RUSHYDRO GROUP

Consolidated Financial Statements
prepared in accordance with IFRS
with independent auditor’s report

As at and for the year ended 31 December 2012

CONTENTS

Independent auditor's report

Consolidated Financial Statements

Notes to the Consolidated Financial Statements

Independent Auditor's Report

To the Shareholders and Board of Directors of Open Joint Stock Company Federal Hydro-Generating Company – RusHydro (OJSC RusHydro)

We have audited the accompanying consolidated financial statements of OJSC RusHydro and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2012 and the consolidated statements of income, 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.

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 Pricewaterhouse Coopers Audit

1 April 2013

Moscow, Russian Federation

T.V. Sirotinskaya, Director (licence no. 01-000527),
ZAO PricewaterhouseCoopers Audit

Audited entity: OJSC RusHydro

State registration certificate № 002237589, issued by the Inspectorate of the Russian Ministry of Taxes and Levies of Krasnoyarsk on 26 December 2004

Certificate of inclusion in the Unified State Register of Legal Entities № 1042401810494 issued on 26 December 2004

51 Respubliki str, Krasnoyarsk, Krasnoyarsky region, Russian Federation, 660075

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

RusHydro Group
Consolidated Statement of Financial Position
(in millions of Russian Rubles unless noted otherwise)

	Note	31 December 2012	31 December 2011
ASSETS			
Non-current assets			
Property, plant and equipment	7	604,461	568,629
Investments in associates and jointly controlled entities	8	17,865	33,686
Available-for-sale financial assets	9	14,326	19,738
Other non-current assets	10	25,048	36,136
Total non-current assets		**661,700**	**658,189**
Current assets			
Cash and cash equivalents	11	39,819	47,337
Accounts receivable and prepayments	12	49,512	49,871
Inventories	13	19,578	17,972
Other current assets	14	53,787	9,944
Total current assets		**162,696**	**125,124**
Assets of subsidiary acquired exclusively with a view for resale	26	28,954	28,470
Non-current assets classified as held for sale	8	1,397	-
TOTAL ASSETS		**854,747**	**811,783**
EQUITY AND LIABILITIES			
Equity			
Share capital	15	317,637	290,302
Treasury shares	15	(10,662)	(10,662)
Share premium	15	39,202	21,434
Retained earnings and other reserves		168,473	197,416
Equity attributable to the shareholders of OJSC RusHydro		**514,650**	**498,490**
Non-controlling interest		23,745	27,169
TOTAL EQUITY		**538,395**	**525,659**
Non-current liabilities			
Deferred income tax liabilities	16	39,668	44,340
Non-current debt	18	67,283	102,624
Other non-current liabilities	19	14,035	13,001
Total non-current liabilities		**120,986**	**159,965**
Current liabilities			
Current debt and current portion of non-current debt	18	73,752	21,414
Accounts payable and accruals	20	46,171	40,030
Accounts payable in respect of share issues	15	50,000	43,604
Current income tax payable		509	407
Other taxes payable	21	8,540	7,611
Total current liabilities		**178,972**	**113,066**
Liabilities of subsidiary acquired exclusively with a view for resale	26	16,394	13,093
TOTAL LIABILITIES		**316,352**	**286,124**
TOTAL EQUITY AND LIABILITIES		**854,747**	**811,783**

Chairman of Management Board — E. V. Dod

Chief Accountant — D. V. Finkel

Открытое акционерное общество «Федеральная гидрогенерирующая компания – РусГидро» • ОГРН 1042401810494 • 660075, Красноярский край, г. Красноярск, ул. Республики, д. 51
РусГидро

1 April 2013

The accompanying notes are an integral part of these Consolidated Financial Statements

(in millions of Russian Rubles unless noted otherwise)

	Note	Year ended 31 December 2012	Year ended 31 December 2011
CONTINUING OPERATIONS			
Revenue	22	294,979	362,599
Government grants	23	10,782	9,097
Expenses	24	(268,663)	(313,617)
Impairment of property, plant and equipment	7	(19,332)	(6,963)
Impairment of long-term promissory notes	10	(9,363)	-
Impairment of available-for-sale financial assets	9	(8,041)	-
Impairment of goodwill and intangible assets	10	(2,975)	-
Gain on disposal of available-for-sale financial assets held for sale and disposal group		-	750
Gain on disposal of subsidiaries		131	-
Operating (loss) / profit		**(2,482)**	**51,866**
Finance income	25	5,079	4,183
Finance costs	25	(6,458)	(6,392)
Share of results of associates and jointly controlled entities	8	(14,197)	(5,945)
(Loss) / profit before income tax		**(18,058)**	**43,712**
Total income tax expense	16	(5,315)	(11,934)
(Loss) / profit for the period from continuing operations		**(23,373)**	**31,778**
DISCONTINUED OPERATIONS			
Loss for the period from discontinued operations	**26**	**(2,166)**	**(2,285)**
(Loss) / profit for the period		**(25,539)**	**29,493**
Attributable to:			
Shareholders of OJSC RusHydro		(22,802)	31,411
Non-controlling interest		(2,737)	(1,918)
(Loss) / earnings per ordinary share for profit from continuing operations attributable to the shareholders of OJSC RusHydro – basic and diluted (in Russian Rubles per share)	27	(0.0759)	0.1146
Loss per ordinary share for loss from discontinued operations attributable to the shareholders of OJSC RusHydro – basic and diluted (in Russian Rubles per share)	27	(0.0026)	(0.0030)
Weighted average number of shares outstanding – basic and diluted (thousands of shares)	27	290,262,445	281,247,952

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1 April 2013

(in millions of Russian Rubles unless noted otherwise)

	Note	Year ended 31 December 2012	Year ended 31 December 2011
(Loss) / profit for the period		(25,539)	29,493
Other comprehensive (loss) / income, net of tax:			
Impairment of revalued property, plant and equipment	7	(10,646)	(11,299)
Loss arising on available-for-sale financial assets	9	(296)	(5,070)
Loss arising on disposed available-for-sale financial assets		-	(2,577)
Loss arising on impaired available-for-sale financial assets	9	(3,438)	-
Accumulated loss / (gain) on available-for-sale financial assets recycled to profit or loss	9	6,451	(2,040)
Other comprehensive loss		-	(192)
Total comprehensive (loss) / income for the period		**(33,468)**	**8,315**
Attributable to:			
Shareholders of OJSC RusHydro		(29,128)	14,518
Non-controlling interest		(4,340)	(6,203)

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РусГидро

Chairman of Management Board — E. V. Dod

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1 April 2013

(in millions of Russian Rubles unless noted otherwise)

	Note	Year ended 31 December 2012	Year ended 31 December 2011
CASH FLOWS FROM OPERATING ACTIVITIES:			
(Loss) / profit before income tax		**(18,058)**	**43,712**
Depreciation of property, plant and equipment and intangible assets	7, 24	18,232	16,421
Loss on disposal of property, plant and equipment	24	1,855	2,464
Share of results of associates and jointly controlled entities	8	14,197	5,945
Gain on disposal of available-for-sale financial assets held for sale and disposal group		-	(750)
Gain on disposal of subsidiaries		(131)	-
Finance income	25	(5,079)	(4,183)
Finance costs	25	6,458	6,392
Impairment of property, plant and equipment	7	19,332	6,963
Impai-rment of goodwill and intangible assets	10	2,975	-
Impairment of available-for-sale financial assets	9	8,041	-
Impairment of long-term promissory notes	10	9,363	-
Impairment of accounts receivable	24	5,781	8
Effect of Share Option Programme expenses	6	141	768
Pension expenses	17	499	526
Other income		(54)	(144)
Operating cash flows before working capital changes and income tax paid		**63,552**	**78,122**
Working capital changes:			
Increase in accounts receivable and prepayments		(6,308)	(13,054)
Increase in inventories		(1,404)	(2,455)
Decrease / (increase) in other non-current assets		1,341	(2,832)
Increase in accounts payable and accruals		8,335	15,250
Increase in other taxes payable		811	1,094
(Decrease) / increase in other non-current liabilities		(639)	985
Income tax paid		(6,022)	(12,441)
Net cash generated by operating activities		**59,666**	**64,669**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(82,150)	(81,905)
Proceeds from sale of property, plant and equipment		162	394
Disposal of subsidiaries		(17)	(17,325)
Investment in bank deposits and purchase of other investments		(75,925)	(10,441)
Redemption of bank deposits and proceeds from sale of other investments		33,187	30,648
Purchase of subsidiaries from third parties, net of cash acquired		32	(5,246)
Purchase of associates and other equity investments		(504)	(600)
Settlement of derivative instruments		(9)	(187)
Interest received		4,484	3,837
Purchase of subsidiaries from parties under common control		-	(173)
Acquisition of subsidiary acquired with a view for resale		-	33
Net cash used in investing activities		**(120,740)**	**(80,965)**

RusHydro Group
Consolidated Statement of Cash Flows
(in millions of Russian Rubles unless noted otherwise)

	Note	Year ended 31 December 2012	Year ended 31 December 2012
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from current debt	18	43,741	31,196
Proceeds from non-current debt	18	44,674	70,914
Repayment of debt	18	(71,288)	(62,358)
Interest paid		(11,009)	(6,992)
Dividends paid to the shareholders of OJSC RusHydro		(2,408)	(2,450)
Dividends paid by subsidiaries to non-controlling interest holders		(170)	(210)
Prepayments and proceeds from share issue	15	51,498	3,338
Proceeds from share issue in subsidiaries	20	-	3,397
Finance lease payments		(1,404)	(1,667)
Purchase of non-controlling interest in subsidiaries		(58)	-
Net cash generated by financing activities		**53,576**	**35,168**
Net cash (used) / generated by subsidiary acquired with a view for resale		(39)	44
Foreign exchange (loss) / gain on cash balances		(20)	33
(Decrease) / increase in cash and cash equivalents		**(7,557)**	**18,949**
Cash and cash equivalents at the beginning of the period		**47,414**	**28,465**
Cash and cash equivalents at the end of the period	**11, 26**	**39,857**	**47,414**

Chairman of Management Board — E. V. Dod

Chief Accountant — D. V. Finkel

1 April 2013

Consolidated Statement of Changes in Equity

(in millions of Russian Rubles unless noted otherwise)

	Note	Share capital	Treasury shares	Share premium	Merger reserve	Revaluation reserve	Available-for-sale financial assets	Retained earnings	Equity attributable to shareholders of OJSC RusHydro	Non-controlling interest	Total equity
As at 1 January 2012		**290,302**	**(10,662)**	**21,434**	**(127,216)**	**228,680**	**(2,273)**	**98,225**	**498,490**	**27,169**	**525,659**
Loss for the period		-	-	-	-	-	-	(22,802)	(22,802)	(2,737)	(25,539)
Loss arising on available-for-sale financial assets	9	-	-	-	-	-	(226)	-	(226)	(70)	(296)
Loss arising on impaired available-for-sale financial assets	9	-	-	-	-	-	(3,438)	-	(3,438)	-	(3,438)
Accumulated loss on available-for-sale financial assets recycled to profit or loss	9	-	-	-	-	-	6,451	-	6,451	-	6,451
Impairment of revalued property, plant and equipment	7	-	-	-	-	(9,113)	-	-	(9,113)	(1,533)	(10,646)
Total comprehensive loss		**-**	**-**	**-**	**-**	**(9,113)**	**2,787**	**(22,802)**	**(29,128)**	**(4,340)**	**(33,468)**
Share issue	15	27,335	-	17,768	-	-	-	-	45,103	-	45,103
Effect of changes in non-controlling interest	15	-	-	-	-	-	-	2,448	2,448	1,086	3,534
Dividends	15	-	-	-	-	-	-	(2,431)	(2,431)	(170)	(2,601)
Effect of Share Option Programme	6	-	-	-	-	-	-	141	141	-	141
Acquisition of subsidiaries		-	-	-	-	-	-	27	27	-	27
Transfer of revaluation reserve to retained earnings		-	-	-	-	(810)	-	810	-	-	-
As at 31 December 2012		**317,637**	**(10,662)**	**39,202**	**(127,216)**	**218,757**	**514**	**76,418**	**514,650**	**23,745**	**538,395**

The accompanying notes are an integral part of these Consolidated Financial Statements

Consolidated Statement of Changes in Equity

(in millions of Russian Rubles unless noted otherwise)

	Note	Share capital	Treasury shares	Share premium	Merger reserve	Revaluation reserve	Available-for-sale financial assets	Retained earnings	Equity attributable to shareholders of OJSC RusHydro	Non-controlling interest	Total equity
As at 1 January 2011		**288,695**	**(9,744)**	**20,453**	**(94,973)**	**229,901**	**7,401**	**68,256**	**509,989**	**29,579**	**539,568**
Profit for the period		-	-	-	-	-	-	31,411	31,411	(1,918)	29,493
Loss arising on available-for-sale financial assets	9	-	-	-	-	-	(5,029)	-	(5,029)	(41)	(5,070)
Loss arising on disposed available-for-sale financial assets		-	-	-	-	-	(2,605)	-	(2,605)	28	(2,577)
Accumulated gain on available-for-sale financial assets recycled to profit or loss on their disposal		-	-	-	-	-	(2,040)	-	(2,040)	-	(2,040)
Impairment of revalued property, plant and equipment	7	-	-	-	-	(7,027)	-	-	(7,027)	(4,272)	(11,299)
Other comprehensive loss		-	-	-	-	-	-	(192)	(192)	-	(192)
Total comprehensive income		**-**	**-**	**-**	**-**	**(7,027)**	**(9,674)**	**31,219**	**14,518**	**(6,203)**	**8,315**
Share issue	15	1,607	-	981	-	-	-	-	2,588	-	2,588
Acquisition of treasury shares	15	-	(918)	-	-	-	-	-	(918)	-	(918)
Acquisitions under common control	15	-	-	-	(32,243)	6,396	-	(1,502)	(27,349)	11,611	(15,738)
Disposal of subsidiaries (Disposal group)		-	-	-	-	(110)	-	110	-	(5,593)	(5,593)
Effect of changes in non-controlling interest	15	-	-	-	-	-	-	1,344	1,344	(2,015)	(671)
Dividends	15	-	-	-	-	-	-	(2,450)	(2,450)	(210)	(2,660)
Effect of Share Option Programme	6	-	-	-	-	-	-	768	768	-	768
Transfer of revaluation reserve to retained earnings		-	-	-	-	(480)	-	480	-	-	-
As at 31 December 2011		**290,302**	**(10,662)**	**21,434**	**(127,216)**	**228,680**	**(2,273)**	**98,225**	**498,490**	**27,169**	**525,659**

Chairman of Management Board E. V. Dod

Chief Accountant D. V. Finkel

1 April 2013

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The accompanying notes are an integral part of these Consolidated Financial Statements

Note 1. The Group and its operations

These Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2012 for OJSC RusHydro (hereinafter referred to as "the Company") and its subsidiaries (hereinafter referred to as the "Group").

The Company was incorporated and is domiciled in the Russian Federation. The Company is a joint stock company limited by shares and was set up in accordance with Russian regulations.

The Group's primary activities are generation and sale of electricity and capacity on the Russian wholesale and retail markets, as well as generation and sale of heat energy.

Changes in the Group's structure. The Group's principal subsidiaries are presented in Note 4. Changes in the Group's structure significantly affecting these Consolidated Financial Statements are described below.

In 2011 the Group acquired controlling interests in RAO Energy System of East Group, OJSC Pavlodolskaya HPP and OJSC Kamchatskiy Gazoenergeticheskiy Complex in the course of the Group's additional ordinary share issue and purchased a controlling interest in CJSC International Power Corporation. These acquisitions from parties under common control were accounted for using predecessor values, except for OJSC DRSK which was classified as a subsidiary acquired exclusively with a view for resale and accounted for using predecessor values prospectively from the acquisition date (Notes 2, 26).

In March 2011 the Group transferred investments in several retail companies classified as held for sale as a contribution to the share capital of OJSC INTER RAO UES: OJSC Mosenergosbyt and its subsidiaries, OJSC Saint Petersburg Sale Company and its subsidiaries, OJSC Altayenergosbyt, OJSC Tambov Energy Retailing Company, OJSC Saratovenergo, OJSC United Energy Retailing Company (Disposal group). Disposal of these retail companies had a significant impact on revenue (Note 22) and expenses of the Group (Note 24) and resulted in the decrease of the Group's operating profit margin.

In September 2011 the Group acquired a 100 percent interest in LLC ESC Bashkortostan (Energy Supply Company of Bashkortostan). The transaction was accounted for as a business combination.

Economic environment in the Russian Federation. The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation and high interest rates.

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory and political developments.

Management is unable to predict all developments which could have an impact on the Russian economy and consequently what effect, if any, they could have on the future financial position of the Group. Management believes it takes all the necessary measures to support the sustainability and development of the Group's business.

Relations with the Government and current regulation. As at 31 December 2012 the Russian Federation owned 60.50 percent of the total voting ordinary shares of the Company (31 December 2011: 57.97 percent).

The Group's major customer base includes a large number of entities controlled by, or related to the Government. Furthermore, the Government controls contractors and suppliers, which provide the Group with electricity dispatch, transmission and distribution services, and a number of the Group's fuel and other suppliers (Note 6).

In addition, the Government affects the Group's operations through:

- participation of its representatives in the Company's Board of Directors;
- regulation of tariffs for electricity, capacity and heating;
- approval and monitoring of the Group's investment programme, including volume and sources of financing.

Economic, social and other policies of the Russian Government could have a material effect on operations of the Group.

Overview of the electricity and capacity market. Capacity and electricity, while interrelated, are treated as separate economic products. The capacity market represents the obligation and ability to keep sufficient generation capability in reserve in order to satisfy a target level of potential demand, while the sale of electricity represents the actual delivery of electricity to the purchaser.

The Russian electricity and capacity market consists of wholesale and retail markets.

Participants of the wholesale market include: generating companies, electricity sales companies, electricity suppliers, grid companies (in terms of electricity purchases to cover transmission losses), electricity export / import operators, large electricity consumers.

Participants of the wholesale market, except grid companies, can act as electricity and capacity sellers and buyers.

Participants of the retail markets include: electricity consumers, electricity sales companies, electricity generators that are not eligible for participation in the wholesale market, territorial grid companies.

The Group's entities that are included in the Generation segment are primarily participants of the wholesale market selling electricity and capacity to other participants of the market.

The Group's entities that are included in the Retail segment are primarily participants of both the wholesale market, where they purchase electricity and capacity, and the retail market where they sell electricity and capacity to the end-consumers.

The Group's entities relating to the segment RAO Energy System of East Group are the participants of both electricity and capacity wholesale market (non-pricing zone of the Far East) where they sell and purchase electricity and capacity, and retail markets where they sell electricity to end-consumers, including those in the isolated energy systems.

Wholesale electricity and capacity market. The wholesale electricity and capacity market operates in accordance with the Resolution of the Russian Government No. 1172 dated 27 December 2010.

A wholesale market for electricity and capacity functions on the territory of the regions, which are integrated in pricing areas. European Russia and Urals are included in the first pricing area, Siberia is included in the second pricing area. In non-pricing areas (Arkhangelsk and Kaliningrad regions, Komi Republic, regions of the Far East), where the competitive market relationships are not possible due to technological reasons, sales of electricity and capacity are carried out based on regulated tariffs.

In the isolated energy systems which are not technically integrated into the country's unified energy system, there is no electricity and capacity wholesale market and electricity is supplied through the regulated retail markets.

Wholesale electricity market

The wholesale electricity market has a number of sectors varying in contractual terms, conditions and delivery time frames: sector of regulated contracts, day-ahead market, sector of unregulated bilateral contracts and the balancing market.

Starting from 1 January 2011 regulated contracts are traded only for volumes of electricity and capacity designated for delivery to population, groups of customers equivalent to population and guaranteeing suppliers operating in North Caucasus, Republic of Tyva and Republic of Buryatia.

Electricity and capacity supply tariffs for the Russian Federation are calculated using the price indexing formulas determined by the Federal Tariff Service (hereinafter referred to as "the FTS").

Electricity and capacity supply volumes are determined based on the estimated consolidated balance of electricity production and supply prepared by the FTS, so that for the electricity and capacity generator supply under regulated contracts does not exceed 35 percent of the total electricity and capacity supply to the wholesale market determined by the decision on balance for such generator.

Electricity volumes that are not covered by the regulated contracts are sold at unregulated prices on the day-ahead market (DAM) and balancing market (BM).

DAM is a competitive selection of seller and buyer price bids on the day ahead of actual electricity supply, including prices and volumes for each of 24 hours. The selection is managed by the Commercial Operator of the wholesale market (OJSC ATS). On DAM, the price is determined by balancing the demand and supply, and such price is applied to all market participants. To mitigate the price manipulation risk, DAM introduced a system encouraging the participants to submit competitive price bids – in accordance with the trading rules, the lowest price bids for electricity supply are satisfied first.

Price indices and trade volumes in DAM are published daily on the web-site of OJSC ATS.

Electricity volumes sold under bilateral contracts and on DAM constitute scheduled electricity consumption. However, actual consumption is inevitably different from the planned one. Deviations from scheduled production / consumption are traded on a real-time basis on BM, and the System Operator of the wholesale market (OJSC SO UES) holds additional tenders to select bids every three hours.

Under unregulated bilateral contracts, the market participants independently determine supply counter parties, prices and volumes.

Wholesale capacity market

The Resolution of the Russian Government No. 89 dated 24 February 2010 approved amendments to regulations of the electricity and capacity market providing for organisation of long-term capacity market.

Capacity is traded based on the following trading mechanisms:

- purchase / sale of capacity under capacity sales contracts, concluded as a result of capacity competitive selection of bids;
- purchase / sale of capacity under unregulated contracts, including concluded through the exchange;
- purchase / sale of capacity under contracts to provide capacity and under sale contracts of new nuclear power plants and hydroelectric power plants, similar to capacity sale contracts;
- purchase / sale of capacity produced by forced generators;
- purchase / sale of capacity under regulated contracts (within the volumes for delivery to population and groups of customers equivalent to population);
- purchase / sale of capacity of generating facilities selected by additional screening of investment projects performed when capacity selected through capacity competitive selection of bids in any area does not guarantee meeting the demand for capacity;
- purchase / sale of capacity of generating facilities determined upon the results of competitive selection of investment projects on developing the prospective technological capacity reserves.

From 2011, similar to trading operations with electricity, capacity is supplied under regulated contracts only in the volumes required for supply to the population, equivalent consumer categories and consumers operating in some parts of the wholesale market pricing zones, consisting Russian constituent territories as determined by the Russian Government (North Caucasus).

In the long-term capacity market, capacity tenders are held based on the demand estimated for the respective supply period by OJSC SO UES. If the actual demand for capacity is above the forecast one, additional tender selection may be held for adjusting it.

The tender first selects capacity commissioned under capacity supply contracts (CSC) entered into with heating generation sites and contracts with nuclear power plants and hydro power plants similar to CSC. Non-selected capacity that failed to pass through the tender is not paid for, excluding the capacity of the generating sites that are required to maintain the technological operating modes of the energy system or supply heat (“forced” generators). The capacity of “forced” generators is paid for using the tariff set up by the FTS.

In December 2010 first capacity sale contracts for new hydroelectric power plants and pump storage power plants were concluded. Heating generation site commissioned under CSC, receives guaranteed payment for capacity for 10 years, to offset the maintenance cost and capital expenditures covered by agreement. Under these contracts such power plants receive guaranteed payment for capacity for 20 years. Maintenance and capital expenditures used to calculate the cost of capacity under capacity supply contracts are determined by Resolution of the Russian Government No. 238 dated 13 April 2010.

The rules of wholesale electricity and capacity market provide for inclusion of special investment component to the price of capacity as determined based on capacity competitive selection of bids to ensure safe operation of the hydropower plants as well as financing their investment needs.

For 2011 the target investment component for the Group was approved in the amount of RR 12,906 million, for 2012 the investment component was abolished.

Non-pricing zone of the Far East

Territories of the Amur Region, Primorsky Region, Khabarovsk Region, Jewish Autonomous Region and the Southern District of the Sakha Republic (Yakutia) are integrated into a single non-pricing zone of the wholesale electricity and capacity market of the Far East. There are specific features of managing electricity and capacity trading operations due to limitations in the competition among electricity suppliers and gridimposed limitations for electricity flow.

Tariffs for electricity supplied by the Far East energy companies to the consumer (end-consumer tariffs) are approved by regional regulatory authorities based on the threshold tariff levels approved by the FTS for the regulated period.

The threshold tariff levels for electricity supplied to population or equivalent consumer categories and other consumers in the Russian constituent territories are determined by the FTS in accordance with the forecast of social and economic development in the Russian Federation for the regulated period.

The single buyer wholesale market model is implemented in the Far East non-pricing zone. Suppliers of the wholesale market supply electricity and capacity to the wholesale market using the tariffs established for them by the FTS. The single buyer purchases electricity and capacity on the wholesale market at indicative prices approved by the FTS. OJSC ATS holds trades and makes sure settlements between the electricity generators and buyers are made using the FTS tariffs approved for these parties.

Functions of the single buyer are assigned to OJSC DEK on the territory of Amur Region, Jewish Autonomous Region, Khabarovsk Region, Primorsky Region and the Southern District of the Sakha Republic (Yakutia).

Retail electricity market. The new retail market rules were introduced by Resolution of the Government No. 442 dated 4 May 2012 “On Approval of the Rules for the Operation of the Retail Electricity Markets”. Retail electricity markets represent sales of electricity to the end-consumers outside the scope of the wholesale market. Almost all volumes of electricity sold in the retail markets are purchased in the wholesale market, excluding a small portion generated at the power plants that are not participants in the wholesale market. And there are regions with only retail market operations – they are isolated energy systems of Kamchatsky Region, Magadan Region, Chukotsk Autonomous Region, Western and Central Regions of Sakha Republic (Yakutia) and Sakhalin Region where systems are not technically integrated into the unified energy system.

Electricity sales (supply) companies with the status of guaranteeing suppliers are obliged to enter into an electricity supply contract with any party that applied to them, within their operational zone, which represents a guarantee of electricity supply to any retail market consumer. The guaranteeing suppliers’ operational zones cover all territory of Russia and do not overlap. Thus, there is only one guaranteeing supplier for any consumer.

From 2011, the guaranteeing suppliers and other energy sales companies supply electricity to the consumers that are not population or equivalent consumer categories:

- *In the territories integrated into pricing zones of the wholesale market* – at unregulated prices within the threshold limits of unregulated prices. The threshold limits of unregulated prices are determined in accordance with the results of each month based on the actual wholesale market prices.
- *In the territories integrated into non-pricing zones of the wholesale market* – at regulated prices, taking into account deviations from actual consumption volumes from the contractual ones, and the recovery of expenses incurred in connection with the change in contractual consumption volume.
- *In the territories of isolated energy systems* – under regulated prices approved by the FTS and executive authorities of the constituent regions of the Russian Federation in terms of state tariff regulation in the territories where such energy systems are located.

Population and equivalent consumer categories pay for all actually consumed electricity only under the regulated tariffs.

Heating market. Operations of the heating market are regulated by Federal Law No.190-FZ “On Heating” dated 27 July 2010.

The Group’s entities that are included into the segment RAO Energy System of the East Group are participants on the retail heating markets in the territories of their presence. Heat energy is supplied on the centralised basis from the heat power plants and boiling houses operated by the energy systems. And a number of energy systems are involved in supplies of heat, generating and distributing heat energy, while others – just generate heat energy.

Heating market provides for:

- supply of heat and heat transfer public utilities relating to hot water and heating supply needs;
- supply of heat for the entities’ technological needs.

According to the Russian legislation, sales of heat energy are fully regulated.

Prices (tariffs) for heat supplied by utilities for all consumer groups are approved by executive authorities in the Russian constituent regions responsible for state regulation of prices (tariffs).

Service fee for maintenance of spare heat capacity when there is no heat consumption and fee for connection to the system of heating supply are also regulated by executive authorities in the Russian constituent regions responsible for state regulation of prices.

Market of services for provision of system reliability. Types of services for provision of system reliability (hereinafter referred to as "the system services"), rules of their rendering, pricing mechanism and procedure of selection of the constituents of the utilities industry rendering such services and electricity consumers were introduced by Resolution of the Government No. 117 dated 3 March 2010.

Functions of selection of the constituents of the utilities industry rendering system services, conclusion of contracts with such constituents and service charge as well as coordination of actions of participants of the system services market are assigned to OJSC SO UES.

System services market is commissioned to provide functioning of the economic mechanisms stimulating maintenance and development of equipment in United Energy System (UES) of Russia with specific optional features for all constituents:

- ability to participate in standardized primary frequency regulation;
- ability to participate in automated secondary frequency regulation at heat power plants;
- reactive power regulation with use of generation equipment of the power plants which are not participating in generating of active capacity;
- operation of elements of emergency control system in UES of Russia created for the purpose of increase of carrying capacity in controlled sections of electric grid.

From the outlined system services the Group provides services for reactive power regulation with use of generation equipment of the hydroelectric power plants which are not used for electricity generation during the period of rendering the services.

Note 2. Summary of significant accounting policies

Basis of preparation. These Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (hereinafter referred to as "IFRS") under the historical cost convention, as modified by the revaluation of property, plant and equipment and available-for-sale financial assets. 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.

Each company of the Group individually maintains its own books of accounts and prepares its statutory financial statements in accordance with Russian standards of accounting (hereinafter referred to as "RSA"). The accompanying consolidated financial statements are based on the statutory records with adjustments and reclassifications made for the purpose of fair presentation in accordance with IFRS.

Functional and presentation currency. The functional currency of the Company and its subsidiaries, and the Group's presentation currency, is the national currency of the Russian Federation, Russian Rubles.

Consolidated financial statements. Subsidiaries are those companies in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern 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 that control ceases.

The acquisition 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 on a transaction by transaction basis at the non-controlling interest's proportionate share of net assets of the acquiree.

Goodwill is measured by deducting the fair value of 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 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 the Group's entities are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

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.

Purchases and sales of non-controlling interests. The Group applies the economic entity model to account for transactions with owners of non-controlling interest. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity. The Group recognises the difference between sales consideration and carrying amount of non-controlling interest sold as a capital transaction directly in equity.

Acquisition of subsidiaries from parties under common control. Acquisitions of subsidiaries from parties under common control are accounted for using the predecessor values method. The assets and liabilities of the subsidiary transferred under common control are at the predecessor entity's carrying amounts. The predecessor entity is considered to be the highest reporting entity in which the subsidiary's IFRS financial information was consolidated. Related goodwill inherent in the predecessor entity's original acquisitions is also recorded in these consolidated financial statements. Any difference between the carrying amount of net assets, including the predecessor entity's goodwill, and the consideration for the acquisition is accounted for in these consolidated financial statements as an adjustment to merger reserve within equity. Under this method the consolidated financial statements of the combined entity are presented as if the businesses had been combined from the beginning of the earliest period presented, i.e. retrospectively except for acquisition of subsidiaries acquired exclusively with a view for resale which are accounted for using predecessor values method prospectively from the acquisition date.

Investments in associates and jointly controlled entities. Investments in associates and jointly controlled entities are accounted for using the equity method of accounting, based upon the percentage of ownership held by the Group. Associates are entities over which the Company has significant influence 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 share of 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 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.

Jointly controlled entities are joint ventures that involve the establishment of a corporation, partnership or other entity in which each venturer has an interest. The entities operate in the same way as other entities, except that a contractual arrangement between the venturers establishes joint control over the economic activity of the entities.

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

Unrealised gains on transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in the entity.

Disposals of subsidiaries, associates or joint ventures. 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, joint venture 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.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

Intangible assets and goodwill. The Group's intangible assets other than goodwill have definite useful lives and primarily include customer base acquired in business combination (Note 10), which is amortised over 5 years, and capitalised computer software. Intangible assets are amortised using the straight-line method over their useful lives. 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. Goodwill is carried at cost less accumulated impairment losses, if any. The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or groups of units represent the lowest level at which the Group monitors goodwill and are not larger than an operating segment.

Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

Available-for-sale financial assets. Available-for-sale financial assets are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in profit or loss for the year as finance income. Dividends on available-for-sale equity instruments are recognised in profit or loss for the year as finance income when the Group's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired at which time the cumulative gain or loss is reclassified from other comprehensive income to finance income in profit or loss for the year.

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of available-for-sale financial assets. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is reclassified from other comprehensive income to finance costs in profit or loss for the year. Impairment losses on equity instruments are not reversed and any subsequent gains are recognised in other comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through current period's profit or loss.

Derivative financial instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value.

The Group's policy is to measure these instruments at fair value, with resultant gains or losses being reported within the consolidated income statement. Derivatives are not accounted for as hedges.

Foreign currency. Monetary assets and liabilities, which are held by the Group's entities and denominated in foreign currencies at the end of the reporting period, are translated into Russian Rubles at the exchange rates prevailing at that date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Gains and losses resulting from the settlement of such transactions and translation of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

(in millions of Russian Rubles unless noted otherwise)

As at 31 December 2012, the official rate of exchange, as determined by the Central Bank of the Russian Federation, between Russian Ruble and US Dollar (hereinafter referred to as "USD") was RR 30.37: USD 1.00 (31 December 2011: RR 32.20: USD 1.00), between Russian Ruble and Euro was RR 40.23: EUR 1.00 (31 December 2011: RR 41.67: EUR 1.00).

Property, plant and equipment. The Group uses the revaluation model of property, plant and equipment. Increases in the carrying amount arising on revaluation of property, plant and equipment are credited to other comprehensive income, unless there is a decrease of the reserve previously recognised in the income statement. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and decrease the previously recognised revaluation surplus in equity; all other decreases are charged to the consolidated income statement as an impairment loss. Any accumulated depreciation at the date of revaluation is eliminated against the gross amount of the asset.

The revaluation surplus included in equity is transferred directly to retained earnings when the revaluation surplus is realised on disposal of the asset.

The Group charges deferred tax liabilities directly to other comprehensive income in respect of revaluation of property, plant and equipment that are recorded directly in other comprehensive income.

Costs of minor repairs (that take less than 12 months) and maintenance are expensed when incurred. 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 the retirement of property, plant and equipment are included in the consolidated income statement as incurred. Depreciation on the assets under reconstruction and modernisation ceases if reconstruction period is estimated to take more than one year.

Social assets are not capitalised 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. Land is not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight-line method over their estimated useful lives.

The useful lives of property, plant and equipment are subject to annual assessment by management and if expectations differ from previous estimates, the changes of useful lives are accounted for as a change in an accounting estimate prospectively.

The average useful lives of revalued assets by type of facility, in years, were as follows:

Type of facility	**Average useful lives**
Production buildings	25–80
Facilities	10–100
Plant and equipment	5–40
Other	3–30

Depreciation is charged once an asset is available for service.

Impairment of property, plant and equipment. Impairment reviews for property, plant and equipment are carried out when there is an indication that impairment may have occurred, or where it is otherwise required to ensure that property, plant and equipment are not carried above their estimated recoverable amounts (Note 7). If such indication exists, management estimates the recoverable amount which is determined as the higher of an asset's fair value less costs to sell and its value in use. Fair value less costs to sell represents the amount that can be generated through the sale of assets. Value in use represents the present value of expected future cash flows discounted on a pre-tax basis, using the estimated cost of capital of the cash-generating unit.

The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognised for an asset in prior years is reversed where appropriate if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Investment property. Investment property is property held by the Group to earn rental income which is not occupied by the Group (Note 10). Investment properties are stated at cost. If any indication exists that investment properties may be impaired, the Group estimates the recoverable amount as the higher of value in use and fair value less costs to sell. The carrying amount of an investment property is written down to its recoverable amount through a charge to profit or loss for the year. An impairment loss recognised in prior years is reversed if there has been a subsequent change in the estimates used to determine the asset's recoverable amount.

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

Trade and other receivables. 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 realisability 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: (i) any portion or instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems; (ii) the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains; (iii) the counterparty considers bankruptcy or a financial reorganisation.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the counterparty, impairment is measured using the original effective interest rate before the modification of terms.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined.

Prepayments. Prepayments are carried at cost less 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 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.

Inventories. Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business, less selling expenses.

Non-current assets classified as held for sale. Discontinued operations. 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 12 months after the reporting period. Assets are reclassified when all of the following conditions are met: (i) the assets are available for immediate sale in their present condition; (ii) the Group's management approved and initiated an active programme to locate a buyer; (iii) the assets are actively marketed for a sale at a reasonable price; (iv) the sale is expected within one year; and (v) 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 and / 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 12 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 are not depreciated or amortised. Reclassified non-current financial instruments and deferred taxes are not subject to the 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.

A discontinued operation is a component of the Group that either has been disposed of, or that is classified as held for sale, and: (i) represents a separate major line of business or geographical area of operations; (ii) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or (iii) is a subsidiary acquired exclusively with a view to resale. Earnings and cash flows of discontinued operations, if any, are disclosed separately from continuing operations with comparatives being re-presented.

Income taxes. Income taxes have been provided for in the 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 taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within operating expenses. The Group’s liability for current tax is calculated using tax rates that have been enacted or substantially enacted by the end of the reporting period.

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 liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantially enacted at the end of the reporting period 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 profit will be available against which the deductions can be utilised.

Deferred tax movements are recorded in the income statement except when they are related to the items directly charged to the shareholders’ equity. In this case deferred taxes are recorded as part of the shareholders’ equity.

The Group controls the reversal of temporary differences relating to taxes chargeable on dividends from subsidiaries and jointly controlled entities or on gains upon their disposal. The Group does not recognise deferred tax liabilities on such temporary differences except to the extent that management expects the temporary differences to reverse in the foreseeable future.

Debt. Debt is recognised initially at its fair value. Fair value is determined using the prevailing market rate of interest for a similar instrument, if significantly different from the transaction price. In subsequent periods, debt is stated at amortised cost using the effective interest method; any difference between the fair value of the proceeds (net of transaction costs) and the redemption amount is recognised in the consolidated income statement as an interest expense over the period of the debt obligation.

Capitalisation of borrowing costs. Borrowing costs directly attributable to the acquisition, construction or production of assets that are not carried at fair value and that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets, if the commencement date for capitalisation is on or after 1 January 2009.

The commencement date for capitalisation is when (i) the Group 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 of borrowing costs continues up to the date when the assets are substantially ready for their use or sale. The Group capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets.

Interest payments capitalised as part of the cost of an assets are classified as cash outflows from financing activities.

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) are accrued in the year in which the associated services are rendered by the employees of the Group.

Pension and post-employment benefits. In the normal course of business the Group contributes to the Russian Federation defined contribution state pension scheme on behalf of its employees. Mandatory contributions to the governmental pension scheme are expensed when incurred and included in employee benefit expenses and payroll taxes in the consolidated income statement.

The Group also operates defined benefit plans that cover the majority of its employees. Defined benefit plans define 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 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 end of the reporting period together with adjustments for unrecognised actuarial gains or losses. The defined benefit obligations are calculated using the projected unit credit method. The present value of the defined benefit obligations are determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid associated with the operation of the plans, and that have terms to maturity approximating the terms of the related pension liabilities.

The Group recognises past service cost as an expense on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits are already vested immediately following the introduction of, or changes to, a defined benefit plan, the Group recognises past service cost immediately. Past service cost arises when the Group introduces a defined benefit plan or changes the benefits payable under an existing defined benefit plan. Such changes are in return for employee service over the period until the benefits concerned are vested. Therefore, past service cost is recognised over that period, regardless of the fact that the cost refers to employee service in previous periods. Past service cost is measured as the change in the liability resulting from the amendment.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10 percent of the value of plan assets or 10 percent of the defined benefit obligations at the end of the previous reporting period are charged or credited to the consolidated income statement of the current reporting period over the employees' expected average remaining working lives.

Share-based payment transactions. The share option programme allows the Group's key management to acquire shares of the Company. The fair value of the options is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options is measured based on the Black-Scholes formula.

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.

Operating leases. Where the Group is a lessee in a lease which does not transfer substantially all the risk and rewards incidental to ownership from the lessor to the Group, the total lease payments, including those on expected termination, are charged to profit or loss on a straight-line basis over the period of the lease.

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

Environmental liabilities. Liabilities for environmental remediation are recorded where there is a present obligation, the payment is probable and reliable estimates exist.

Revenue recognition. Revenue is recognised on the delivery of electricity and heat, provisioning for capacity, supply of non-utility services and on the dispatch of goods during the period. Revenue from retail operations is recognised on delivery of electricity and heat to the customer. Revenue amounts are presented exclusive of value added tax.

Revenue transactions under free bilateral contracts are shown net of related purchases of equivalent electricity volumes which the market participant is obliged to make in accordance with the industry regulations. Additional turnover in the amount of RR 9,090 million for the year ended 31 December 2012 (for the year ended 31 December 2011: RR 1,685 million) is shown net for presentation purposes to reflect the economic substance of transactions.

Earnings per share. The earnings per share are determined by dividing the profit attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the reporting period, excluding the average number of treasury shares held by the Group.

Share capital. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the placement value over the par value of shares issued is recorded as share premium in equity.

Treasury shares**.** Treasury shares are stated at weighted average cost. Any gains or losses arising on the disposal of treasury shares are recorded directly in shareholders' equity.

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

Social expenditure. To the extent that the Group's contributions to social programmes benefit the community at large without creating constructive obligations to provide such benefits in the future and are not restricted to the Group's employees, they are recognised in the income statement as incurred.

Financial guarantees. Financial guarantees are irrevocable contracts that require the Group to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight-line basis over the life of the guarantee. At the end of each reporting period, the guarantees are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition, and (ii) the best estimate of expenditure required to settle the obligation at the end of the reporting period.

Segment reporting. Operating 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 10 percent or more of all the segments are reported separately.

Critical accounting estimates and judgments in applying accounting policies

The Group makes estimates and assumptions that affect the amounts recognised in the Consolidated Financial Statements and the 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:

Impairment of financial assets carried at amortised cost. Impairment is recognised as a result of the Group's assessment of whether the collectability of specific customer accounts deteriorated compared to prior estimates. If there is deterioration in a major customer's creditworthiness or actual defaults are higher than the estimates, the actual results could differ from these estimates.

The effect of these critical accounting estimates and assumptions is disclosed in Notes 10 and 12.

Impairment of available-for-sale financial assets. In determination under IAS 39 whether an available-for-sale financial asset is impaired, the Group evaluates whether, among other factors, how long and to what extent the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow. The impairment decision is made on a case by case basis to determine whether a decline in fair value of an available-for-sale financial asset below its cost is significant or prolonged. The effect of this critical accounting estimate is disclosed in Note 9.

Impairment of non-financial assets. 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 costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the consolidated income statement to the extent it exceeds any previous revaluation surplus held in equity. An impairment loss recognised for an asset in prior years may be reversed if there has been a positive change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Accounting for impairment of non-financial assets includes impairment of property, plant and equipment and impairment of investments in associates.

The effect of these critical accounting estimates and assumptions is disclosed in Notes 7 and 8.

Fair value estimation for acquisitions. In accounting for business combinations, the purchase price paid to acquire a business is allocated to its assets and liabilities based on the estimated fair values of the assets acquired and liabilities assumed as of the date of acquisition. The excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired is recorded as goodwill. A significant amount of judgment is involved in estimating the individual fair values of property, plant and equipment and identifiable intangible assets. Management of the Group use all available information to make these fair value determinations and, for certain acquisitions, engage third-party consultants for assistance. The estimates used in determining fair values are based on assumptions believed to be reasonable but which are inherently uncertain. Accordingly, actual results may differ from the projected results used to determine fair value.

Provisions for liabilities and charges. The Group accrues a provision for legal and other charges when its assessments indicate that it is probable that a liability has been incurred and an amount can be reasonably estimated. The Group's estimates for provisions for liabilities and charges are based on currently available facts and the Group's estimates of the ultimate outcome or resolution of the liability in the future.

The effect of these critical accounting estimates and assumptions is disclosed in Note 29.

Tax contingencies. Russian tax legislation is subject to varying interpretations and changes, which can occur frequently. Where the Group's management believes it is probable that their interpretation of the relevant legislation and the Group's tax positions cannot be sustained, an appropriate amount is accrued for in the Consolidated Financial Statements.

The effect of these critical accounting estimates and assumptions is disclosed in Note 29.

Recognition of deferred tax assets. At each reporting date management assesses recoverability of deferred tax assets arising from operating losses and asset impairments in the context of the current economic environment, particularly when current and expected future profits have been adversely affected by market conditions. Management considers first the future reversal of existing deferred tax liabilities and then considers future taxable profits when evaluating deferred tax assets. The assessment is made on a tax payer basis.

The effect of these critical accounting estimates and assumptions is disclosed in Note 16.

Useful life of property, plant and equipment. The estimation of the useful life of an item of property, plant and equipment is a matter of management judgment based upon experience with similar assets and other factors. In determining the useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear and tear, warranty terms as well as the environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments for future depreciation rates which can affect the reported income.

Non-current assets held for sale and discontinued operation. The resolution of the Russian Government No. 1174-p dated 07 July 2011 stipulated integration of grid assets of OJSC DRSK into OJSC Federal Grid Company. The Decree of the President of Russian Federation No. 1567 dated 22 November 2012 defined the establishment of integrated holding company OJSC Russian Grids which will gain control over OJSC Federal Grid Company. Therefore further intentions of the Group in respect of OJSC DRSK are connected with the transfer of its shares to OJSC Russian Grids. As completion of the transaction as at 31 December 2012 still remained highly probable management of the Group has exercised critical judgment in respect of OJSC DRSK and continued to classify as a subsidiary acquired exclusively with a view for resale (Note 4).

Reclassifications

Certain reclassifications have been made to prior year data to conform to the current year presentation. These reclassifications are not material.

Adoption of New or Revised Standards and Interpretations

The following new standards and interpretations became effective for the Group from 1 January 2012:

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.

Note 3. New accounting pronouncements

The following new standards and interpretations 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).* IFRS 10 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 financial statements.

IFRS 11, Joint arrangements *(issued in May 2011 and effective for annual periods beginning on or after 1 January 2013).* IFRS 11 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 financial statements.

IFRS 12, Disclosure of interest in other entities *(issued in May 2011 and effective for annual periods beginning on or after 1 January 2013).* IFRS 12 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 readers of financial statements 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 judgements 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 new standard has no significant impact on the Group's financial statements.

IFRS 13, Fair value measurement *(issued in May 2011 and effective for annual periods beginning on or after 1 January 2013).* IFRS 13 aims to improve consistency and reduce complexity by providing a precise 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 new standard on its financial statements.

IAS 27, Separate Financial Statements *(revised in May 2011 and effective for annual periods beginning on* *or after 1 January 2013).* IAS 27 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*.

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.

Amendments to IAS 1, Presentation of financial statements *(issued in June 2011 and effective for annual periods beginning on or after 1 July 2012)* change 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 recycled 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.

Amended IAS 19, Employee benefits *(issued in June 2011 and 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 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.

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.

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.

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.

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.

In addition the following new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2013 or later that are not yet adopted in the Russian Federation 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 are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- 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 as at fair value through profit or loss in other comprehensive income.

While adoption of IFRS 9 is mandatory from 1 January 2015, early adoption is permitted.

The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

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.

Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment entities *(issued in 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 considering the implications of these new accounting pronouncements, their impact on the Group and the timing of their adoption by the Group.

(in millions of Russian Rubles unless noted otherwise)

Note 4. Principal subsidiaries

All subsidiaries with the exception of foreign companies are incorporated and operate in the Russian Federation. The Group operates in the three main reportable segments (Note 5). The principal subsidiaries are presented below according to their allocation to the reportable segments as at 31 December 2012 and 31 December 2011. Differences between the ownership interest and voting interest held by some subsidiaries represent the effect of preference shares and / or effects of indirect ownership, or non-corporate partnership (LLC).

Generation

Generation segment includes the Company and the Group's subsidiaries with production and sale of electricity and capacity:

	31 December 2012		31 December 2011	
	% of ownership	% of voting	% of ownership	% of voting
OJSC EI Verchne-Mutnovsky GeoPP	92.37%	95.81%	92.37%	95.81%
OJSC Geotherm	92.80%	92.80%	92.80%	92.80%
CJSC International Power Corporation	90.00%	90.00%	90.00%	90.00%
OJSC Kamchatskiy Gazoenergeticheskiy Complex	96.58%	96.58%	96.58%	96.58%
OJSC Kolimaenergo	98.76%	98.76%	98.76%	98.76%
OJSC Pauzhetskaya GeoPP	92.80%	100.00%	92.80%	100.00%
OJSC Pavlodolskaya HPP	100.00%	100.00%	100.00%	100.00%

Retail

Retail segment includes the Group's subsidiaries – participants of the electricity market where they buy electricity and capacity and resell it to final customers. All the entities included in this segment have the guaranteeing suppliers status (Note 1) and are obliged to sign contracts on supplies with all final consumers of their region upon their request.

	31 December 2012		31 December 2011	
	% of ownership	% of voting	% of ownership	% of voting
OJSC Chuvashskaya energy retail company	100.00%	100.00%	100.00%	100.00%
LLC ESC Bashkortostan	100.00%	-	100.00%	-
OJSC Krasnoyarskenergosbyt	65.81%	69.40%	65.81%	69.40%
OJSC Ryazan Power Distributing Company	90.52%	90.52%	90.52%	90.52%

RAO Energy System of East Group

RAO Energy System of East Group segment consists of OJSC RAO Energy System of East and its subsidiaries that generate electricity and heat and provide transportation, distribution, construction, repair and other services in the Far East region of the Russian Federation.

Principal subsidiaries of this segment are presented below:

	31 December 2012		31 December 2011	
	% of ownership	% of voting	% of ownership	% of voting
OJSC RAO Energy System of East*	66.93%	67.55%	69.28%	69.28%
OJSC DEK	35.23%	52.17%	36.39%	52.17%
OJSC DGK	35.23%	100.00%	36.39%	100.00%
OJSC Kamchatskenergo	66.09%	98.74%	68.41%	98.74%
OJSC Magadanenergo	32.80%	64.39%	33.95%	64.39%
OJSC Sakhalinenergo	37.18%	55.55%	38.49%	55.55%
OJSC Yakutskenergo	62.84%	86.63%	62.63%	84.32%
OJSC DRSK**	35.23%	100.00%	36.39%	100.00%

** Voting and ownership percent interests in OJSC RAO Energy System of East as at 31 December 2012 include 1.80 percent interest held by the Group's subsidiary LLC Vostok-Finance.*

*** Subsidiary acquired in 2011 exclusively with a view for resale and classified as a disposal group and discontinued operation as at 31 December 2012 and as at 31 December 2011 (Note 2).*

(in millions of Russian Rubles unless noted otherwise)

Subsidiaries of this segment were acquired on 28 October 2011 in transactions with parties under common control. All subsidiaries of this segment were accounted for using predecessor values method (Notes 1, 2).

Other segments

Other segments include:

- the Group's subsidiaries primarily engaged in research and development related to the utilities industry and construction of hydropower facilities;
- the Group's subsidiaries engaged in repair, upgrade and reconstruction of equipment and hydropower facilities;
- the Group's subsidiaries engaged primarily in hydropower plants construction;
- minor segments which do not have similar economic characteristics.

Principal subsidiaries included in all other segments are presented below:

	31 December 2012		31 December 2011	
	% of ownership	% of voting	% of ownership	% of voting
OJSC Chirkeigesstroy	100.00%	100.00%	100.00%	100.00%
OJSC Elektroremont-VKK	100.00%	100.00%	100.00%	100.00%
OJSC ESCO UES	100.00%	100.00%	100.00%	100.00%
OJSC Gidroremont-VKK	100.00%	100.00%	100.00%	100.00%
OJSC Institute Hydroproject	100.00%	100.00%	100.00%	100.00%
OJSC Lenhydroproject	100.00%	100.00%	100.00%	100.00%
OJSC NIIES	100.00%	100.00%	100.00%	100.00%
OJSC SSHGER	100.00%	100.00%	100.00%	100.00%
OJSC Sulak GidroKaskad	100.00%	100.00%	100.00%	100.00%
OJSC Turboremont-VKK	100.00%	100.00%	100.00%	100.00%
OJSC Ust'-Srednekangesstroy	98.76%	100.00%	98.76%	100.00%
OJSC Ust'-Srednekanskaya HPP	84.60%	85.17%	99.34%	100.00%
OJSC VNIIG	100.00%	100.00%	100.00%	100.00%
OJSC Zagorskaya GAES-2	100.00%	100.00%	100.00%	100.00%
OJSC Zaramag HS	98.35%	98.35%	98.35%	98.35%

Note 5. Segment information

The Chief Operating decision maker (CODM) of the Company generally analyses information by the groups of operations which are consolidated in the following separate reportable segments: Generation, Retail, RAO Energy System of East Group and all other segments (Note 4).

The CODM reviews the segment financial information which is prepared in accordance with RSA. Such information differs in certain aspects from IFRS:

- property, plant and equipment are stated at historic cost less accumulated depreciation;
- liabilities for the Group's post-employment obligations are not recognised;
- provisions for impairment of accounts receivable are recognised based on management judgment and availability of information rather than based on the incurred loss model and time value of money concept prescribed in IAS 39;
- investments in subsidiaries are not consolidated, investments in associates and jointly controlled entities are not accounted for using the equity method;
- other intercompany assets and liabilities balances are not eliminated.

The CODM believes that EBITDA represents the most useful means of assessing the performance of ongoing operating activities of the Company and the Group's subsidiaries, as it reflects the earnings trends without showing the impact of certain charges.

(in millions of Russian Rubles unless noted otherwise)

Segment information for the years ended 31 December 2012 and 31 December 2011 based on financial information prepared in accordance with RSA is presented below:

	Generation	Retail	RAO Energy System of East Group	All other segments	Total Group
Year ended 31 December 2012					
Revenue from external customers	87,055	82,263	130,676	8,719	308,713
Intersegment revenue	9,794	234	182	28,698	38,908
Total revenue	**96,849**	**82,497**	**130,858**	**37,417**	**347,621**
EBITDA (RSA)*	**49,637**	**1,347**	**13,155**	**2,500**	**66,639**
Capital expenditure**	**39,252**	**188**	**16,714**	**31,258**	**87,412**
As at 31 December 2012					
Total reportable segment assets	**779,716**	**33,121**	**276,468**	**201,690**	**1,290,995**
Total reportable segment liabilities	**169,096**	**23,946**	**113,391**	**171,893**	**478,326**

Assets of all other segments include assets under construction which will be transferred to the Generation segment on their completion in the amount of RR 128,361 million as at 31 December 2012 (31 December 2011: RR 106,430 million). Liabilities of all other segments consist primarily of intercompany current and non-current debt, accounts payable and accruals.

	Generation	Retail	RAO Energy System of East Group	All other segments	Total Group
Year ended 31 December 2011					
Revenue from external customers	84,048	148,171	125,571	7,726	365,516
Intersegment revenue	10,958	834	-	27,106	38,898
Total revenue	**95,006**	**149,005**	**125,571**	**34,832**	**404,414**
EBITDA (RSA)*	**58,114**	**9,467**	**10,951**	**2,404**	**80,936**
Capital expenditure**	**43,015**	**559**	**19,020**	**29,192**	**91,786**
As at 31 December 2011					
Total reportable segment assets	**685,804**	**12,467**	**260,401**	**201,158**	**1,159,830**
Total reportable segment liabilities	**132,656**	**8,453**	**100,649**	**162,099**	**403,857**

** EBITDA – sales profit (loss) under RSA before depreciation.*

*** Capital expenditure represents additions to property, plant and equipment under RSA, including advances to construction companies and suppliers of property, plant and equipment.*

Included in Retail segment results for the year ended 31 December 2011 are results of Disposal group up to date of disposal.

OJSC DRSK classified as disposal group and discontinued operation is included in RAO Energy System of East Group segment (Notes 2, 26).

A reconciliation of the reportable segments results to the Consolidated Financial Statements for the years ended 31 December 2012 and 31 December 2011 and as at these dates is presented below:

	Year ended 31 December 2012	Year ended 31 December 2011
Total revenue of reportable segments (RSA)	**310,204**	**369,582**
Revenue of all other segments	37,417	34,832
Elimination of revenue under free bilateral contracts	(9,090)	(1,685)
Elimination of intersegment revenues	(38,908)	(38,898)
Revenue of OJSC DRSK classified as a discontinued operation	(3,826)	(708)
Other	(818)	(524)
Total revenue (IFRS)	**294,979**	**362,599**

(in millions of Russian Rubles unless noted otherwise)

	Year ended 31 December 2012	Year ended 31 December 2011
EBITDA of reportable segments (RSA)	**64,139**	**78,532**
EBITDA of all other segments	2,500	2,404
Expenses not included in RSA EBITDA	(2,927)	(4,612)
Finance lease adjustment	1,949	1,339
Adjustment on accrual / (reversal) of impairment for accounts receivable, net	(5,231)	1,707
Effect of Share Option Programmes (Note 6)	(141)	(768)
Expenses capitalised in RSA	(1,157)	(1,887)
Depreciation of property, plant, equipment and intangible assets (Note 24)	(18,232)	(16,421)
Impairment of property, plant and equipment (Note 7)	(19,332)	(6,963)
Impairment of goodwill and intangible assets (Note 10)	(2,975)	-
Impairment of long-term promissory notes (Note 10)	(9,363)	-
Impairment of available-for-sale financial assets (Note 9)	(8,041)	-
Gain on disposal of available-for-sale financial assets held for sale and Disposal group	-	750
Gain on disposal of subsidiaries	131	-
EBITDA of OJSC DRSK classified as discontinued operation	(1,084)	(122)
Other	(2,718)	(2,093)
Operating (loss) / profit (IFRS)	**(2,482)**	**51,866**

Reportable segments' assets are reconciled to total assets as follows:

	31 December 2012	31 December 2011
Total reportable segment assets (RSA)	**1,089,305**	**958,672**
Assets of all other segments	201,690	201,158
Property, plant and equipment adjustment	(36,885)	1,844
Adjustment on investments in associates and jointly controlled entities	(773)	13,025
Finance lease adjustment	4,112	3,121
Deferred tax	(4,519)	(2,021)
Unrealised profit adjustment	(5,059)	(4,076)
Differences in interest expense capitalisation in RSA and IFRS	2,130	(809)
Provision for impairment of accounts receivable	(4,383)	(2,266)
Treasury shares adjustment	(6,385)	(8,398)
Adjustment on fair value of available-for-sale financial assets	(1,219)	(7,922)
Adjustment on available-for-sale financial assets	50	3,754
Discounting of financial instruments	(20,445)	(21,212)
Elimination of investments in subsidiaries	(157,257)	(150,786)
Elimination of intercompany balances	(202,360)	(169,466)
Write-off of prepaid expenses	(872)	(876)
Other	(2,383)	(1,959)
Total assets (IFRS)	**854,747**	**811,783**

Reportable segments' liabilities are reconciled to total liabilities as follows:

	31 December 2012	31 December 2011
Total reportable segment liabilities (RSA)	**306,433**	**241,758**
Liabilities of all other segments	171,893	162,099
Deferred tax adjustment	32,049	41,401
Pension adjustment	11,921	12,093
Finance lease adjustment	3,096	2,968
Discounting of financial instruments	(2,546)	(2,789)
Elimination of intercompany balances	(202,360)	(169,466)
Concession agreements adjustment	(2,445)	(559)
Other	(1,689)	(1,381)
Total liabilities (IFRS)	**316,352**	**286,124**

(in millions of Russian Rubles unless noted otherwise)

Information for revenue from external customers in accordance with IFRS for the years ended 31 December 2012 and 31 December 2011 is presented below:

	Generation	Retail	RAO Energy System of East Group	All other segments	Total Group
Year ended 31 December 2012					
Sales of electricity	54,931	81,679	83,065	-	219,675
Sales of heat	141	-	31,344	6	31,491
Sales of capacity	22,342	-	1,654	-	23,996
Other revenue	410	598	11,212	7,597	19,817
Total revenue	**77,824**	**82,277**	**127,275**	**7,603**	**294,979**
Year ended 31 December 2011					
Sales of electricity	50,764	146,600	83,080	-	280,444
Sales of heat	129	-	30,671	-	30,800
Sales of capacity	31,433	-	1,018	-	32,451
Other revenue	277	1,502	9,646	7,479	18,904
Total revenue	**82,603**	**148,102**	**124,415**	**7,479**	**362,599**

Note 6. Related party transactions

Parties are generally considered to be related if they are under common control or if one party has the ability to control the other party or can exercise significant influence or joint control over the other party in making financial and operational decisions, as described by IAS 24, *Related Parties Disclosure*. In considering each possible related party relationship, attention is paid to the substance of the relationship, not merely the legal form.

The Group's principal related parties for the year ended 31 December 2012 were jointly controlled entities, associates (Note 8) of the Group and government-related entities.

Jointly controlled entities

The Group had the following balances with its jointly controlled entities:

	Note	31 December 2012	31 December 2011
Promissory notes	10	5,804	5,271
Advances received		120	245

The Group had the following transactions with its jointly controlled entities:

	Year ended 31 December 2012	Year ended 31 December 2011
Other revenue	1,252	1,049

Associates

The Group had the following balances with its associates:

	Year ended 31 December 2012	Year ended 31 December 2011
Trade and other receivables	1,496	784
Accounts payable	1,909	214

The Group had the following transactions with its associates:

	Year ended 31 December 2012	Year ended 31 December 2011
Sales of electricity and capacity	1,124	666
Other revenue	779	388
Construction services	6,833	9
Purchased electricity and capacity	344	297

Government-related entities

In the normal course of business the Group enters into transactions with the entities controlled by the Government.

The Group had transactions during the years ended 31 December 2012 and 31 December 2011 and balances outstanding as at 31 December 2012 and 31 December 2011 with the following government-related banks: SC Vnesheconombank, OJSC Sberbank of Russia, OJSC Gazprombank, OJSC Transcreditbank, OJSC VTB Bank, CJSC VTB24, OJSC Bank of Moscow, OJSC Rosselkhozbank (Notes 11, 14, 18). All transactions are carried out on market rates.

The Group's sales of electricity, capacity and heat to government-related entities comprised approximately 25 percent of total sales of electricity, capacity and heat for the year ended 31 December 2012 (for the year ended 31 December 2011: approximately 20 percent). Sales of electricity and capacity under the regulated contracts are conducted directly to the consumers, within the day-ahead market (DAM) – through commission agreements with CJSC Centre of Financial Settlements (hereinafter referred to as "CFS"). Electricity and capacity supply tariffs under the regulated contracts are approved by FTS. On DAM the price is determined by balancing the demand and supply and such price is applied to all market participants. Sales of heat are subject to tariff regulations (Note 1).

The Group's purchases of electricity, capacity and fuel from government-related entities comprised approximately 20 percent of total expenses on purchased electricity, capacity and fuel for the year ended 31 December 2012 (for the year ended 31 December 2011: approximately 22 percent).

Electricity distribution services provided to the Group by government-related entities comprised approximately 51 percent of total electricity distribution expenses for the year ended 31 December 2012 (for the year ended 31 December 2011: approximately 74 percent). The distribution of electricity is subject to tariff regulations.

Key management of the Group. Key management of the Group includes members of the Board of Directors of the Company, members of the Management Board of the Company, key management of RAO Energy System of East Group and starting from October 2011 heads of the business subdivisions of the Company.

Remuneration to the members of the Board of Directors of the Company for their services in their capacity and for attending Board meetings is paid depending on the results for the year and is calculated based on specific remuneration policy approved by the Annual General Shareholders Meeting of the Company.

Remuneration to the members of the Management Board and to other key management of the Group is paid for their services in full time management positions and is made up of a contractual salary and performance bonuses depending on the results of the work for the period based on key performance indicators approved by the Board of Directors of the Company.

Main compensation for Key management of the Group generally is short-term excluding future payments under pension plans with defined benefits. Pension benefits for key management of the Group are provided on the same terms as for the rest of employees.

Short-term remuneration paid to the key management of the Group for the year ended 31 December 2012 comprised RR 2,102 million (for the year ended 31 December 2011: RR 1,753 million). If heads of business subdivisions of the Company were included in the key management of the Group starting from January 2011 the total remuneration for the year ended 31 December 2011 would have been RR 2,182 million.

Employee's Share Option Programme 2007. In May 2007 the Company's Board of Directors approved the first Share Option Programme of the Company (hereinafter referred to as the "Programme 2007"), The Programme 2007 was operated by the Group's subsidiary LLC ESOP.

No share options were exercised under the Share Option Programme 2007, which was closed on 2 September 2012.

(in millions of Russian Rubles unless noted otherwise)

Changes in the amounts of options granted under the Share Option Programme 2007 are described in the table below:

	All options granted under the Programme 2007	Attributed to members of the Management Board
Number of options as at 1 January 2012	**2,583,414,391**	**172,550,810**
Option agreements closed during the year 2012 due to completion of Share Option Programme	(2,583,414,391)	(172,550,810)
Number of options outstanding as at 31 December 2012	**-**	**-**

For the years ended 31 December 2012 and 31 December 2011 there were no material expense related to the fair value of the options under the Programme 2007.

Employee's Share Option Programme 2010. On 22 December 2010 the Group approved the conditions of the second Share Option Programme (hereinafter referred to as the "Programme 2010"). The operator of the Programme 2010 is the Group's subsidiary OJSC HydroInvest.

No share options were exercised under the Share Option Programme 2010, which was closed on 22 December 2012.

Changes in the amounts of options granted under the Share Option Programme 2010 are described in the table below:

	All options granted under the Programme 2010	Attributed to members of the Management Board
Number of options as at 1 January 2012	**2,066,204,221**	**(2,066,204,221)**
Option agreements closed during the year 2012 due to completion of Share Option Programme	(2,066,204,221)	2,066,204,221
Number of options outstanding as at 31 December 2012	**-**	**-**

For the year ended 31 December 2012 the Group recognised an expense of RR 141 million within employee benefit expenses related to the fair value of the options under the Programme 2010 (31 December 2011: RR 768 million).

(in millions of Russian Rubles unless noted otherwise)

Note 7. Property, plant and equipment

Cost	Buildings	Facilities	Plant and equipment	Assets under construction	Other	Total
Opening balance as at 31 December 2011	**67,454**	**342,495**	**121,156**	**180,338**	**11,575**	**723,018**
Impairment of revalued property, plant and equipment	(2,379)	(8,125)	(2,788)	-	(16)	(13,308)
Additions	348	1,483	1,672	85,115	722	89,340
Transfers	3,809	6,527	30,290	(41,488)	862	-
Disposals and write-offs	(535)	(260)	(1,532)	(1,070)	(518)	(3,915)
Closing balance as at 31 December 2012	**68,697**	**342,120**	**148,798**	**222,895**	**12,625**	**795,135**
Accumulated depreciation (including impairment)						
Opening balance as at 31 December 2011	**(17,591)**	**(52,558)**	**(35,326)**	**(45,068)**	**(3,846)**	**(154,389)**
Impairment charge	(2,214)	(9,062)	(6,403)	(4,774)	(144)	(22,597)
Reversal of impairment	660	-	499	934	1,172	3,265
Charge for the period	(1,534)	(6,554)	(8,942)	-	(1,113)	(18,143)
Transfers	(331)	(529)	(2,962)	3,826	(4)	-
Disposals and write-offs	64	44	646	206	230	1,190
Closing balance as at 31 December 2012	**(20,946)**	**(68,659)**	**(52,488)**	**(44,876)**	**(3,705)**	**(190,674)**
Net book value as at 31 December 2012	**47,751**	**273,461**	**96,310**	**178,019**	**8,920**	**604,461**
Net book value as at 31 December 2011	**49,863**	**289,937**	**85,830**	**135,270**	**7,729**	**568,629**

Cost	Buildings	Facilities	Plant and equipment	Assets under construction	Other	Total
Opening balance as at 31 December 2010	**69,750**	**319,447**	**106,837**	**146,056**	**9,045**	**651,135**
Impairment of revalued property, plant and equipment	(4,688)	(5,756)	(3,642)	-	(38)	(14,124)
Additions	419	773	1,889	85,354	2,612	91,047
Transfers	2,146	30,016	16,932	(49,463)	369	-
Disposals and write-offs	(173)	(1,985)	(860)	(1,609)	(413)	(5,040)
Closing balance as at 31 December 2011	**67,454**	**342,495**	**121,156**	**180,338**	**11,575**	**723,018**
Accumulated depreciation (including impairment)						
Opening balance as at 31 December 2010	**(14,312)**	**(47,711)**	**(25,241)**	**(42,570)**	**(2,825)**	**(132,659)**
Impairment charge	(2,666)	(6,547)	(5,199)	(11,766)	(285)	(26,463)
Reversal of impairment	1,487	12,441	4,508	1,041	23	19,500
Charge for the period	(1,773)	(5,940)	(8,295)	-	(940)	(16,948)
Transfers	(434)	(5,561)	(1,614)	7,620	(11)	-
Disposals and write-offs	107	760	515	607	192	2,181
Closing balance as at 31 December 2011	**(17,591)**	**(52,558)**	**(35,326)**	**(45,068)**	**(3,846)**	**(154,389)**
Net book value as at 31 December 2011	**49,863**	**289,937**	**85,830**	**135,270**	**7,729**	**568,629**
Net book value as at 31 December 2010	**55,438**	**271,736**	**81,596**	**103,486**	**6,220**	**518,476**

Assets under construction represent the carrying amount of property, plant and equipment that has not yet been put into operation, including hydropower plants under construction, and advances to construction companies and suppliers of property, plant and equipment. As at 31 December 2012 such advances amounted to RR 48,326 million (31 December 2011: RR 41,930 million).

(in millions of Russian Rubles unless noted otherwise)

Additions to assets under construction included capitalised borrowing costs in the amount of RR 7,523 million, the capitalisation rate was 8.32 percent (for the year ended 31 December 2011: RR 2,933 million, the capitalisation rate was 6.69 percent).

Additions to assets under construction included capitalised depreciation in the amount of RR 687 million (for the year ended 31 December 2011: RR 527 million).

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

Impairment as at 31 December 2012 and 31 December 2011. Management of the Group analysed the current economic situation and indicators of property, plant and equipment as at 31 December 2012 and 31 December 2011 and estimated the necessity of calculation of the recoverable amount of assets. For the purpose of calculation of the recoverable amount of property, plant and equipment value in use was determined based on future cash flows. The Company's branches and the Group's subsidiaries were considered to be separate cash-generating units.

The following key assumptions were used when the cash flow testing was performed for the years ended 31 December 2012 and 31 December 2011:

Key assumptions used in the cash flow testing	**Year ended 31 December 2012**	**Year ended 31 December 2011**
Information used	Actual operating results for 2012 and business plans for 2013–2016	Actual operating results for 2011 and business plans for 2012–2016
Forecast period*	10 years (2013–2022)	10 years (2012–2021)
Forecasted growth rates	3.3 percent	2.8 percent
Discount rate (based on weighted average cost of capital)	11.0 – 14.8 percent (RR)	12.7 – 14.0 percent
Forecast of electricity and capacity tariffs in the isolated energy systems and in non-pricing zone of the Far East	Based on methodology of tariffs calculation adopted by regulatory authority	
Forecast of electricity and capacity prices in competitive market	Based on the forecast prepared by reputable independent company CJSC Energy Forecasting Agency	
Forecast of capacity prices related to competitive capacity selection	For 2013 – based on the results of competitive capacity selection, except for stations, where regulated tariffs are used For 2014–2022 – adjusted on consumer index price	For 2012 – based on the results of competitive capacity selection, except for stations, where regulated tariffs are used For 2013–2021 – adjusted on consumer index price
Forecast of electricity and capacity volumes	Based on the Company's management assessment of future trends in the business	
Forecast of capital expenditures	Based on the management valuation of capital expenditures on modernisation and reconstruction programme	

** Management considers that a forecast period greater than five years is appropriate as the wholesale electricity and capacity market is expected to change significantly over the forecast period and cash flow projections will not be stabilised within five years. However a forecast period of cash flows was defined by remaining useful life of assets tested. For hydroelectric power plants this period exceeds 100 years due to the fact that key asset is a dam. In this regard the recoverable amount of assets was defined based on cash flows during the forecast period and terminal values.*

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

Due to the deterioration in expectations as regards the achievable sales prices and volumes in the new market conditions for a number of cash-generating units net book value of property, plant and equipment as at 31 December 2012 decreased for the total amount of RR 32,640 million. As a result, impairment loss in the amount of RR 19,332 million was recognised in Consolidated Income Statement and decrease of previous revaluation reserve in the amount of RR 13,308 million – in other comprehensive loss.

The net book value of property, plant and equipment of the Generation segment decreased for the total amount of RR 25,664 million, the effects relate mainly to the following cash-generating units:

- Bureyskaya HPP – impairment loss in the amount of RR 8,497 million and decrease of previous revaluation reserve in the amount of RR 311 million;

(in millions of Russian Rubles unless noted otherwise)

- Kabardino-Balkarskiy branch – impairment loss in the amount of RR 2,184 million and decrease of previous revaluation reserve in the amount of RR 1,159 million;
- Cheboksarskaya HPP – impairment loss in the amount of RR 1,004 million and decrease of previous revaluation reserve in the amount of RR 5,480 million;
- Novosibirskaya HPP – impairment loss in the amount of RR 3,089 million and decrease of previous revaluation reserve in the amount of RR 1,019 million.

The net book value of property, plant and equipment of the RAO Energy System of East group segment decreased for the total amount of RR 6,976 million: net impairment loss in the amount of RR 2,712 million and decrease of previous revaluation reserve in the amount of RR 4,264 million was recognised.

As at 31 December 2011 net book value of property, plant and equipment decreased for the total amount of RR 21,087 million. As a result, impairment loss in the amount of RR 6,963 million was recognised in Consolidated Income Statement and decrease of previous revaluation reserve in the amount of RR 14,124 million – in other comprehensive loss.

However, the calculation of the recoverable amounts of cash-generating units is highly sensitive to the level of future electricity and capacity prices, discount factor based on forecasted weighted average cost of capital and forecasted volumes of capital expenditures.

If the electricity and capacity prices were 10 percent lower in the forecasted period, there would be a decrease in net book value of property, plant and equipment in amount of RR 78,548 million as at 31 December 2012.

If the discount rate was 1 percent higher in the forecasted period, there would be a decrease in net book value of property, plant and equipment in amount of RR 47,231 million as at 31 December 2012.

If the volumes of capital expenditures prices were 10 percent higher in the forecasted period, there would be a decrease in net book value of property, plant and equipment in amount of RR 30,807 million as at 31 December 2012.

Revaluation as at 31 December 2012. Management of the Group did not perform a revaluation of property, plant and equipment as at 31 December 2012 after concluding that the carrying value of the Group's property, plant and equipment was not expected to differ significantly from its carrying value at the end of the year.

For each revalued class of property, plant and equipment stated at a revalued amount in the Consolidated Financial Statements, the carrying amount that would have been recognised had the assets been carried under the cost model is as follows:

	Production buildings	Facilities	Plant and equipment	Assets under construction	Other	Total
Net book value as at 31 December 2012	23,564	109,557	79,386	181,999	5,513	400,019
Net book value as at 31 December 2011	25,191	123,635	65,713	139,250	5,763	359,552

Leased equipment. The Group leases equipment under a number of finance lease agreements. At the end of each of the leases the Group has the option to purchase the equipment at a beneficial price. As at 31 December 2012 the net book value of leased equipment was RR 5,932 million (31 December 2011: RR 6,139 million). The leased equipment is pledged as a security for the lease obligation.

Operating lease. The Group leases a number of land areas owned by local governments and production buildings under non-cancellable operating lease agreements. Land lease payments are determined by lease agreements. The land areas leased by the Group are the territories on which the Group's hydropower plants and other assets are located. According to the Land Code of the Russian Federation such land areas are limited in their alienability and cannot become private property. The Group's operating leases typically run for an initial period of 5-49 years with an option to renew the lease after that date. Lease payments are reviewed regularly to reflect market rentals.

(in millions of Russian Rubles unless noted otherwise)

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	31 December 2012	31 December 2011
Less than one year	1,875	2,065
Between one and five years	5,148	5,726
After five years	49,274	37,096
Total	**56,297**	**44,887**

Pledged assets. As at 31 December 2012 RR 211 million of property, plant and equipment have been pledged as collateral for borrowings (31 December 2011: RR 49 million).

Note 8. Investments in associates and jointly controlled entities

The tables below summarise the movements in the carrying value of the Group's interests in associates and jointly controlled entities:

	Carrying value as at 31 December 2011	Acquisition and additional contribution	Divi-dends	Reclassi-fication	Share of profit / (loss)	Impairment of investments in associates	Carrying value as at 31 December 2012
Associates							
OJSC Krasnoyarskaya HPP	22,046	-	(500)	-	(3,825)	(9,100)	8,621
OJSC Sakhalin Energy Company	1,833	-	-	-	(21)	-	1,812
OJSC Trest Gidromontazh	1,012	-	-	(1,147)	135	-	-
OJSC Bureyagesstroy	318	-	-	(250)	(68)	-	-
Other	247	-	-	134	(166)	-	215
Jointly controlled entities							
BoGES Group**	8,150	-	-	13	(1,510)	-	6,653
BALP Group**	-	-	-	-	-	-	-
Other	80	505	-	(2)	(19)	-	564
Total investments in associates and jointly controlled entities	**33,686**	**505**	**(500)**	**(1,252)**	**(5,474)**	**(9,100)**	**17,865**

	Carrying value as at 31 December 2010	Acquisition and additional contribution	Reclassi-fication	Share of profit / (loss)	Charged directly to other comprehensive income	Carrying value as at 31 December 2011
Associates						
OJSC Krasnoyarskaya HPP	21,334	98	-	614	-	22,046
OJSC Sakhalin Energy Company*	-	917	600	316	-	1,833
OJSC Trest Gidromontazh	-	998	-	14	-	1,012
OJSC Bureyagesstroy	-	333	-	(15)	-	318
Other	131	57	65	(30)	24	247
Jointly controlled entities						
BoGES Group**	13,617	-	-	(5,249)	(218)	8,150
BALP Group**	1,960	-	-	(1,960)	-	-
Other	86	-	-	(8)	2	80
Total investments in associates and jointly controlled entities	**37,128**	**2,403**	**665**	**(6,318)**	**(192)**	**33,686**

** Investment in OJSC Sakhalin Energy Company was reclassified to investments in associates due to acquisition of additional interest in 2011 in the course of Company`s additional ordinary share issue.*

*** BoGES Group consists of BoGES Ltd and OJSC Boguchanskaya HPP. BALP Group consists of BALP Ltd and CJSC Boguchansky Aluminium Plant.*

(in millions of Russian Rubles unless noted otherwise)

Associates

As at 31 December 2012 investment in OJSC Bureyagesstroy was reclassified to non-current assets classified as held for sale due to sale of 25 percent of interest plus 1 share in January 2013 (Note 34).

As at 31 December 2012 investment in OJSC Trest Gidromontazh was reclassified to non-current assets classified as held for sale due to the fact that sale of 33.54 percent interest in OJSC Trest Gidromontazh became highly probable.

The Group's share of OJSC Krasnoyarskaya HPP losses for the year ended 31 December 2012 are primarily attributed to the impairment of property, plant and equipment. Management of the Group has considered that impairment loss related to property, plant and equipment of Krasnoyarska HPP is a triggering event for recognition of impairment of the Group's investment in OJSC Krasnoyarskaya HPP. The recoverable amount as at 31 December 2012 was determined as a fair value less costs of disposal measured by reference to quoted market price of OJSC Krasnoyarskaya HPP. The impairment loss in respect of the Group's investment in OJSC Krasnoyarskaya HPP was recognised for the year ended 31 December 2012 to the total amount of RR 9,100 million.

Jointly controlled entities

The carrying value of the investment in BALP Group as at 31 December 2012 is nil. The unrecognised share of loss of this jointly controlled entity for the year ended 31 December 2012 is RR 4,056 million and primarily attributed to the impairment of property, plant and equipment. Cumulatively, the unrecognised share of losses of BALP Group as at 31 December 2012 is RR 5,921 million (31 December 2011: RR 1,865 million).

The Group's interests in associates and jointly controlled entities and their summarised financial information were as follows:

31 December 2012	% held	Assets	Liabilities	Revenue	Net profit/ (loss)	Elimination of loss on discounting
Associates						
OJSC Krasnoyarskaya HPP	25.12%	39,823	(3,981)	12,562	(15,227)	-
OJSC Trest Gidromontazh*	33.54%	-	-	9,194	403	-
OJSC Bureyagesstroy	25.00% + 1 share	-	-	8,424	(76)	-
OJSC Sakhalin Energy Company	24.53%	10,760	(3,372)	2	(349)	-
Other	-	4,125	(3,584)	4,976	(208)	-
Jointly controlled entities						
BoGES Group	50.00%	50,177	(36,200)	1,270	(3,020)	377
BALP Group	50.00%	8,526	(20,368)	227	(8,112)	-
Other		1,206	(16)	73	(42)	-
Total		**114,617**	**(67,521)**	**36,728**	**(26,631)**	**377**

31 December 2011	% held	Assets	Liabilities	Revenue	Net profit/ (loss)	Elimination of loss on discounting
Associates						
OJSC Krasnoyarskaya HPP	25.12%	61,321	(7,870)	14,169	2,444	-
OJSC Sakhalin Energy Company	35.04%	7,459	(2,228)	-	(615)	-
OJSC Trest Gidromontazh*	33.54%	7,030	(4,013)	10,456	42	-
OJSC Bureyagesstroy	25.00% + 1 share	6,477	(5,204)	7,279	(60)	-
Other		1,220	(795)	1,987	(134)	-
Jointly controlled entities						
BoGES Group	50.00%	43,391	(27,091)	1,732	(10,498)	342
BALP Group	50.00%	5,491	(9,220)	104	(7,651)	31
Other		247	(18)	-	(18)	-
Total		**132,636**	**(56,439)**	**35,727**	**(16,490)**	**373**

** As at 31 December 2011 provisional recognised values of OJSC Trest Gidromontazh. In 2012 the Group completed independent appraisal of the fair value of identifiable assets and liabilities of OJSC Trest Gidromontazh, assets mainly consist of property, plant and equipment, accounts receivable, inventory.*

(in millions of Russian Rubles unless noted otherwise)

Note 9. Available-for-sale financial assets

	31 December 2012		31 December 2011	
	% of ownership	Fair value	% of ownership	Fair value
OJSC INTER RAO UES	4.92%	12,726	5.28%	17,755
OJSC IDGC Holding	0.93%	831	1.03%	972
OJSC FGC UES	0.13%	334	0.13%	466
OJSC Boguchanskaya HPP	2.89%	317	2.89%	379
Other	-	118	-	166
Total available-for-sale financial assets		**14,326**		**19,738**

The fair values of available-for-sale financial assets were calculated based on quoted market prices, for those which are not publicly traded fair values were estimated by reference to the discounted cash flows of the investees.

Impairment of investment in OJSC INTER RAO UES. Management of the Group concluded that significant and prolonged decline in the fair value of OJSC INTER RAO UES shares below their cost took place during 2012. An impairment of available-for-sale financial assets was recognised in profit or loss to the total amount of RR 8,041 million consisting of RR 6,451 million of accumulated loss recycled from other comprehensive loss and subsequent impairment charge of RR 1,590 million.

Loss arising on other available-for-sale financial assets for the year ended 31 December 2012 totaled RR 296 million, net of tax, was recorded within other comprehensive income (for year ended 31 December 2011: RR 5,070 million, net of tax).

Note 10. Other non-current assets

	31 December 2012	31 December 2011
Long-term promissory notes (Net of discount of RR 20,255 million as at 31 December 2012 and RR 20,751 million as at 31 December 2011)	6,515	15,034
VAT recoverable	5,419	4,320
Dams of Bratskaya, Ust'-Ilimskaya and Irkutskaya HPPs	5,668	5,762
Customer base of LLC ESC Bashkortostan	2,214	3,881
Goodwill	929	3,013
Other non-current assets	4,303	4,126
Total other non-current assets	**25,048**	**36,136**

	Rating	Rating agency	Effective interest rate	Maturity date	31 December 2012	31 December 2011
Long-term promissory notes						
OJSC Boguchanskaya HPP	-	-	9.75%	2029	4,320	3,935
CJSC Boguchansky Aluminium Plant	-	-	10.00%	2024	1,484	1,336
OJSC Alfa Bank	BBB-	Fitch Ratings	10.00-11.90%	2014-2020	646	387
LLC Energo-finance			10.54%	2014	-	8,467
OJSC SO UES	-	-	10.20%	2013	-	629
Other			-	-	65	280
Total long-term promissory notes					**6,515**	**15,034**

Promissory notes of OJSC Boguchanskaya HPP and CJSC Boguchansky Aluminium Plant. As at 31 December 2012 the promissory notes of OJSC Boguchanskaya HPP and CJSC Boguchansky Aluminium Plant were recognised at their amortised cost net of discounts of RR 16,708 million and RR 3,178 million respectively (31 December 2011: RR 17,092 million and RR 3,280 million respectively). In 2011 these promissory notes were pledged as collateral to the State Corporation Vnesheconombank (Note 29).

Promissory Notes of LLC Energo-finance. As of 31 December 2012 the Group assessed the recoverable amount of interest-bearing promissory notes of LLC Energo-finance determined based on forecast net assets of Rusenergo Fund Limited that became the guarantor of the promissory notes. Rusenergo Fund Limited owns shares of various energy companies whose sale guaranteed the return on the Group's investments in LLC Energo-finance promissory notes.

(in millions of Russian Rubles unless noted otherwise)

Actual stock market trends in 2012 were among the key factors reducing the net assets of Rusenergo Fund Limited and its estimated future cash flows.

As a result of the performed analysis, management of the Group concluded that as at 31 December 2012 LLC Energo-finance promissory notes are not recoverable and recognised an impairment loss of RR 9,363 million, including accumulated interest.

Dams of Bratskaya, Ust'-Ilimskaya and Irkutskaya HPPs. Dams of Bratskaya, Ust'-Ilimskaya and Irkutskaya HPPs were received in 2011 in the course of additional share issue (Note 15). They are currently being rented out to OJSC Irkutskenergo under the terms of a long-term operating lease. Management of the Group estimated the recoverable amount of these dams by determining value in use based on future cash flows. Key assumption used for the cash flows analysis is the ability of the Group to renegotiate rental payments. As a result, no impairment of the dams was recognised as at 31 December 2012 and 31 December 2011.

Goodwill and customer base of LLC ESC Baskortostan. Presented below is the carrying value of goodwill:

	For the year ended 31 December 2012	For the year ended 31 December 2011
Gross book value as of 1 January	3,013	929
Accumulated impairment losses as of 1 January	-	-
Carrying amount as of 1 January	**3,013**	**929**
Purchase of subsidiary	-	2,084
Impairment loss	(2,084)	-
Carrying amount as of 31 December	**929**	**3,013**
Gross book value as of 31 December	3,013	3,013
Accumulated impairment losses as of 31 December	(2,084)	-

Goodwill of LLC ESC Baskortostan. Goodwill of RR 2,084 million was recognised at the date of the purchase of LLC ESC Baskortostan in September 2011 due to the Group's ability to receive economic benefits from the expected synergy which was related to the Group's strong position on the retail energy market in the Republic of Bashkortostan.

As at 31 December 2012 the Group tested goodwill related to LLC ESC Baskortostan for potential impairment. For the testing purposes, LLC ESC Baskortostan was considered as a single cash generating unit.

Presented below are key assumptions used for the impairment testing purposes for the year ended 31 December 2012:

Key assumptions used for the impairment testing purposes	For the year ended 31 December 2012
Information used	Actual performance for 2012 and results of business plans for 2013-2017
Forecast period*	10 years (2013-2022)
Growth interest rate after the forecast period	3.1 percent
Discount rate	14.2 percent
Forecast electricity sales	Based on management forecast
Forecast electricity tariffs	2013 – based on tariffs set by regulators 2014-2022 – based on the consumer price index

* The management believes that the forecast period exceeding five years is more reliable as the electricity and capacity market is expected to undergo significant changes during the forecast period, and cash flows will not flatten out within five years.

During 2012, Rules for the Wholesale Electricity and Capacity Market and a number of other regulations were amended, which significantly changed the position of guaranteeing suppliers and other energy sale companies in the wholesale and retail markets of electricity and capacity, including LLC ESC Baskortostan, namely:

- The payment of the difference between actual electricity consumption and contractual volume for certain categories of consumers is cancelled; the payment is made based on metered values for a corresponding period.

(in millions of Russian Rubles unless noted otherwise)

- Consumers' payment for electricity based on the consumption schedule and electricity price growth in case of its uneven consumption is cancelled; the payment is made at average weighted cost.
- The procedure for the calculation of the cost of the identified contract-free consumption is changed.
- Also, power supply companies are not allowed to include the ultimate retail price of electricity purchased under non-regulated bilateral contracts, in case the contractual price is higher than the wholesale price.

The described circumstances and events resulted in the deterioration of the expected recoverable amount of LLC ESC Baskortostan. As a result, the Group recognised goodwill impairment following from LLC ESC Baskortostan acquisition in the full amount of RR 2,084 million. Moreover, a loss on impairment related to the customer base of LLC ESC Baskortostan in the amount of RR 891 million was recognised.

Goodwill of OJSC Institute Hydroproject. Goodwill of RR 929 million was recognised at the date of the acquisition of OJSC Institute Hydroproject in October 2010 as the Group was able to receive economic benefits from the expected synergy from the high qualification of engineering specialists and long-term relationships between OJSC Institute Hydroproject and customers, including the Group entities.

As of 31 December 2012 and 31 December 2011, the Group tested goodwill related to OJSC Hydroproject Institute for its potential impairment. For the testing purposes, OJSC Hydroproject Institute was considered as a single cash generating asset.

Presented below are key assumptions used for the impairment testing purposes for the years ended 31 December 2012 and 31 December 2011:

Key assumptions used for the impairment testing purposes	For the year ended 31 December 2012	For the year ended 31 December 2011
Information used	Actual performance for 2012 and results of business plans for 2013-2017	Actual performance for 2011 and results of business plans for 2012-2016
Forecast period	5 years	5 years
Growth interest rate after the forecast period	3.0 percent	3.0 percent
Discount rate	18.0 percent	18.0 percent
Net cash inflow after the forecast period	Minimum expectation: RR 67 million in 2013, RR 97 million in 2014, RR 173 million in 2015, RR 211 million in 2016, RR 227 million in 2017	Minimum expectation: RR 118 million in 2012, RR 296 million in 2013, RR 313 million in 2014, RR 341 million in 2015, RR 512 million in 2016
Net cash inflow after the forecast period	Minimum expectation: RR 235 million per year	Minimum expectation: RR 527 million per year

A change in the expected net cash inflow as of 31 December 2012 is mostly due to the exclusion of a number of high-potential projects from revenue forecasts.

Based on the above assumptions, as of 31 December 2011 and 31 December 2012 the recoverable amount of OJSC Hydroproject Institute as a cash generating asset exceeded the carrying amount – there is no economic impairment.

Note 11. Cash and cash equivalents

	31 December 2012	31 December 2011
Cash at bank	10,259	10,321
Cash equivalents (contractual interest rate: 2.00-9.30%)	29,547	36,998
Cash in hand	13	18
Total cash and cash equivalents	**39,819**	**47,337**

Cash equivalents held as at 31 December 2012 and 31 December 2011 comprised short-term bank deposits with original maturities of three months or less.

Cash and cash equivalents balances denominated in US Dollars as at 31 December 2012 were RR 17 million (31 December 2011: RR 109 million). Cash and cash equivalents balances denominated in Euros as at 31 December 2012 were RR 665 million (31 December 2011: RR 708 million).

(in millions of Russian Rubles unless noted otherwise)

Cash and cash equivalents are deposited in several institutions as follows:

	Rating	Rating agency	31 December 2012	31 December 2011
Cash at banks				
CJSC Peresvet Bank	B3	Moody's	2,739	1,016
OJSC Sberbank of Russia	Baa1	Moody's	2,297	1,743
OJSC Gazprombank	BBB-	Standard & Poor's	1,268	3,225
CJSC Raiffeisenbank	BBB+	Fitch Ratings	614	683
OJSC ROSBANK	BBB+	Fitch Ratings	590	319
LLC Creditinvestbank	-	-	296	720
CJSC VTB24	Baa1	Moody's	228	255
OJSC Alfa-Bank	BBB-	Fitch Ratings	227	454
OJSC VTB Bank	Baa1	Moody's	138	111
OJSC Bank Vozrozhdenie	BB-	Standard & Poor's	117	216
Other			1,745	1,579
Total cash at banks			**10,259**	**10,321**
Bank deposits				
OJSC Sberbank of Russia	Baa1	Moody's	12,040	4,248
OJSC Alfa-Bank	BBB-	Fitch Ratings	5,780	640
OJSC Gazprombank	BBB-	Standard & Poor's	3,133	10,417
OJSC Nordea Bank	BBB+	Fitch Ratings	2,100	3,460
CJSC Peresvet Bank	B3	Moody's	1,750	283
OJSC Transcreditbank	BBB	Standard & Poor's	1,420	53
OJSC VTB Bank	Baa1	Moody's	962	14,797
CJSC Raiffeisenbank	BBB+	Fitch Ratings	885	40
OJSC Asian-Pacific Bank»	B2	Moody's	550	308
OJSC URALSIB	BB-	Fitch Ratings	440	1,398
OJSC Promsvyazbank	Ba2	Moody's	193	250
OJSC Rosselkhozbank	Baa1	Moody's	104	108
OJSC NOTA-Bank	B3	Moody's	100	150
Other			90	846
Total cash equivalents			**29,547**	**36,998**

Note 12. Accounts receivable and prepayments

	31 December 2012	31 December 2011
Trade receivables (Net of provision for impairment of accounts receivable of RR 11,409 million as at 31 December 2012 and RR 7,380 million as at 31 December 2011)	30,330	26,603
VAT recoverable	9,171	10,984
Advances to suppliers and other prepayments (Net of provision for impairment of accounts receivable of RR 406 million as at 31 December 2012 and RR 277 million as at 31 December 2011)	4,376	4,432
Income tax receivable	2,842	3,718
Other receivables (Net of provision for impairment of accounts receivable of RR 2,650 million as at 31 December 2012 and RR 2,038 million as at 31 December 2011)	2,793	4,134
Total accounts receivable and prepayments	**49,512**	**49,871**

The provision for impairment of accounts receivable has been determined based on specific customer identification, customer payment trends, subsequent receipts and settlements and the analysis of expected future cash flows (Note 2). The Group believes that the Group's subsidiaries will be able to realise the net receivable amount through direct collections and other non-cash settlements, and the carrying value approximates their fair value.

(in millions of Russian Rubles unless noted otherwise)

Movements in the impairment provision for accounts receivables and prepayments are as follows:

	Year ended 31 December 2012	Year ended 31 December 2011
As at 1 January	9,695	9,937
Charge for the year	6,657	4,068
Reversal of impairment	(1,414)	(3,205)
Trade receivables written-off as uncollectible	(278)	(1,105)
Reclassification to assets of Disposal group	(195)	-
As at 31 December	**14,465**	**9,695**

The ageing analysis of trade and other accounts receivable is as follows:

	31 December 2012	Provision as at 31 December 2012	31 December 2011	Provision as at 31 December 2011
Not past due	23,418	(1,181)	23,057	(1,388)
Past due for less than 3 months	5,411	(1,009)	3,529	(264)
Past due for 3 months to 1 year	5,867	(2,408)	5,459	(1,905)
Past due for more than 1 year	11,587	(9,461)	7,668	(5,861)
Total	**46,283**	**(14,059)**	**39,713**	**(9,418)**

The counterparties, balances of which fall into trade receivables and other receivables categories, and which are neither past due nor impaired, have approximately the same credit quality.

The Group does not hold any accounts receivable pledged as collateral.

Note 13. Inventories

	31 December 2012	31 December 2011
Fuel	12,432	11,629
Materials and supplies (Net of provision for impairment of materials and supplies of RR 56 million as at 31 December 2012 and RR 47 million as at 31 December 2011)	5,165	4,122
Spare parts (Net of provision for impairment of spare parts of RR 15 million as at 31 December 2012 and RR 17 million as at 31 December 2011)	1,448	1,429
Other materials	533	792
Total inventories	**19,578**	**17,972**

There are no inventories pledged as collateral for borrowings as at 31 December 2012 (31 December 2011: RR 259 million).

(in millions of Russian Rubles unless noted otherwise)

Note 14. Other current assets

	31 December 2012	31 December 2011
Promissory notes and deposits	53,535	9,885
Other short-term investments	252	59
Total other current assets	**53,787**	**9,944**

	Rating	Rating agency	Effective interest rate	31 December 2012	31 December 2011
Promissory notes					
OJSC SO UES	-	-	8.80%	705	-
OJSC Alfa-Bank	BBB-	Fitch Ratings	-	176	577
Other promissory notes				311	135
Deposits					
OJSC Sberbank of Russia	Baa1	Moody's	4.88-7.90%	50,078	-
CJSC Peresvet Bank	B3	Moody's	2.85-8.80%	1,593	1,763
OJSC NOTA-Bank	B3	Moody's	6.60%	200	800
OJSC Rosselkhozbank	Baa1	Moody's	7.97%	20	114
OJSC Bank Saint-Petersburg				-	2,885
OJSC MDM Bank				-	1,313
OJSC Promsvyazbank				-	1,037
OJSC Gazprombank				-	188
Other deposits				452	1,073
Total promissory notes and deposits				**53,535**	**9,885**

Deposits held as at 31 December 2012 comprised cash in the amount of RR 50,000 million obtained in the course of additional share issue (Note 15).

Note 15. Equity

	Number of issued ordinary shares (Par value of RR 1.00)
As at 31 December 2012	317,637,520,094
As at 31 December 2011	290,302,702,379
As at 31 December 2010	288,695,430,802

Additional share issue 2012–2013. On 16 November 2012 the Extraordinary General Meeting of shareholders of the Company adopted a resolution to make a placement of 110,000,000,000 ordinary shares with a par value of RR 1.00 by open subscription with cash and non-cash considerations. On 10 December 2012 the Board of Directors of the Company determined the placement price of RR 1.00 per share.

Non-cash consideration to be contributed in the course of additional share issue includes shares of the following companies: OJSC Ust'-Srednekanskaya HPP, OJSC RAO Energy System of East, OJSC Sakhalin Energy Company, OJSC Irkutsk electronetwork, OJSC Irkutskenergo.

As at 31 December 2012 the Group recorded RR 50,000 million of cash received from the Russian Federation, represented by the Federal Agency for State Property Management, as a contribution for the additional share issue which is expected to be finalised in 2013. A corresponding obligation was recorded. The funds raised will be used to fund construction of generating facilities in the Far East region of the Russian Federation.

Additional share issue 2011–2012. On 30 June 2011 the Annual General Meeting of shareholders of the Company adopted a resolution to make a placement of 89,000,000,000 ordinary shares with a par value of RR 1.00 and placement price of RR 1.65 per share by open subscription with cash and non-cash considerations.

Results of the additional share issue were registered on 6 September 2012. 27,334,817,715 shares (or 30.71 percent of the total offering) were placed and the premium of RR 17 768 million was recorded within equity.

Among others in the course of this share issue the following assets were received:

- controlling interests in RAO Energy System of East Group, controlling and non-controlling interests in other companies (Note 1);
- hydropower facilities: dams of Bratskaya, Ust'-Ilimskaya and Irkutskaya HPPs (Note 10).

As at 31 December 2011 the Group had an obligation of RR 43,604 million including obligation of RR 37,899 million to the Russian Federation, represented by the Federal Agency for State Property Management and the Ministry of Energy.

Treasury shares. As at 31 December 2012 treasury shares were represented by 8,703,807,839 ordinary shares in the amount of RR 10,662 million (31 December 2011: 8,703,807,839 ordinary shares in the amount of RR 10,662 million).

During the year ended 31 December 2011 OJSC HydroInvest purchased 569,891,293 treasury shares in the course of the Company's share issue of 1,860,000,000 ordinary shares for a cash consideration of RR 918 million.

Treasury shares carry voting rights in the same proportion as other ordinary shares. Voting rights of ordinary shares of the Company held by entities within the Group are effectively controlled by management of the Group.

Transactions with parties under common control. As at 31 December 2012 difference of RR 127,216 million as at 31 December 2012 (31 December 2011: RR 127,216 million) between the amount of consideration (including the placement price of shares issued) and the IFRS carrying value of the purchased or contributed assets and non-controlling interest resulted due to acquisition of companies accounted for using predecessor values method has been recorded as a merger reserve within equity.

The change of merge reserve during the year ended 31 December 2011 in the amount of RR 32,243 million relates to assets that were received from the Russian Federation in the course of additional share issue 2011–2012.

As a result of these transactions for the year ended 31 December 2011 non-controlling interest increased due to obtaining control over OJSC DRSK with effective ownership of 36.39 percent and decreased due to acquisition of additional interests in several Group's subsidiaries to the total change of RR 11,611 million (Note 1).

Effect of changes in non-controlling interest of subsidiaries. The results of the share issue of OJSC RAO Energy System of East for 2,317,068,930 additional ordinary shares were registered on 7 February 2012. As a result non-controlling interest increased by RR 1,566 million and retained earnings of the Group decreased by RR 814 million (Note 4).

The share issue for 2,699,100,588 additional ordinary shares of OJSC Ust'-Srednekanskaya HPP was registered on 26 April 2012. 2,649,171,000 ordinary shares were bought by the Russian Federation and 49,929,588 shares by the Group's subsidiary OJSC Kolimaenergo. As the contribution made by the State as a non-controlling interest holder of OJSC Ust'-Srednekanskaya HPP was higher than the contribution made by the Group, the Group recognised a gain in the amount of RR 3,163 million in retained earnings in the Consolidated Statement of Changes in Equity resulting from the dilution of the Group's interest. As a result non-controlling interest decreased by RR 502 million due to increase of share in losses of OJSC Ust'-Srednekanskaya HPP previously absorbed by shareholders of the Group (Note 4).

On 25 August 2011 OJSC RusHydro Bashkortostan Efficiency was founded, in which the Group has 50.98 percent interest, as a result non-controlling interest increased for RR 1,000 million.

In 2011 the Group received 29.80 percent interest in OJSC Yakutskenergo in the course of additional share issue 2011–2012. As a result non-controlling interest decreased by RR 3,015 million.

Dividends. In accordance with the Russian legislation the Company and its subsidiaries distribute profits as dividends on the basis of financial statements prepared in accordance with RSA.

On 29 June 2012 the Company declared dividends for the year ended 31 December 2011 of RR 0.0079 per share in the total amount of RR 2,431 million.

On 30 June 2011 the Company declared dividends for the year ended 31 December 2010 of RR 0.0086 per share in the total amount of RR 2,450 million.

Dividends in favour of non-controlling interest holders were declared by the Group's subsidiaries in the amount of RR 170 million for the year ended 31 December 2012 (for the year ended 31 December 2011: RR 210 million).

(in millions of Russian Rubles unless noted otherwise)

Note 16. Income tax

Income tax expense is as follows:

	Year ended 31 December 2012	Year ended 31 December 2011
Current income tax expense from continuing operations	6,999	11,187
Deferred income tax (benefit) / expense from continuing operations	(1,684)	747
Total income tax expense from continuing operations	**5,315**	**11,934**
Current income tax (benefit) / expense from discontinued operations	(91)	35
Deferred income tax (benefit) / expense from discontinued operations	(661)	2,169
Total income tax (benefit) / expense from discontinued operations	**(752)**	**2,204**

The income tax rate applicable to the majority of the Group's entities for the year ended 31 December 2012 is 20 percent (for the year ended 31 December 2011: 20 percent).

A reconciliation between the expected and actual income tax expense is provided below:

	Year ended 31 December 2012	Year ended 31 December 2011
(Loss) / profit before income tax from continuing operations	**(18,058)**	**43,712**
Loss before income tax from discontinued operations	**(2,918)**	**(81)**
Theoretical tax income / (charge) at a statutory rate of 20 percent	4,195	(8,726)
Tax effect of items which are not deductible or assessable for taxation purposes	(4,574)	(2,641)
Unrecognised deferred tax assets in respect of associates and jointly controlled entities (Note 8)	(2,839)	(1,189)
Deferred tax related to investment in subsidiary acquired exclusively with view to resale	355	(2,254)
Deferred tax recognised in respect of Disposal group	-	(267)
Unrecognised deferred tax assets related to impairment of available-for-sale financial assets	(1,608)	-
Recognition of previously unrecognised deferred tax assets related to available-for-sale financial assets	-	436
Revised tax declaration	473	1,379
Other unrecognised deferred income tax asset movements	(565)	(876)
Total income tax expense	**(4,563)**	**(14,138)**
Less income tax benefit / (expense) from discontinued operations	**752**	**(2,204)**
Total income tax expense from continuing operations	**(5,315)**	**(11,934)**

The total amount of deductible temporary differences for which deferred income tax assets have not been recognised by the Group as at 31 December 2012 comprised RR 57,830 million (31 December 2011: RR 55,096 million). These temporary differences mainly relate to accumulated impairment of property, plant and equipment of several Group's subsidiaries and impairment of available-for-sale financial assets.

Deferred income tax. Differences between IFRS and statutory taxation regulations in the Russian Federation give rise to temporary differences between the carrying amount of certain assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20 percent (for the year ended 31 December 2011: 20 percent).

(in millions of Russian Rubles unless noted otherwise)

	31 December 2011	Income tax charge for continuing operations	Income tax charge for discontinued operations	Charged directly to other comprehensive income	Disposal of subsidiaries	Reclassification to discontinued operations	31 December 2012
Property, plant and equipment	47,675	(496)	(106)	(2,662)	16	96	44,523
Accounts receivable	(4,867)	(9)	39	-	41	(39)	(4,835)
Inventories	(36)	9	-	-	-	-	(27)
Loans and borrowings	462	(74)	-	-	-	-	388
Losses carried forward	(383)	(361)	(202)	-	-	202	(744)
Investment in OJSC DRSK	2,254	-	(355)	-	-	-	1,899
Other	(765)	(753)	(37)	-	(18)	37	(1,536)
Deferred income tax liabilities, net	**44,340**	**(1,684)**	**(661)**	**(2,662)**	**39**	**296**	**39,668**
Deferred income tax assets	(16,246)	(2,506)	(232)	-	61	217	(18,706)
Deferred income tax liabilities	60,586	822	(429)	(2,662)	(22)	79	58,374

	31 December 2010	Income tax charge for continuing operations	Income tax charge for discontinued operations	Charged directly to other comprehensive income	Disposal of subsidiaries	Business combinations	31 December 2011
Property, plant and equipment	50,247	180	55	(2,825)	3	15	47,675
Accounts receivable	(4,978)	51	(44)	-	110	(6)	(4,867)
Inventories	(101)	65	-	-	-	-	(36)
Loans and borrowings	789	(327)	-	-	-	-	462
Losses carried forward	(335)	(48)	-	-	-	-	(383)
Available-for-sale financial assets	248	362	-	(610)	-	-	-
Investment in OJSC DRSK	-	-	2,254	-	-	-	2,254
Other	(1,761)	464	(96)	-	(189)	817	(765)
Deferred income tax liabilities, net	**44,109**	**747**	**2,169**	**(3,435)**	**(76)**	**826**	**44,340**
Deferred income tax assets	(18,083)	1,871	(138)	-	109	(5)	(16,246)
Deferred income tax liabilities	62,192	(1,124)	2,307	(3,435)	(185)	831	60,586

In accordance with the tax legislation, tax losses and current income tax assets of different Group's entities may not be offset against current income tax liabilities and taxable profits of other Group's entities and, accordingly, taxes may be accrued 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.

The Group did not have significant unrecognised deferred tax liabilities in respect of taxable temporary differences associated with investments in subsidiaries as at 31 December 2012 and 31 December 2011.

(in millions of Russian Rubles unless noted otherwise)

Note 17. Pension benefit obligations

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

Amounts recognised in the Group's Consolidated Statement of Financial Position:

	31 December 2012	31 December 2011
Present value of defined benefit obligations	10,477	12,549
Fair value of plan assets	(824)	(294)
Unrecognised actuarial gains	2,975	297
Unrecognised past service cost	(707)	(896)
Net liability	**11,921**	**11,656**

Amounts recognised in the Group's Consolidated Income Statement:

	Year ended 31 December 2012	Year ended 31 December 2011
Current service cost	500	633
Interest cost	1,013	881
Net actuarial loss	58	44
Past service cost	117	115
Termination benefits	86	-
Settlement and curtailment gain	(82)	(474)
Expected return on plan assets	(16)	(20)
Net expense	**1,676**	**1,179**

Movements in the net liability recognised in the Consolidated Statement of Financial Position are as follows:

	31 December 2012	31 December 2011
Net liability at the beginning of the year	11,656	9,384
Net expense recognised in profit or loss for the year	1,676	1,179
Contributions	(872)	(492)
Reclassification of plan assets	(488)	-
Other	(51)	1,585
Net liability at the end of the year	**11,921**	**11,656**

Movements in fair value of plan assets:

	31 December 2012	31 December 2011
Fair value of plan assets at the beginning of the year	294	224
Reclassification of plan assets	488	5
Expected return on plan assets	16	20
Contributions by employer	785	492
Payments	(758)	(478)
Other	(1)	31
Fair value of plan assets at the end of the year	**824**	**294**

Experience adjustment on benefit obligations and plan assets is as follows:

	31 December 2012	31 December 2011
Defined benefit obligations	10,477	12,549
Plan assets	(824)	(294)
Deficit	9,653	12,255
Experience adjustments on plan liabilities	1,438	184
Experience adjustments on plan assets	(2)	5

The Group expects to contribute RR 603 million to the defined benefit plans in 2013.

(in millions of Russian Rubles unless noted otherwise)

Principal actuarial assumptions for the Group are as follows:

	31 December 2012	31 December 2011
Nominal discount rate	7.00%	8.50%
Wage growth rate	7.00%	9.72%
Inflation rate	5.50%	5.50%

Note 18. Current and non-current debt

Non-current debt

	Currency	Effective interest rate	Due date	31 December 2012	31 December 2011
OJSC Sberbank of Russia	RR	6.40–11.43%	2013–2016	54,553	44,694
Eurobonds (RusHydro Finance Ltd)	RR	7.875%	2015	19,959	19,945
Russian bonds (OJSC RusHydro)	RR	8.00%	2016*	14,988	14,984
EBRD	RR	MOSPRIME+2.75–3.65%	2014–2021	11,534	4,455
OJSC Bank of Moscow	RR	9.66–10.35%	2013–2015	7,717	-
OJSC ROSBANK	RR	6.46–9.09%	2013–2014	6,132	7,458
OJSC Gazprombank	RR	7.30–11.00%	2013–2016	3,494	7,149
Russian bonds (OJSC Yakutskenergo)	RR	8.25%	2013	3,000	3,960
EM Falcon Ltd	RR	MOSPRIME+1.40% / 8.65%	2013–2014	2,423	3,346
UniCredit Bank Austria AG	EUR	3.35%**	2017	1,971	-
CF Structured Products B. V.	USD	10.50%	2013	1,822	1,932
Municipal authority of Kamchatka region	USD	8.57%	2035	1,359	1,400
OJSC Transcreditbank	RR	10.50–10.80%	2013–2014	901	300
Other long-term debt	RR	-	-	1,889	1,419
Finance lease liabilities	RR	8.70–17.36%	-	2,261	2,742
Total				**134,003**	**113,784**
Less current portion of non-current				(65,392)	(9,926)
Less current portion of finance lease liabilities				(1,328)	(1,234)
Total non-current debt				**67,283**	**102,624**

** The bonds mature in 10 years with a put option to redeem them in 2016.*

*** Fixed interest rate applied to 90 percent of the credit facility, to the rest 10 percent of the facility the quarterly variable export finance rate published by OeKB (Oesterreichische Kontrollbank AG) less 0.25 percent is applied.*

OJSC Sberbank of Russia. Additional financing in the amount of RR 16,480 million was received during the year ended 31 December 2012 under the loan agreement with a limit of RR 40,000 million.

European Bank for Reconstruction and Development *(hereinafter referred to as "EBRD").* In December 2012 the Group received RR 8,000 million under the loan agreement concluded with EBRD in December 2011. The funds raised were used for settlement of current debts of OJSC DGK.

Current debt

	Currency	Effective interest rate	31 December 2012	31 December 2011
OJSC Sberbank of Russia	RR	8.65–10.50%	2,616	4,793
OJSC ROSBANK	RR	7.68–9.35%	1,920	1,278
OJSC Nomos-Regiobank	RR	10.00–11.50%	219	221
OJSC Gazprombank	RR	10.00%	210	-
OJSC AB Rossiya	RR	-	-	2,300
Current portion of non-current debt	RR	-	65,392	9,926
Current portion of finance lease liabilities	RR	8.70–17.36%	1,328	1,234
Interest payable	RR	-	1,439	914
Other current debt	RR	-	628	748
Total current debt and current portion of non-current debt			**73,752**	**21,414**

(in millions of Russian Rubles unless noted otherwise)

Compliance with covenants. The Group is subject to certain covenants related primarily to its debt.

As at 31 December 2012 and 31 December 2011 some of the Group's credit contracts are subject to covenant clauses, whereby the Group is required to meet certain key performance indicators. The Group did not fulfill some of the requirements. Before the 31 December 2012 and 31 December 2011 management received covenant waivers from banks confirming absence of intention to request early repayment of loans.

Debt maturity (excluding finance lease liabilities)

	31 December 2012	31 December 2011
Between one and two years	8,200	54,913
Between two and three years	32,107	3,694
Between three and four years	16,931	24,178
Between four and five years	1,534	15,930
After five years	7,578	2,401
Total	**66,350**	**101,116**

Effective interest rate. The effective interest rate is the market interest rate applicable to the loans at the date of origination for fixed rate loans and the current market rate for floating rate loans. The Group has not entered into any hedging arrangements in respect of interest rate exposures.

Finance lease liabilities. Minimum lease payments under finance leases and their present values are as follows:

	Due in 1 year	Due between 2 and 5 years	Due after 5 years	Total
Minimum lease payments as at 31 December 2012	**1,392**	**1,127**	**-**	**2,519**
Less future finance charges	(64)	(194)	-	(258)
Present value of minimum lease payments as at 31 December 2012	**1,328**	**933**	**-**	**2,261**
Minimum lease payments as at 31 December 2011	**1,424**	**1,800**	**4**	**3,228**
Less future finance charges	(190)	(296)	-	(486)
Present value of minimum lease payments as at 31 December 2011	**1,234**	**1,504**	**4**	**2,742**

Note 19. Other non-current liabilities

	31 December 2012	31 December 2011
Pension benefit obligations (Note 17)	10,214	9,985
Other non-current liabilities	3,821	3,016
Total other non-current liabilities	**14,035**	**13,001**

As at 31 December 2012 the amount of pension benefit obligations did not include liabilities of OJSC DRSK in the amount of RR 1,707 million (as at 31 December 2011: RR 1,671 million).

Note 20. Accounts payable and accruals

	31 December 2012	31 December 2011
Trade payables	29,739	22,375
Advances received	7,606	6,101
Settlements with personnel	6,317	5,562
Dividends payable	77	54
Other accounts payable	2,432	5,938
Total accounts payable and accruals	**46,171**	**40,030**

As at 31 December 2011 an obligation to the Russian Federation, represented by the Federal Agency for State Property Management, was included in Other accounts payable in respect of additional share issue of the Group's subsidiaries OJSC Ust'-Srednekanskaya HPP in the amount of RR 2,649 million and OJSC RAO Energy System of East in the amount of RR 748 million. The results of the share issue were registered on 26 April 2012 and on 7 February 2012 respectively.

All accounts payable and accruals are denominated in Russian Rubles.

(in millions of Russian Rubles unless noted otherwise)

Note 21. Other taxes payable

	31 December 2012	31 December 2011
VAT	4,362	3,990
Insurance contributions	1,826	1,420
Property tax	1,540	1,646
Other taxes	812	555
Total other taxes payable	**8,540**	**7,611**

Note 22. Revenue

	Year ended 31 December 2012	Year ended 31 December 2011
Sales of electricity	219,675	280,444
Sales of heat and hot water	31,491	30,800
Sales of capacity	23,996	32,451
Other revenue	19,817	18,904
Total revenue	**294,979**	**362,599**
Including:		
Total revenue less revenue of Disposal group	294,979	266,814
Revenue of Disposal group (Note 4)	-	95,785

Other revenue includes revenue earned from transportation of electricity and heat, connections to the grid, rendering of construction, repairs and other services.

Note 23. Government grants

In accordance with legislation of the Russian Federation, several companies of the Group are entitled to government subsidies for the cancellation of cross-subsidisation in electricity tariffs, to compensate for the difference between approved economically viable electricity and heat tariffs and actual reduced tariffs and for compensation of losses on purchased fuel. During the year ended 31 December 2012 the Group received government subsidies in the amount of RR 10,782 million (for the year ended 31 December 2011: RR 9,097 million) in the following subsidised territories: Kamchatsky territory, the Sakha Republic (Yakutia), Magadan Region and other Far East regions.

(in millions of Russian Rubles unless noted otherwise)

Note 24. Expenses

	Year ended 31 December 2012	Year ended 31 December 2011
Purchased electricity and capacity	57,878	83,702
Employee benefit expenses (including payroll taxes, Share Option Programmes expenses and pension benefit expenses)	49,081	48,377
Fuel expenses	45,231	41,329
Electricity distribution expenses	41,749	72,554
Depreciation of property, plant and equipment	18,232	16,421
Other materials	9,319	10,462
Taxes other than on income	7,292	6,614
Third parties services, including:		
Services of subcontracting companies	4,510	3,945
Services of SO UES, ATS, CFS	3,180	3,128
Repairs and maintenance	3,002	3,355
Purchase and transportation of heat power	2,572	2,784
Security expenses	2,426	2,178
Rent	2,279	2,096
Consulting, legal and information expenses	1,829	1,947
Transportation expenses	1,265	1,299
Insurance cost	1,022	851
Other third parties services	4,458	4,393
Accrual of impairment for accounts receivable, net	5,781	8
Water usage expenses	2,536	2,565
Social charges	2,282	2,533
Loss on disposal of property, plant and equipment, net	1,855	2,464
Other expenses	884	612
Total expenses	**268,663**	**313,617**
Including:		
Total expenses less expenses of Disposal group	268,663	226,448
Expenses of Disposal group (Note 4)	-	87,169

Note 25. Finance income, costs

	Year ended 31 December 2012	Year ended 31 December 2011
Finance income		
Interest income	4,804	3,442
Foreign exchange gain	155	129
Income on discounting	104	582
Gain on derivative financial instruments	16	-
Other income	-	30
Total finance income	**5,079**	**4,183**
Finance costs		
Interest expense	(3,904)	(3,722)
Finance lease expense	(352)	(517)
Expense on discounting	(326)	(620)
Loss on derivative financial instruments	(213)	(127)
Foreign exchange loss	(180)	(242)
Other costs	(1,483)	(1,164)
Total finance costs	**(6,458)**	**(6,392)**

(in millions of Russian Rubles unless noted otherwise)

Note 26. Discontinued operations

As at 31 December 2012 OJSC DRSK is presented as a discontinued operation due to the fact that it was acquired exclusively with a view for resale (Note 2).

Results of discontinued operations are summarised below:

	Year ended 31 December 2012
Revenue	3,826
Government grants	14
Expenses	(2,756)
Loss recognised on remeasurement to fair value less costs to sell	(3,669)
Finance costs, net	(333)
Loss before income tax from discontinued operations	**(2,918)**
Income tax benefit	752
Loss for the period from discontinued operations	**(2,166)**
Attributable to:	
Shareholders of OJSC RusHydro	**(764)**
Non-controlling interest	**(1,402)**

As at 31 December 2012 the line Cash and cash equivalents in the Consolidated Statement of Cash Flows included RR 38 million of cash and cash equivalents held by OJSC DRSK (31 December 2011: RR 77 million).

Note 27. Earnings per share

	Year ended 31 December 2012	Year ended 31 December 2011
Weighted average number of ordinary shares issued (thousands of shares)	290,262,445	281,247,952
(Loss) / profit for the period from continuing operations attributable to the shareholders of OJSC RusHydro	(22,038)	32,243
Loss for the period from discontinued operations attributable to the shareholders of OJSC RusHydro	(764)	(832)
(Loss) / earnings per share from continuing operations attributable to the shareholders of OJSC RusHydro – basic and diluted* (in Russian Rubles per share)	**(0.0759)**	**0.1146**
Loss per share from discontinued operations attributable to the shareholders of OJSC RusHydro – basic and diluted* (in Russian Rubles per share)	**(0.0026)**	**(0.0030)**

** The Share Option Programmes 2007 and 2010 had no dilutive effect for the periods (Note 6).*

Note 28. Commitments

Social commitments. The Group contributes to the maintenance and upkeep of the local infrastructure and the welfare of its employees, including contributions toward the development and maintenance of housing, hospitals, transport services, recreation and other social needs in the geographical areas in which it operates.

Capital commitments. Future capital expenditures in accordance with the contractual obligations amounted to RR 179,875 million as at 31 December 2012 (31 December 2011: RR 176,868 million). The major part of future capital expenditures under contractual obligations as at 31 December 2012 are related to the following hydropower plants: Saratovskaya HPP in the amount of RR 44,630 million, Volzhskaya HPP in the amount of RR 35,381 million, Zhigulevskaya HPP in the amount of RR 15,962 million (due to the reconstruction of equipment), Nizhne-Bureiskaya HPP in the amount of RR 20,797 million, Zagorskaya GAES-2 in the amount of RR 13,327 million (due to the construction the power plant).

Note 29. Contingencies

Political environment. The operations and earnings of the Group's subsidiaries continue, from time to time and in varying degrees, to be affected by political, legislative, fiscal and regulatory developments, including those related to the environmental protection, in the Russian Federation.

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

Legal proceedings. The Group's subsidiaries are parties to certain legal proceedings arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which, upon final disposition, will have a material adverse effect on the position of the Group.

In connection with the accident at Sayano-Shushenskaya HPP in August 2009, there is a possibility of a large number of claims related to the accident, which subject may include: compensation of damage caused to life and health, compensation of losses from termination of contracts, other proceedings. Moreover, the prosecutor's office and other oversight bodies are examining operations of the Company and this also may result in additional claims against the Company and its employees.

Tax contingencies. The Russian tax legislation is subject to varying interpretation and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activities of the Group may be challenged by the relevant regional and federal authorities, in particular, the way of accounting for tax purposes of some income and expenses of the Group as well as deductibility of input VAT from suppliers and contractors. Tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments. As a result, significant additional taxes, penalties and interest may arise. 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 review 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 Co-operation 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.

During the year ended 31 December 2012 the Group's subsidiaries had controlled transactions and transactions which highly probably will be considered by tax authorities to be controlled based on the results of the year 2012. Management 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.

Management believes that as at 31 December 2012 its interpretation of the relevant legislation was appropriate and the Group's tax position would be sustained.

Environmental matters. The Group's subsidiaries and their predecessor entities have operated in the utilities industry in the Russian Federation for many years. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group's subsidiaries periodically evaluate their obligations under environmental regulations. Group accrued assets retirement obligation for ash damps used by the Group which is included in other non-current liabilities (Note 19) and comprised RR 618 million as at 31 December 2012 (31 December 2011: RR 527 million).

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

(in millions of Russian Rubles unless noted otherwise)

Guarantees. The Group has issued guarantees for CJSC Boguchansky Aluminium Plant in favour of its suppliers for future equipment deliveries and for OJSC Boguchanskaya HPP in favour of the State Corporation Vnesheconombank for the loan facility:

Counterparty	**31 December 2012**	**31 December 2011**
for OJSC Boguchanskaya HPP:		
State Corporation Vnesheconombank	19,946	10,546
for CJSC Boguchansky Aluminium Plant:		
Solios Environnement S. A.	534	674
ALSTOM Grid SAS	395	571
CJSC Commerzbank (Eurasia)	-	178
Total guarantees issued	**20,875**	**11,969**

BEMA project financing scheme. Starting from 2006 the Company and RUSAL Group have been jointly implementing the BEMA project based on an agreement for mutual financing, completion and subsequent operation of Boguchanskaya HPP, with an installed capacity of 2,997 MW, and Boguchansky aluminium plant, with a capacity of 597,000 tonnes of aluminium per annum. Within the BEMA project jointly-controlled entities were formed, which have controlling interests in OJSC Boguchanskaya HPP and CJSC Boguchansky Aluminium Plant.

Starting from December 2010 the construction is financed through loan facilities, being received under the loan agreements with the State Corporation Vnesheconombank and addendums signed to them for the total amount of RR 75,296 million. Maturity dates of obligations of OJSC Boguchanskaya HPP and CJSC Boguchansky Aluminium Plant are 20 December 2026 and 20 December 2027, respectively. On 11 December 2012 the Board of Directors approved the amendments to the financing structure of BEMO through signing an addendum to the loan agreement between the State Corporation Vnesheconombank and Boguchansky aluminum plant, which provides an increase of loan equivalent denominated in US Dollars from RR 21,910 million to RR 47,196 million.

In August 2011 the Group issued a guarantee for OJSC Boguchanskaya HPP in favour of the State Corporation Vnesheconombank for the total amount of loan facility of RR 28,100 million including accrued interest and penalties under the loan agreement. RUSAL Group is obliged to compensate the Company for the 50 percent of OJSC Boguchanskaya HPP obligations fulfilled by the Company under the guarantee.

As at 31 December 2012 the amount of liabilities of OJSC Boguchanskaya HPP to the State Corporation Vnesheconombank under the loan agreement was RR 19,946 million including accrued interest in the amount of RR 17 million (31 December 2011: RR 10 546 million including accrued interest in the amount of RR 9 million).

The Group provided a pledge of 51 percent of the shares of CJSC Boguchanskaya HPP Construction Organiser, the Group's subsidiary, and 49 percent of the shares of CJSC Boguchanskaya HPP Construction Customer, the Group's associate, interest-free long-term promissory notes of OJSC Boguchanskaya HPP payable not earlier than 31 December 2029 with total nominal value of RR 21,027 million. Amortised cost of the promissory notes as at 31 December 2012 amounted to RR 4,320 million (Note 10).

According to addendum to the loan agreement the Group has a liability for purchase of defined volumes of electricity and capacity generated by OJSC Boguchanskaya HPP at the price not less than the minimum guaranteed payment. During the year ended 31 December 2012 purchasing the defined volumes of electricity and capacity generated by OJSC Boguchanskaya HPP was deferred to the beginning of 2013.

As at 31 December 2012 the amount of liabilities of CJSC Boguchansky Aluminium Plant to the State Corporation Vnesheconombank under the loan agreement denominated in US Dollars was equal to RR 14,575 million including accrued interest in the amount of RR 42 million (31 December 2011: RR 4 699 million including accrued interest in the amount of RR 15 million).

The Group provided a pledge of 49 percent of the shares of CJSC Boguchansky Aluminium Plant Construction Organiser, the Group's associate, and 51 percent of the shares of CJSC Boguchansky Aluminium Plant Construction Customer, the Group's subsidiary, interest-free long-term promissory notes of OJSC Boguchansky Aluminium Plant payable not earlier than 31 December 2024 with total nominal value of RR 4,662 million. Amortised cost of the promissory notes as at 31 December 2012 amounted to RR 1,484 million (Note 10).

(in millions of Russian Rubles unless noted otherwise)

Note 30. Financial risk management

The risk management function within the Group is carried out in respect of financial risks, which include market risks, credit risks and operational risks. Market risks comprise currency risk, interest rate risk, price risk and liquidity risk. The primary objectives of the financial risk management function are to provide reasonable assurance for achievement of the Group's objectives by establishing Group's overall framework, identifying, analyzing and evaluating risks, establishing risk limits, and then ensuring that exposure to risks stays within these limits and in case of exceeding these limits to impact on the risks.

In order to optimise the Group's exposure to risks, the Company constantly works on their identification, assessment and monitoring, as well as the development and implementation of activities which impact on the risks, business continuity management and insurance, seeks to comply with international and national standards of advanced risk management (COSO ERM 2004, ISO 31000 and others), increases the culture of risk management and continuously improves risk management.

Credit risk. Credit risk is the risk of financial loss for the Group in the case of non-fulfillment by the Contractor of the obligations on the financial instrument under the proper contract. 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.

The Group's maximum exposure to credit risk by class of assets is reflected in the carrying amounts of financial assets in the Note 33.

Although 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.

There is no independent rating for the Group's customers and therefore the Group considers the credit quality of customers at the contract execution stage. The Group considers their financial position and credit history. The Group monitors the existing receivables on a continuous basis and takes actions regularly to ensure collection or to minimise losses.

To reduce the credit risk in the wholesale electricity and capacity markets the Group has introduced marketing policy and procedure to calculate internal ratings of counterparties in the unregulated market, based on the frequency of default, and to establish limits based on the rating of the customers' portfolio.

The Group's management reviews ageing analysis of outstanding trade receivables and follows up on past due balances. Management therefore considers it appropriate to provide ageing and other information about credit risk as disclosed in Note 12.

Cash has been deposited in the financial institutions with no more than minimal exposure to the default risk at the time of account opening. The Group approved the list of banks for deposits, as well as rules for their placement. Moreover, the Group constantly evaluates the financial condition, ratings assigned by independent agencies, background and other factors of such banks.

The tables in Notes 10, 11 and 14 show deposits with banks and other financial institutions and their ratings at the end of the reporting period.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Group uses the same credit policies in assuming conditional obligations as it does for on-balance sheet financial instruments, through established credit approvals, risk control limits and monitoring procedures.

The Group's maximum exposure to credit risk for off-balance sheet financial instruments is as follows:

	31 December 2012	31 December 2011
Financial guarantees (Note 29)	20,875	11,969
Total off-balance sheet exposure	**20,875**	**11,969**

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

Sensitivities to market risks included below are based on a change in a factor while holding all other factors constant. In practice this is unlikely to occur and changes in some of the factors may be correlated.

(in millions of Russian Rubles unless noted otherwise)

Currency risk. Electricity and capacity produced by the Group is sold on the domestic market of the Russian Federation at the prices fixed in Russian Rubles. Hence, the Group does not have significant foreign currency exchange risk. The financial condition of the Group, its liquidity, financing sources and the results of operations do not considerably depend on currency rates as the Group operations are planned to be performed in such a way that its assets and liabilities are to be denominated in the national currency.

The table below summarises the Group's exposure to foreign currency exchange rate risk:

	31 December 2012			31 December 2011		
	Monetary financial assets	**Monetary financial liabilities**	**Net balance sheet position**	**Monetary financial assets**	**Monetary financial liabilities**	**Net balance sheet position**
USD	17	(3,276)	(3,259)	109	(3,437)	(3,328)
EUR	665	(2,095)	(1,430)	708	(159)	549
Other	10	-	10	8	-	8
Total	**692**	**(5,371)**	**(4,679)**	**825**	**(3,596)**	**(2,771)**

The above analysis includes only monetary assets and liabilities. Equity investments and non-monetary assets are not considered to give rise to any material currency risk.

There is no significant effect of the changes of foreign currency rates on the Group's financial position.

Interest rate risk. The Group's operating profits and cash flows from operating activities are not dependent largely on the changes in the market interest rates. Borrowings issued at variable rates (Note 18) expose the Group to cash flow interest rate risk.

The Group obtains debt financing with floating rates, which are established on the basis of the MOSPRIME, Euribor, OeKB rates.

As at 31 December 2012, had interest rates at that date been 0.5 percent higher (31 December 2011: 0.5 percent higher), with all other variables held constant, profit would have been RR 79 million (31 December 2011: RR 39 million) lower, mainly as a result of higher interest expense on variable interest liabilities.

The Group monitors interest rates for its financial instruments. Effective interest rates at the end of the reporting period are disclosed in Note 18.

For the purpose of interest risk reduction the Group makes the following arrangements:

- credit market monitoring to identify favourable credit conditions,
- diversification of credit portfolio by raising of borrowings with fixed rates and floating rates.

Liquidity risk. Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

Prudent liquidity risk management includes maintaining sufficient cash and marketable securities and the availability of funding from an adequate amount of committed credit facilities. The Group adheres to the balanced model of financing of working capital – both at the expense of short-term sources and long-term sources. Temporarily free funds are placed into short-term financial instruments, mainly bank deposits and short-term bank promissory notes. Current liabilities are represented mainly by the accounts payable to suppliers and contractors.

The Group has implemented a control system under its contract conclusion process by introducing and applying typical financial arrangements which include standardised payment structure, payment deadlines, percentage ratio between advance and final settlement, etc. In such a manner the Group controls capital maturity.

As at 31 December 2012 the Group's current liabilities exceed its current assets by RR 16,276 million. Included in current liabilities as at 31 December 2012 are accounts payable in respect of share issue to the total amount of RR 50,000 million (Note 15), which will be converted to the Company's share capital upon completion of the share issue in 2013.

The table below shows liabilities as at 31 December 2012 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, including gross finance lease obligations (before deducting future finance charges). Such undiscounted cash flows differ from the amount included in the Consolidated Statement of Financial Position because this amount is based on the discounted cash flows.

(in millions of Russian Rubles unless noted otherwise)

The maturity analysis of financial liabilities as at 31 December 2012 is as follows:

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
Liabilities				
Current and non-current debt (Note 18)	82,609	14,477	57,152	9,910
Trade payables (Note 20)	29,739	-	-	-
Financial guarantees (Note 29)	-	929	-	19,946
Dividends payable (Note 20)	77	-	-	-
Finance lease liabilities (Note 18)	1,392	592	535	-
Net settled derivatives	(23)	(9)	(8)	6
Total future payments, including principal and interest payments	**113,794**	**15,989**	**57,679**	**29,862**
Liabilities of discontinued operation	**16,394**	**-**	**-**	**-**

Debt to the total amount of RR 82,609 million mature in the year 2013 (Note 18). The management of the Group plans to repay the debt both from own funds and attracting external financing. The Group has a positive credit history, deals with large-sized credit institutions including government-related banks and has access to capital markets.

The maturity analysis of financial liabilities as at 31 December 2011 is as follows:

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
Liabilities				
Current and non-current debt (Note 18)	28,531	60,861	51,097	3,131
Trade payables (Note 20)	22,375	-	-	-
Financial guarantees (Note 29)	178	1,245	-	10,546
Dividends payable (Note 20)	54	-	-	-
Finance lease liabilities (Note 18)	1,424	1,163	637	4
Net settled derivatives	15	56	113	42
Total future payments, including principal and interest payments	**52,577**	**63,325**	**51,847**	**13,723**
Liabilities of discontinued operation	**13,093**	**-**	**-**	**-**

Note 31. Management of capital

Compliance with Russian legislation requirements and capital cost reduction are key objectives of the Group's capital risk management.

The following capital requirements have been established for joint stock companies by the legislation of the Russian Federation:

- share capital cannot be lower than 1,000 minimum shares on the date of the company's registration;
- if the share capital of the entity is more than the statutory net assets of the entity, such entity must decrease its share capital to the value not exceeding its net assets;
- if the minimum allowed share capital is more than the statutory net assets of the entity, such entity is subject to liquidation.

As at 31 December 2012 and 31 December 2011 the Company was in compliance with the above share capital requirements.

The Group's objectives in respect of capital management are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The amount of capital that the Group managed as at 31 December 2012 was RR 538,395 million (31 December 2011: RR 525,659 million).

Consistent with others in the energy industry, the Group monitors capital on the basis of a gearing ratio, and ensures that the ratio is not more than 1.0. This ratio is calculated as the total debt divided by the total capital. Debt is calculated as a sum of non-current and current debt, as shown in the Consolidated Statement of Financial Position. Total capital is equal to the total equity, as shown in the Consolidated Statement of Financial Position. The gearing ratio was 0.26 as at 31 December 2012 (31 December 2011: 0.24).

Note 32. Fair value of financial instruments

Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between knowledgeable willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sales transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Financial instruments carried at fair value. Available-for-sale financial assets and financial derivatives are carried in the Consolidated Statement of Financial Position at their fair value that is measured on the basis of the quoted prices in an active market (Level 1 in the fair value hierarchy).

Financial assets carried at amortised cost. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty.

Carrying amounts of trade and other financial receivables approximate fair values (Note 12).

Liabilities carried at amortised cost. The estimated fair value of fixed interest rate instruments with stated maturity was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The discount rates used ranged from 8.57 percent per annum to 18.00 percent per annum depending on the length and currency of the liability. Carrying amounts of liabilities carried at amortised cost approximate fair values.

(in millions of Russian Rubles unless noted otherwise)

Note 33. Presentation of financial instruments by measurement category

The following table provides a reconciliation of classes of financial assets with the measurement categories of IAS 39, *Financial Instruments: Recognition and Measurement* and the Group's maximum exposure to credit risk by class of assets as at 31 December 2012:

	Loans and receivables	Available-for-sale financial assets	Total
Assets			
Other non-current assets (Note 10)	**6,680**	**-**	**6,680**
Promissory notes	6,515	-	6,515
Deposits	13	-	13
Long-term loans receivable	152	-	152
Available-for-sale financial assets (Note 9)	**-**	**14,326**	**14,326**
Trade and other receivables (Note 12)	**32,225**	**-**	**32,225**
Trade receivables	30,330	-	30,330
Promissory notes receivable	7	-	7
Other financial receivables	1,888	-	1,888
Other current assets (Note 14)	**53,535**	**-**	**53,535**
Promissory notes and deposits	53,535	-	53,535
Cash and cash equivalents (Note 11)	**39,819**	**-**	**39,819**
Total financial assets	**132,259**	**14,326**	**146,585**
Non-financial assets			**677,811**
Total assets of subsidiary acquired exclusively with a view for resale and non-current assets classified as held for sale			**30,351**
Total assets			**854,747**

All of the Group's financial liabilities except for derivatives are carried at amortised cost.

The following table provides a reconciliation of financial assets with the measurement categories and the Group's maximum exposure to credit risk by class of assets as at 31 December 2011:

	Loans and receivables	Available-for-sale financial assets	Total
Assets			
Other non-current assets (Note 10)	**15,348**	**-**	**15,348**
Promissory notes	15,034	-	15,034
Deposits	250	-	250
Long-term loans receivable	64	-	64
Available-for-sale financial assets (Note 9)	**-**	**19,738**	**19,738**
Trade and other receivables (Note 12)	**30,295**	**-**	**30,295**
Trade receivables	26,603	-	26,603
Promissory notes receivable	10	-	10
Other financial receivables	3,682	-	3,682
Other current assets (Note 14)	**9,885**	**-**	**9,885**
Promissory notes and deposits	9,885	-	9,885
Cash and cash equivalents (Note 11)	**47,337**	**-**	**47,337**
Total financial assets	**102,865**	**19,738**	**122,603**
Non-financial assets			**660,710**
Total assets of subsidiary acquired exclusively with a view for resale			**28,470**
Total assets			**811,783**

Note 34. Subsequent events

Bonds issue. In February 2013 the Group placed non-convertible ten years interest bearing bonds of series 07 with a nominal amount of RR 10,000 million and series 08 with a nominal amount of RR 10,000 million. The term of the offer (period of redemption of bonds on request of their owners) – 5 years, coupon rate of 8.50 percent per annum was determined for the first 5 years only.

Sale of shares of OJSC Bureyagesstroy. On 16 January 2013 the Group sold a 25 percent plus 1 share interest in OJSC Bureyagesstroy for the cash consideration in the amount of RR 250 million.

Additional share issue 2012–2013. In February 2013 the Group has received the following contributions in exchange for additional shares of the Company: 9.60 percent of ordinary shares of OJSC RAO Energy System of East, 24.54 percent of shares of OJSC Sakhalin Energy Company, 14.83 percent of shares of OJSC Ust'-Srednekanskaya HPP, 42.53 percent of shares of OJSC Irkutsk electronetwork company.

Agreement with OJSC Sberbank of Russia. In March 2013 the Group entered into the agreement with OJSC Sberbank of Russia on the opening of separate bank account to monitor the spending of cash funds received from the Russian Federation in the course of additional share issue of the Company (Note 15) designated strictly for funding construction of generating facilities in the Far East region of the Russian Federation.