>146 027 311</b>
Effect of reclassifications	(70 180)	-	2 727 367	(186 256)	-	(2 470 931)	-
<b>Balance as at 31 December 2010</b>	<b>17 506 714</b>	<b>16 644 373</b>	<b>31 248 749</b>	<b>31 267 735</b>	<b>31 415 949</b>	<b>17 943 791</b>	<b>146 027 311</b>
Additions	632 265	-	87 266	6 899 288	7 168 252	224 886	15 011 957
Transfers	1 968 583	-	7 626 835	343 217	(14 124 855)	4 186 220	-
Disposals	(29 021)	(2 552)	(18 839)	(672)	(100 879)	(30 073)	(182 036)
Reclassification to non-current assets held for sale	(30 245)	-	-	-	-	(18 724)	(48 969)
<b>Balance as at 30 June 2011</b>	<b>20 048 296</b>	<b>16 641 821</b>	<b>38 944 011</b>	<b>38 509 568</b>	<b>24 358 467</b>	<b>22 306 100</b>	<b>160 808 263</b>
<b>Accumulated depreciation (including impairment)</b>							
<b>Balance as at 31 December 2010</b>	<b>(5 271 431)</b>	<b>(6 972 277)</b>	<b>(8 083 841)</b>	<b>(15 244 018)</b>	<b>(46 946)</b>	<b>(11 389 277)</b>	<b>(47 007 790)</b>
Effect of reclassifications	1 083	-	(2 433 404)	31 747	-	2 400 574	-
<b>Balance as at 31 December 2010</b>	<b>(5 270 348)</b>	<b>(6 972 277)</b>	<b>(10 517 245)</b>	<b>(15 212 271)</b>	<b>(46 946)</b>	<b>(8 988 703)</b>	<b>(47 007 790)</b>
Charge for the year	(383 211)	(138 865)	(612 360)	(499 099)	-	(452 898)	(2 086 433)
Disposals	6 300	1 887	16 462	635	-	27 881	53 165
Reclassification to non-current assets held for sale	6 465	-	-	-	-	16 647	23 112
<b>Balance as at 30 June 2011</b>	<b>(5 640 794)</b>	<b>(7 109 255)</b>	<b>(11 113 143)</b>	<b>(15 710 735)</b>	<b>(46 946)</b>	<b>(9 397 073)</b>	<b>(49 017 946)</b>
<b>Net book value as at 31 December 2010</b>	<b>12 305 463</b>	<b>9 672 096</b>	<b>20 437 541</b>	<b>16 209 973</b>	<b>31 369 003</b>	<b>9 025 445</b>	<b>99 019 521</b>
<b>Net book value as at 30 June 2011</b>	<b>14 407 502</b>	<b>9 532 566</b>	<b>27 830 868</b>	<b>22 798 833</b>	<b>24 311 521</b>	<b>12 909 027</b>	<b>111 790 317</b>



## Note 6. 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 30 June 2012 the advances given to contractors, which amounted to RUB 2 889 903 thousand, net of VAT (as at 31 December 2011: 2 004 201 RUB thousand), are recognised within the construction in progress balance. The respective input VAT is recognised within other non-current assets balance (see Note 8) and within accounts receivable and prepayments (see Note 12).

As at 30 June 2012 and at 31 December 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 30 June 2012 is RUB 404 594 thousand (for the year ended 31 December 2011: RUB 699 099 thousand).

Included in other property, plant and equipment are assets held under finance leases with a carrying value of RUB 106 868 thousand (as at 31 December 2011: RUB 117 606 thousand).

## Note 7. Investments in Associates

	30 June 2012	31 December 2011
Investments in LLC TGC-1 Service	2 600	2 600
Investments in OJSC Hibinskaya TPP	448 300	48 300
<b>Total investments</b>	<b>450 900</b>	<b>50 900</b>

As at 30 June 2012 and as at 31 December 2011 the Group owned 50% of OJSC Hibinskaya TPP and 26% of LLC TGC-1 Service.

## Note 8. Other Non-Current Assets

	30 June 2012	31 December 2011
Long-term receivables (interest free)	71 231	4 127
Loan issued	21 261	20 010
Promissory notes	-	1 051
<b>Total financial receivables</b>	<b>92 492</b>	<b>25 188</b>
Intangible assets	492 312	448 505
VAT in prepayments on capital construction	31 034	31 034
<b>Total other non-current assets</b>	<b>615 838</b>	<b>504 727</b>

Intangible assets primarily comprise information and accounting systems purchased by the Group from third party vendors.

## Note 9. Cash and Cash Equivalents

	30 June 2012	31 December 2011
Cash in bank and in hand in RUB	128 031	303 902
Foreign currency accounts in Euro	21 823	71 643
<b>Total cash and cash equivalents</b>	<b>149 854</b>	<b>375 545</b>

## Note 10. Short-term Investments

	30 June 2012	31 December 2011
Loan issued	4 989	5 847
<b>Total short-term investments</b>	<b>4 989</b>	<b>5 847</b>

## Note 11. Non-current Assets Held for Sale

As at 30 June 2012 the property, plant and equipment with a total net book value amounting to RUB 37 090 thousand were classified as assets held for sale (31 December 2011: RUB 50 512 thousand). According to Resolution No.2, adopted by the Board of Directors on 1 August 2011, there are plans to sell assets with a net book value of RUB 29 165 thousand for RUB 703 000 thousand. According to Resolution No.11, adopted by the Board of Directors on 27 December 2011, there are plans to sell assets with a net book value of RUB 7 925 thousand for RUB 43 360 thousand. Assets with a net book value of RUB 16 729 thousand were sold in the second quarter for RUB 66 285 thousand.

## Note 12. Trade and other receivables

	30 June 2012	31 December 2011
Trade receivables, net of provision for impairment of RUB 1 858 648 (31 December 2011: RUB 2 008 002)	10 591 992	9 671 241
Other receivables, net of provision for impairment of RUB 0 (31 December 2011: RUB 0)	406 182	222 826
<b>Total financial receivables</b>	<b>10 998 174</b>	<b>9 894 067</b>
Value-added tax receivables	794 356	2 057 122
Advances to suppliers	165 206	165 337
Other taxes receivable	586 571	541 071
<b>Total trade and other receivables</b>	<b>12 544 307</b>	<b>12 657 597</b>

## Note 13. Inventories

	30 June 2012	31 December 2011
Fuel	1 535 808	1 969 934
Spare parts	577 023	472 969
Raw materials and other supplies	617 952	469 766
<b>Total inventories</b>	<b>2 730 783</b>	<b>2 912 669</b>

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).

## Note 14. Share capital

### *Share capital*

The Group's share capital as at 30 June 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 means the excess of contributions received over the nominal value of shares issued.

### Merger reserve

As at 30 June 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

## Note 15. Long-term Borrowings

				30 June 2012	31 December 2011
Finance lease liabilities (non-current portion)				7 612	25 331
Bank borrowings and bonds issued				16 383 352	22 442 415
<b>Total long-term borrowings</b>				<b>16 390 964</b>	<b>22 467 746</b>
	Currency	Effective interest rate	Maturity	30 June 2012	31 December 2011
Long-term bonds	RUB	6.7%	2014	2 894 187	2 894 187
Long-term bonds	RUB	7.6%	2014	400 561	1 138 422
Long-term bonds	RUB	7.6%	2021	2 000 000	2 000 000
Long-term bonds	RUB	7.6%	2022	2 000 000	-
NORDIC Investment Bank	Euro	ЕВРИБОР+ 3%	2014	381 445	480 825
Nordic Environment Finance Corporation	Euro	ЕВРИБОР+ 2%	2015	61 985	72 925
AB Russia	RUB	7%	2013	1 200 000	1 200 000
TransCreditBank	RUB	9.5%	2014	2 506 469	4 535 429
VTB	RUB	6.7%	2013-2016	4 000 000	4 676 500
Sberbank RF	RUB	9-9.45%	2013-2014	11 050 000	8 200 000
Unicreditbank	RUB	6.7%	2012	1 031 840	2 804 505
Alfabank	RUB	8.75-9.3%	2014	1 000 000	2 000 000
MTC-BANK	RUB	6.7%	2013	600 000	600 000
AKB ROSBANK	RUB	9.1-9.45%	2013	1 500 000	1 982 610
				<b>30 626 577</b>	<b>32 585 403</b>
Less: current portion					
Long-term bonds issued	RUB	7.6%	2014	-	(1 138 422)
NORDIC Investment Bank	Euro	ЕВРИБОР+ 3%	2012	(190 722)	(192 330)
Nordic Environment Finance Corporation	Euro	EURIBOR + 2%	2012	(20 663)	(20 836)
VTB	RUB	6.7%	2012-2013	(4 000 000)	(1 200 000)
AKB ROSBANK	RUB	8.76-9.5%	2013	-	(211 400)
Alfabank	RUB	8.75-9.3%	2012	-	(2 000 000)
Unicreditbank	RUB	6.7%	2012-2013	(1 031 840)	(1 680 000)
Sberbank RF	RUB	6.7%	2012-2013	(7 200 000)	(3 700 000)

AB Russia	RUB	7%	2013	(1 200 000)	-
MTC-BANK	RUB	7%	2013	(600 000)	-
<b>Total long-term bank borrowings and bonds issued</b>				<b>16 383 352</b>	<b>22 442 415</b>

### 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 is no indication the Group is at risk of breaching the covenants.

### Note 16. Other Non-Current Liabilities

	30 June 2012	31 December 2011
Long-term accounts payable	60 316	-
<b>Total other non-current liabilities</b>	<b>60 316</b>	<b>-</b>

### Note 17. Short-Term Borrowings

	30 June 2012	31 December 2011
Finance lease liabilities (current portion)	40 200	47 618
Bank borrowings and bonds issued	15 407 084	11 351 818
<b>Total short-term borrowings</b>	<b>15 447 284</b>	<b>11 399 436</b>

Name of lender	Currency	Effective interest rate	30 June 2012	31 December 2011
VTB	RUB	8.4-8.7%	863 859	1 208 830
Gazprombank	RUB	12%	300 000	
<b>Current portion of long-term borrowings:</b>				
<i>Long-term bonds issued</i>	<i>RUB</i>	<i>7.6%</i>	<i>-</i>	<i>1 138 422</i>
Nordic Environment Finance Corporation	Euro	ЕВРИБОР+2.00%	20 663	20 836
NORDIC Investment Bank	Euro	ЕВРИБОР+3.00%	190 722	192 330
VTB	RUB	6.7%	4 000 000	1 200 000
AKB ROSBANK	RUB	8.76-9.5%	-	211 400
Alfabank	RUB	8.75-9.3%	-	2 000 000
Unicreditbank	RUB	6.7%	1 031 840	1 680 000
Sberbank RF	RUB	6.7%	7 200 000	3 700 000
AB Russia	RUB	7%	1 200 000	-
MTC-BANK	RUB	6.7%	600 000	-

Total bank borrowings and bonds issued	15 407 084	11 351 818
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#### Note 18. Trade and other payables

	30 June 2012	31 December 2011
Trade accounts payable	3 652 090	3 671 020
Accounts payable for capital construction	2 669 206	3 272 017
Accrued liabilities and other payables	842 074	469 772
Interest accrued on loans	220 340	99 990
<b>Total financial payables</b>	<b>7 383 710</b>	<b>7 512 799</b>
Advances from customers	1 049 101	990 771
Employee benefits	574 452	528 776
<b>Total trade and other payables</b>	<b>9 007 263</b>	<b>9 032 346</b>

#### Note 19. Other Taxes Payable

	30 June 2012	31 December 2011
VAT payable	662 140	340 979
Property tax	104 696	255 043
Employee taxes	130 534	72 480
Personal Income Tax	44 114	47 914
Water usage tax	13 790	13 553
Other taxes	6 498	13 046
<b>Total taxes Payable</b>	<b>961 772</b>	<b>743 015</b>

As at 30 June 2012 and as at 31 December 2011 the Group had no past due tax liabilities.

#### Note 20. Operating Expenses, net

	Note	Six months ended 30 June 2012	Six months ended 30 June 2011
Fuel		14 581 967	14 385 257
Employee benefits		3 369 164	3 368 197
Electricity and heat purchases		2 475 740	3 255 937
Depreciation of property, plant and equipment and intangible assets		2 671 073	2 162 379
Repairs and maintenance		810 509	528 674
Water usage expenses		1 085 422	1 076 955
Taxes other than income tax		495 525	547 465
Dispatcher's fees		343 871	380 802
Provision for impairment of accounts receivable		(148 939)	(52 205)
Other materials		257 176	287 075
Heat distribution		320 564	333 408
Lease expenses		140 533	149 481
Insurance cost		110 482	119 043
(Gain)/Loss on disposal of property, plant and equipment		14 709	(78 778)
(Gain)/Loss on disposal of subsidiary		(96 057)	-
Other operating income		(579 545)	(347 246)
Other operating expenses		1 234 093	1 239 227
<b>Total operating expenses, net</b>		<b>27 086 287</b>	<b>27 355 671</b>

Employee benefits are generally presented by wages and salaries.

### Note 21. Disposal of Subsidiary

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

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

	Six months ended 30 June 2012	Six months ended 30 June 2011
Non-current assets	31 093	-
Current assets	81 053	-
Current liabilities	(203 033)	-
Non-current liabilities	-	-
<b>Net assets</b>	<b>(90 887)</b>	<b>-</b>
The Group's share in net assets disposed of	82 107	-
Consideration received	13 950	-
<b>(Loss)/gain on disposal of subsidiaries</b>	<b>96 057</b>	<b>-</b>

### Note 22. Finance income and finance costs

	Six months ended 30 June 2012	Six months ended 30 June 2011
Interest income	(10 922)	(309)
Exchange differences (net)	(3 738)	-
Effect of discounting	(21 276)	(20 197)
<b>Finance income</b>	<b>(35 936)</b>	<b>(20 506)</b>
Interest expense	895 807	292 490
Effect of discounting	26 080	17 668
Exchange differences (net)	-	1 587
<b>Finance costs</b>	<b>921 887</b>	<b>311 745</b>

### Note 23. Events after the Reporting Period

For the period 1 July 2012 to 27 August 2012, the Group received long-term loans of RUB 2 043 639 thousand and short-term loans of RUB 316 150 thousand.

For the period 1 July 2012 to 27 August 2012, the Group repaid long-term borrowings for the total amount of RUB 93 546 thousand and short-term loans for the total amount of RUB 353 400 thousand.

3 July 2012 the Group concluded an agreement of opening document credit with OJSC "Alfabank" for the total amount of RUB 272 930 EUR maturing on July 2014. The document credit is irrevocable.

#### Government Grants

In August 2012 JSC Murmanskaya TPP received a grant for the compensation of income because of providing heating services per tariffs that don't cover expenses from Murmansk Region budget for a total amount of RUB 85 882 thousand.