

**RAO ENERGY SYSTEM OF EAST GROUP**

**CONSOLIDATED FINANCIAL STATEMENTS  
PREPARED IN ACCORDANCE WITH  
INTERNATIONAL FINANCIAL REPORTING STANDARDS  
AND INDEPENDENT AUDITOR'S REPORT**

**31 DECEMBER 2012**

## CONTENT

### INDEPENDENT AUDITOR'S REPORT CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION.....	5
CONSOLIDATED INCOME STATEMENT.....	6
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME.....	7
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY.....	8
CONSOLIDATED STATEMENT OF CASH FLOWS.....	9

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1.	RAO Energy System of East Group and its Operations.....	11
Note 2.	Summary of significant accounting policies.....	12
Note 3.	New accounting pronouncements.....	21
Note 4.	Principal subsidiaries.....	24
Note 5.	Segment information.....	25
Note 6.	Related party transactions.....	29
Note 7.	Property, plant and equipment.....	31
Note 8.	Investments in associates.....	35
Note 9.	Available-for-sale financial assets.....	36
Note 10.	Other non-current assets.....	36
Note 11.	Cash and cash equivalents.....	37
Note 12.	Accounts receivable and prepayments.....	38
Note 13.	Inventories.....	39
Note 14.	Other current assets.....	39
Note 15.	Assets and liabilities of a disposal group classified as held for sale.....	39
Note 16.	Equity.....	41
Note 17.	Income Taxes.....	42
Note 18.	Current and non-current debt.....	44
Note 19.	Pension benefit obligations.....	45
Note 20.	Other non-current liabilities.....	47
Note 21.	Accounts payable and accruals.....	47
Note 22.	Other taxes payable.....	47
Note 23.	Revenue.....	47
Note 24.	Government grants.....	48
Note 25.	Expenses.....	48
Note 26.	Finance income/(expenses), net.....	49
Note 27.	Earnings per share.....	49
Note 28.	Contingencies and Commitments.....	49
Note 29.	Financial risk management.....	50
Note 30.	Management of capital.....	52
Note 31.	Fair value of financial instruments.....	53
Note 32.	Presentation of financial instruments by measurement category.....	53
Note 33.	Subsequent events.....	54



### ***Independent Auditor's Report***

To the Shareholders and Board of Directors of Open Joint Stock Company RAO Energy System of East.

We have audited the accompanying consolidated financial statements of Open Joint Stock Company RAO Energy System of East 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.

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This is an English translation of the Russian original, which is the official version and takes absolute precedence.



*Independent Auditor's Report (Continued)*

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2012, and its financial performance and its cash flows for 2012 in accordance with International Financial Reporting Standards.

*ZAO PricewaterhouseCoopers Audit*

01 April 2013

Moscow, Russian Federation

A. A. Okishev, Director (licence no. 01-000170), ZAO PricewaterhouseCoopers Audit

Audited entity: Open Joint Stock Company RAO Energy System of East

State registration certificate № 108776000052, issued by Interdistrict Inspection of the Federal Tax Service No. 46 for The Moscow city on 01 July 2008

Certificate of inclusion in the Unified State Register of Legal Entities №011168014 issued on 01 July 2008

675000, Russia, the Amur region, Blagoveshchensk, Shevchenko str.,28

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

**RAO Energy System of East Group**  
**Consolidated Statement of Financial Position**  
(in millions of Russian Rubles unless noted otherwise)

	Note	31 December 2012	31 December 2011
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	7	52,364	49,671
Investments in associates	8	937	947
Available-for-sale financial assets	9	586	785
Deferred tax assets	17	314	180
Other non-current assets	10	988	839
<b>Total non-current assets</b>		<b>55,189</b>	<b>52,422</b>
<b>Current assets</b>			
Cash and cash equivalents	11	5,781	4,330
Accounts receivable and prepayments	12	21,847	22,623
Inventories	13	17,670	16,188
Other current assets	14	1,552	6,875
<b>Total current assets</b>		<b>46,850</b>	<b>50,016</b>
Assets of disposal group classified as held for sale	15	28,954	27,873
<b>TOTAL ASSETS</b>		<b>130,993</b>	<b>130,311</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	16	22,717	21,558
Treasury shares	16	(410)	-
Revaluation reserve on property plant and equipment		8,518	10,394
Retained losses and other reserves		(17,098)	(14,422)
<b>Equity attributable to shareholders of the parent company</b>		<b>13,727</b>	<b>17,530</b>
Non-controlling interest		7,768	11,637
<b>TOTAL EQUITY</b>		<b>21,495</b>	<b>29,167</b>
<b>Non-current liabilities</b>			
Deferred income tax liabilities	17	2,200	4,087
Non-current debt	18	24,488	34,102
Other non-current liabilities	20	9,969	9,246
<b>Total non-current liabilities</b>		<b>36,657</b>	<b>47,435</b>
<b>Current liabilities</b>			
Current debt and current portion of non-current debt	18	28,148	18,061
Accounts payable and accruals	21	23,187	18,059
Current income tax payable		335	245
Other taxes payable	22	4,777	4,251
<b>Total current liabilities</b>		<b>56,447</b>	<b>40,616</b>
Liabilities of disposal group classified as held for sale	15	16,394	13,093
<b>TOTAL LIABILITIES</b>		<b>109,498</b>	<b>101,144</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>130,993</b>	<b>130,311</b>

General Director

S. N. Tolstoguzov

Chief Accountant

A. P. Vaynilavichute

1 April 2013

The accompanying notes are an integral part of these consolidated financial statements.

**RAO Energy System of East Group**  
**Consolidated Income Statement**

(in millions of Russian Rubles unless noted otherwise)

	Note	Year ended 31 December 2012	Year ended 31 December 2011
Revenue	23	131,284	124,692
Government grants	24	10,796	9,130
Expenses	25	(137,684)	(126,569)
Loss on disposal group remeasurement and impairment of property, plant and equipment	7, 15	(5,784)	(20,262)
<b>Operating loss</b>		<b>(1,388)</b>	<b>(13,009)</b>
Profit from disposals of subsidiaries		172	-
Finance income	26	648	819
Finance expenses	26	(5,423)	(4,231)
Share of (loss) / income of associates	8	(10)	5
Impairment of investments in associates	8	(155)	-
<b>Loss before income tax</b>		<b>(6,156)</b>	<b>(16,416)</b>
Total income tax benefit / (expense)	17	1,236	(282)
<b>Loss for the year</b>		<b>(4,920)</b>	<b>(16,698)</b>
Attributable to:			
Shareholders of the parent company		(2,945)	(9,914)
Non-controlling interest		(1,975)	(6,784)
Loss per share attributable to the shareholders of the parent company – basic and diluted (in Russian Rubles per share)			
	27	(0.0662)	(0.2299)
Weighted average number of ordinary shares (in thousands)			
		42,386,713	41,041,754
Weighted average number of preference shares (in thousands)			
		2,075,149	2,075,149

General Director

S. N. Tolstoguzov

Chief Accountant

A. P. Vaynilavichute

1 April 2013

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**RAO Energy System of East Group**  
**Consolidated Statement of Comprehensive Income**

(in millions of Russian Rubles unless noted otherwise)

	Note	Year ended 31 December 2012	Year ended 31 December 2011
<b>Loss for the year</b>		<b>(4,920)</b>	<b>(16,698)</b>
<b>Other comprehensive (loss) / income after income tax:</b>			
Loss from change in fair value of available-for-sale financial assets, net of tax	9, 17	(129)	(183)
(Impairment) / revaluation of property, plant and equipment, net of tax	7, 17	(3,410)	20,720
<b>Total comprehensive (loss) / income for the year</b>		<b>(8,459)</b>	<b>3,839</b>
Attributable to:			
Shareholders of the parent company		(4,716)	374
Non-controlling interest		(3,743)	3,465

General Director

S. N. Tolstoguzov

Chief Accountant

A. P. Vaynilavichute

1 April 2013

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**RAO Energy System of East Group**  
**Consolidated Statement of Changes in Equity**  
(in millions of Russian Rubles unless noted otherwise)

	Note	Share capital	Treasury shares	Available-for-sale financial assets	Revaluation reserve	Retained losses	Total	Non-controlling interest	Total equity
<b>Balance as at 01 January 2011</b>		<b>21,558</b>	-	<b>258</b>	-	<b>(4,660)</b>	<b>17,156</b>	<b>8,201</b>	<b>25,357</b>
Loss for the year		-	-	-	-	(9,914)	(9,914)	(6,784)	(16,698)
<i>Other comprehensive income</i>									
Fair value loss arising on available-for-sale financial assets	9,17	-	-	(106)	-	-	(106)	(77)	(183)
Revaluation of property, plant and equipment	7,17	-	-	-	10,394	-	10,394	10,326	20,720
Total other comprehensive income / (loss)		-	-	(106)	10,394	-	10,288	10,249	20,537
Total comprehensive income / (loss) for 2011		-	-	(106)	10,394	(9,914)	374	3,465	3,839
Dividends declared	16	-	-	-	-	-	-	(29)	(29)
<b>Balance as at 31 December 2011</b>		<b>21,558</b>	-	<b>152</b>	<b>10,394</b>	<b>(14,574)</b>	<b>17,530</b>	<b>11,637</b>	<b>29,167</b>
<b>Balance as at 01 January 2012</b>		<b>21,558</b>	-	<b>152</b>	<b>10,394</b>	<b>(14,574)</b>	<b>17,530</b>	<b>11,637</b>	<b>29,167</b>
Loss for the year		-	-	-	-	(2,945)	(2,945)	(1,975)	(4,920)
<i>Other comprehensive income</i>									
Impairment of revalued property, plant and equipment	7,17	-	-	-	(1,701)	-	(1,701)	(1,709)	(3,410)
Fair value loss arising on available-for-sale financial assets	9,17	-	-	(70)	-	-	(70)	(59)	(129)
Total other comprehensive loss		-	-	(70)	(1,701)	-	(1,771)	(1,768)	(3,539)
Total comprehensive loss for 2012		-	-	(70)	(1,701)	(2,945)	(4,716)	(3,743)	(8,459)
Share issue	16	1,159	(410)	-	-	-	749	-	749
Dividends declared	16	-	-	-	-	-	-	(21)	(21)
Transfer of revaluation reserve to retained earnings		-	-	-	(175)	175	-	-	-
Effect of changes in non-controlling interest		-	-	-	-	164	164	(105)	59
<b>Balance as at 31 December 2012</b>		<b>22,717</b>	<b>(410)</b>	<b>82</b>	<b>8,518</b>	<b>(17,180)</b>	<b>13,727</b>	<b>7,768</b>	<b>21,495</b>

General Director

S. N. Tolstoguzov

Chief Accountant  
1 April 2013

A. P. Vaynilavichute

The accompanying notes are an integral part of these consolidated financial statements.



**RAO Energy System of East Group**  
**Consolidated Statement of Cash Flows**  
(in millions of Russian Rubles unless noted otherwise)

	Note	Year ended 31 December 2012	Year ended 31 December 2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
<b>Loss before income tax</b>		<b>(6,156)</b>	<b>(16,416)</b>
Depreciation of property, plant and equipment	25	4,374	6,726
Loss on disposal group remeasurement and impairment of property, plant and equipment	7,15	5,784	20,262
Loss / (profit) on disposal of property, plant and equipment	25	476	(175)
Finance expenses, net		4,603	3,462
Accrual / (reversal) of impairment of accounts receivable	25	3,133	(1,297)
Impairment of investments in associates		155	-
Other income		(58)	(177)
<b>Operating cash flows before working capital changes and income tax paid</b>		<b>12,311</b>	<b>12,385</b>
Working capital changes:			
Increase in accounts receivable and prepayments		(2,249)	(5,496)
Increase in inventories		(1,355)	(1,890)
Increase in accounts payable and accruals		7,376	1,729
Increase in other taxes payable		481	186
Increase in other non-current assets		(71)	(76)
(Decrease) / Increase in other non-current liabilities		(88)	1,043
Income tax paid		(293)	(821)
<b>Net cash generated by operating activities</b>		<b>16,112</b>	<b>7,060</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of property, plant and equipment		(17,487)	(17,685)
Proceeds from sale of property, plant and equipment		129	387
Proceeds from sale of promissory notes and other investments		37	43
Purchase of associates and other available-for-sale investments		(37)	(400)
Interest received		660	694
Disposal of subsidiaries		(17)	-
Acquisition of subsidiaries		(59)	-
Issue of loans and investment in bank deposits		(9,942)	(7,215)
Proceeds from issued loans and redemption of bank deposits		15,328	8,458
<b>Net cash used in investing activities</b>		<b>(11,388)</b>	<b>(15,718)</b>

The accompanying notes are an integral part of these consolidated financial statements.

**RAO Energy System of East Group**  
**Consolidated Statement of Cash Flows**  
(in millions of Russian Rubles unless noted otherwise)

	Note	Year ended 31 December 2012	Year ended 31 December 2011
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from debt		76,852	68,093
Repayment of debt		(74,116)	(55,154)
Interest paid		(5,179)	(3,636)
Dividends paid		(25)	-
Proceeds from shares issue		-	748
Finance lease payments		(844)	(839)
<b>Net cash (used) / generated by financing activities</b>		<b>(3,312)</b>	<b>9,212</b>
<b>Increase in cash and cash equivalents</b>		<b>1,412</b>	<b>554</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>11, 15</b>	<b>4,407</b>	<b>3,853</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>11, 15</b>	<b>5,819</b>	<b>4,407</b>

General Director  
Chief Accountant

S. N. Tolstoguzov  
A. P. Vaynilavichute

1 April 2013

The accompanying notes are an integral part of these consolidated financial statements.

## **Note 1. RAO Energy System of East Group and its Operations**

The Open Joint Stock Company RAO Energy System of East (hereinafter referred to as "the Company") was established on 1 July 2008 as a result of the final stage of reorganization of Russian Open Joint Stock Company for Energy and Electrification Unified Energy System of Russia (hereinafter referred to as "RAO UES") through a spin-off in accordance with the decision approved by the Extraordinary General Meeting of Shareholders of RAO UES on 26 October 2007. As a result of the reorganization, the Company became a shareholder of a number of energy companies in the Far East region of Russia and a number of energy retail companies and non-core companies that were transferred to the Company according to the separation balance sheet. The consolidated financial statements present the financial performance of the Company and its subsidiaries (together referred to as the "Group" or "RAO Energy System of East Group"). The Group's principal subsidiaries are presented in Note 4.

The Company was incorporated and is domiciled in the Russian Federation. The Company was set up in accordance with Russian regulations.

As at 31 December 2010 Russian Federation owned 52.68 percent of the Group and 47.32 percent was owned by non-controlling shareholders. According to the decision of the Government of Russian Federation, No. 1174-p dated 07 July 2011, the Government made an additional contribution to the share capital of OJSC RusHydro (hereinafter referred to as "parent company") by shares of the Company. As a result as at 31 December 2012 and 31 December 2011 the OJSC RusHydro owns 65.75 percent of the Company and 34.25 percent is owned by non-controlling shareholders. The ultimate controlling party is the Russian Federation. Related party transactions are disclosed in Note 6.

The shares of the Company are traded on the Moscow Stock Exchange.

The Group's principal business activities are:

- electricity and heat generation;
- electricity and heat distribution;
- electricity and heat retail;
- electricity wholesale.

The Company's registered office is located at 28, Shevchenko str., Blagoveshchensk, the Amur region, Russia, 675000.

The Group operates in the Far East region, the Far East Federal region comprises Republic of Sakha (Yakutiya), Kamchatka territory, Primorye territory, Khabarovsk territory, Amur region, Magadan region, Sakhalin region, Evreiskaya autonomous district and Chukotka autonomous district and also in the Khanty-Mansi autonomous district and Yamalo-Nenets autonomous district.

**Relations with the State and current regulation.** Many consumers of electricity and heat supplied by the Group are controlled by or affiliated with the Russian Federation. Moreover, the Russian Federation controls a number of fuel suppliers and suppliers of other materials for the Group (Note 6).

The Government affects the Group's operations through:

- tariff regulation within wholesale electricity and capacity as well as retail electricity and heat markets;
- ratification of the Company's investment programs, including volume and sources of their financing, control over their implementation;
- existing antimonopoly regulation.

The Russian Federation directly influences the activities of the Group by regulating the wholesale purchases of electricity via the Federal Tariff Service (hereinafter, "FTS") and the retail sale of electricity, capacity and heat via executive bodies of constituents of the Russian Federation in charge of state price (tariffs) regulation. The activities of generating and grid companies (except operating within technologically isolated territories of electric power system) are operated by OJSC System Operator of the United Energy System (hereinafter, "SO UES") to maintain the effective operation of the electricity market.

Tariffs on electricity sold by Group's energy companies are set by regional regulating authorities based on maximum possible tariffs approved by FTS.

Tariffs on heat for the Group for all consumers are set by regional regulating authorities of constituents of the Russian Federation in charge of state price (tariffs) regulation.

**Operating environment.** The economy of Russian Federation has some characteristics of an emerging economy. The tax, currency and customs legislation of Russian Federation continues to develop and is subject to varying interpretations (Note 28).

Existing uncertainty and volatility in financial markets, especially in Europe, and other risks could have a negative impact on the Russian financial and corporate sectors. Management reviewed the possible impairment of the Group's fixed assets taking into account of the current economic situation and its prospects (Note 7).

Management determined impairment provisions considering the economic situation and outlook at the end of the reporting period. The Group's assets are tested for impairment using the "incurred loss" model required by the applicable accounting standards. These standards require recognition of impairment losses for receivables that arose from past events and prohibit recognition of impairment losses that could arise from future events, no matter how probable those future events are. Future economic situation and regulatory environment can differ from existing expectations of management.

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

## **Note 2. Summary of significant accounting policies**

**Statement of compliance.** These consolidated financial statements ("Financial statements") have been prepared in accordance with, and comply with, International Financial Reporting Standards ("IFRS") and its interpretations. The Financial Statements have been prepared under the historical cost convention, as modified by financial instruments initial recognition of which is measured at fair value, the revaluation of property, plant and equipment and available-for-sale financial assets and financial instruments carried at fair value through profit and loss.

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 Financial Statements are based on the statutory records and adjusted and reclassified for the purpose of fair presentation in accordance with IFRS.

**Going concern.** Management prepared these financial statements on a going concern basis. In making this judgement management considered the Group's financial position, current intentions, profitability of operations and access to financial resources, and analysed the impact of the recent financial crisis on future operations of the Group (Note 29).

As at 31 December 2012 current liabilities of the Group exceed current assets by RR 9,597 million. The Group's approach to managing liquidity risk is to ensure, as far as possible, that it will always be able to repay its liabilities when due, under both normal and unfavourable conditions (Note 29).

The Group sustains own liquidity and plans to reduce own operating expenses to improve financial position in 2013 and further. Moreover the Group plans to refinance its financial liabilities in accordance with maturity dates. Also Group entities have developed and approved registers of non-core assets, sale of which is estimated by management as source to decrease debt load of the Group.

**Functional and presentation currency.** The national currency of the Russian Federation is the Russian Ruble (RR), which is the functional currency of the Group entities and the currency in which these Financial Statements are presented. All financial information presented in RR has been rounded to the nearest million, unless otherwise stated.

**Consolidated financial statements.** Consolidated financial statements comprise financial statements of the Company and financial statements of subsidiaries. Subsidiaries are those companies and other entities (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to control the financial and operating policies so as to obtain benefits. The existence and effect of potential voting rights that are presently exercisable or

presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date on which control ceases.

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

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

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 excluding 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.

**Transfers of subsidiaries from parties under common control.** Transfers of subsidiaries from parties under common control are accounted for using the predecessor values method. 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 or, if later, the date when the combining entities were first brought under common control. 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.

**Investments in associates.** 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, based upon the percentage of ownership held by the Group and are initially recognised at cost. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in the Group's share of net assets of an associate are recognised as follows: (i) the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as a share of a 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.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including non-current investments, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

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

**Goodwill.** The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair

value of the identifiable net assets acquired is recorded as goodwill. 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.

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. 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.

**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 profit or loss for the year.

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.** Starting from 1 January 2011 the Group changed its accounting policy for property, plant and equipment (except for assets under construction, office buildings and land) which are stated at revalued cost starting from 1 January 2011. Management of the Group assumes that use of revaluation model of property, plant and equipment provides more relevant information.

Prior to 1 January 2011 property, plant and equipment were stated at deemed cost as allowed by exemption of IFRS, less depreciation and impairment, where required. Deemed cost for the purposes of presenting IFRS financial statements for the first time by the predecessor was initially determined by a third party valuation as at 01 January 2008. Adjustments were made for additions, disposals and depreciation charges.

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. 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. The fair value less costs to sell is the amount that can be obtained from the sale of assets. The cost of using the present value of expected future cash flows, calculated based on a pre-tax discount rate basis using estimated capital cost for 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 when appropriate 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 (Note 7).

Increases in the carrying amount arising from 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 carrying value 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, and net book value is remeasured at fair value.

The revaluation surplus included in equity is transferred directly to retained earnings when 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.

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 and construction in progress are 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. Useful life of property, plant and equipment is assessed as critical accounting estimate and judgment in applying accounting policy.

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

<b>Type of facility</b>	<b>Average useful life starting from 1 January 2011</b>
Production buildings	25-80
Facilities	10-100
Plant and equipment	5-40
Other	3-30

Depreciation is charged once an asset is put into operation.

**Cash and cash equivalents.** Cash and cash equivalents include cash in hand, deposits held at call with banks, and other current highly liquid investments with original maturities of three months or less in accordance with terms of agreement. 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.

**Financial instruments - key measurement terms.** Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

*Fair value* is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties at arm's length transaction. Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure at fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these consolidated financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

*Amortised cost* is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

*The effective interest method* is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument.

**Classification of financial assets.** Financial assets have the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss.

The Group holds mainly financial assets categorized as “loans and receivables” which are represented by unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term.

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

**Classification of financial liabilities.** Financial liabilities have the following measurement categories: (a) held for trading which also includes financial derivatives and (b) other financial liabilities. Liabilities held for trading are carried at fair value with changes in value recognised in profit or loss for the year (as finance income or finance costs) in the period in which they arise. Other financial liabilities are carried at amortised cost.

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

**Derecognition of financial assets.** The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control.

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

**Impairment of financial assets carried at amortised cost.** A financial asset is impaired only if there is objective evidence of impairment as a result of event that occurred after the initial recognition of the asset (a ‘loss event’) and that loss event has an impact on the estimated future cash flows of the financial asset 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 in the possession of the Group; (iii) the counterparty considers bankruptcy or other 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 cost to sell.

**Non-current assets classified as held for sale.** Non-current assets and disposal groups (which may include both non-current and current assets) are classified in the consolidated statement of financial position as "non-current assets held for sale" if their carrying amount will be recovered principally through a sale transaction (including loss of control of a subsidiary holding the assets) within twelve months after the reporting period. Assets are reclassified when all of the following conditions are met: (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 or non-current) to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. Goodwill is included if the disposal group includes an operation within a cash-generating unit to which goodwill has been allocated on acquisition. Non-current assets are assets that include amounts expected to be recovered or collected more than twelve months after the reporting period. If reclassification is required, both the current and non-current portions of an asset are reclassified.

Held for sale disposal group as a whole is measured at the lower of carrying amount and fair value less costs to sell. Held for sale property, plant and equipment are not depreciated or amortised. Reclassified 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.

**Income taxes.** Income taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted at 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 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 or on gains upon their disposal. The Group does not recognise deferred tax liabilities in respect of undistributed profits of its subsidiaries and jointly controlled companies of the Group as there is no probability that temporary differences will be reversed in the foreseeable future.

**Uncertain tax positions.** The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

**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 differs from the transaction price. In subsequent periods, debt is stated at amortised cost using the effective interest rate 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 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.

**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 a defined benefit plan that covers the majority of its employees. Defined benefit plans estimate 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 exceeding 10 percent of the value of plan assets or 10 percent of the defined benefit obligations are charged or credited to the consolidated income statement over the employees' expected average remaining working life.

**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 that 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.

**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 delivery of electricity and heat, provision of access to capacity, supply of non-utility services, completion of technological connection and on dispatch of goods during the period. Revenue amounts are presented exclusive of value added tax.

**Government grants.** Grants from the government represent compensation for the expenses incurred in the current period and are recognised as income at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

**Earnings per share.** Preference shares can't be repurchased and are classified as shares participating in profit distribution. The earnings per ordinary 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.** Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. 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 fair value of consideration received 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 shareholder's 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 programs benefit the community at large without creating constructive obligations to provide such benefits in the future, they are recognised in the income statement as incurred.

**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 ten 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 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 investments in associates.

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

**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 28.

**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 provision is accrued in the Consolidated Financial Statements.

**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 taxpayer basis.

The effect of these critical accounting estimates and assumptions is disclosed in Note 17.

**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.

**Assets held for sale and disposal groups.** Management of the Group has exercised critical judgment in respect of the Group's subsidiary OJSC DRSK and reclassified it in accordance with IFRS 5, Non-current assets held for sale and discontinued operations (Note 15), due to the fact that the sale was highly probable as at 31 December 2011 and 31 December 2012. OJSC DRSK, classified as disposal group, relates to OJSC DEK Group's segment (Note 5).

Management of the Group has plans for further development of the remaining part of the OJSC DEK Group's segment, and the same business also continues in other subsidiaries, so therefore this part of its business held for sale was accounted as a disposal group, not a discontinued operation.

**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.

**Liabilities carried at fair value.** 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 maturity.

### **Note 3. New accounting pronouncements**

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.

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

While adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted. The amendments are not adopted on the territory of the Russian Federation. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

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

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

*IFRS 13, Fair value measurement, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013)*, aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. The Group is currently assessing the impact of the standard on its 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 IASB project on joint ventures. When discussing that project, IASB decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged. The Group is currently assessing the impact of the amended standard on its financial statements.

*Amendments to IAS 1, Presentation of Financial Statements (issued June 2011, effective for annual periods beginning on or after 1 July 2012)*, changes the disclosure of items presented in other

comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to 'statement of profit or loss and other comprehensive income'. The Group expects the amended standard to change presentation of its financial statements, but has no impact on measurement of transactions and balances.

*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 changes will affect Group Consolidated Financial Statements for the year ended 31 December 2013.

*Disclosures - Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013)*. The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. The amendment will have an impact on disclosures but will have no effect on measurement and recognition of financial instruments.

*Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014)*. The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The amendment is not adopted on the territory of Russian Federation.

*Improvements to International Financial Reporting Standards (issued in May 2012 and effective for annual periods beginning 1 January 2013)*. The improvements consist of changes to five standards. IFRS 1 was amended to (i) clarify that an entity that resumes preparing its IFRS financial statements may either repeatedly apply IFRS 1 or apply all IFRSs retrospectively as if it had never stopped applying them, and (ii) to add an exemption from applying IAS 23 Borrowing costs, retrospectively by first-time adopters. IAS 1 was amended to clarify that explanatory notes are not required to support the third balance sheet presented at the beginning of the preceding period when it is provided because it was materially impacted by a retrospective restatement, changes in accounting policies or reclassifications for presentation purposes, while explanatory notes will be required when an entity voluntarily decides to provide additional comparative statements. IAS 16 was amended to clarify that servicing equipment that is used for more than one period is classified as property, plant and equipment rather than inventory. IAS 32 was amended to clarify that certain tax consequences of distributions to owners should be accounted for in the income statement as was always required by IAS 12. IAS 34 was amended to bring its requirements in line with IFRS 8. IAS 34 will require disclosure of a measure of total assets and liabilities for an operating segment only if such information is regularly provided to chief operating decision maker and there has been a material change in those measures since the last annual consolidated financial statements. The Group is considering the implications of the amendment, the impact on the Group and the timing of its adoption by the Group.

*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 10, IFRS 12 and IAS 27 - Investment entities (issued on 31 October 2012 and effective for annual periods beginning 1 January 2014)*. The amendment introduced a definition of an



investment entity as an entity that (i) obtains funds from investors for the purpose of providing them with investment management services, (ii) commits to its investors that its business purpose is to invest funds solely for capital appreciation or investment income and (iii) measures and evaluates its investments on a fair value basis. An investment entity will be required to account for its subsidiaries at fair value through profit or loss, and to consolidate only those subsidiaries that provide services that are related to the entity's investment activities.

IFRS 12 was amended to introduce new disclosures, including any significant judgements made in determining whether an entity is an investment entity and information about financial or other support to an unconsolidated subsidiary, whether intended or already provided to the subsidiary. The amendment is not adopted on the territory of Russian Federation.

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

Also certain new standards and interpretations effective for annual periods beginning on 1 January 2013 or later which have no effect on consolidated financial statements of the Group.

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

#### **Note 4. Principal subsidiaries**

The following are the principal subsidiaries which have been consolidated into these consolidated financial statements as at 31 December 2012 and 31 December 2011.

Name	31 December 2012		31 December 2011	
	Ownership %	Voting %	Ownership %	Voting %
OJSC DEK	51.08	51.13	51.08	51.13
OJSC DGK (subsidiary of OJSC DEK)	51.08	100.00	51.08	100.00
OJSC DRSK (subsidiary of OJSC DEK)*	51.08	100.00	51.08	100.00
<b>Isolated energy systems:</b>				
OJSC Kamchatskenergo	98.74	98.74	98.74	98.74
OJSC Magadanenergo**	49.00	64.39	49.00	64.39
OJSC Yakutskenergo**	49.37	57.63	47.39	55.32
OJSC Sakhalinenergo	55.55	55.55	55.55	55.55

\* Group has classified OJSC DRSK as assets held for sale and a disposal group as at 31 December 2012 and 31 December 2011 (Note 15).

\*\* Control is based on the ability to govern the operating policies of the company through the majority of votes of the Board of Directors.

In accordance with the Federal Law "On Joint Stock Companies", 8 October 2012 the Company made an offer to purchase of ordinary shares OJSC Yakutskenergo from the minority shareholders of the Company. Offer to buy shares of OJSC Yakutskenergo was made after the joint share of OJSC RusHydro and the Company in OJSC Yakutskenergo exceeded 75 percent. As a result, the Company's share of OJSC Yakutskenergo has increased by 1.98 percent as at 31 December 2012, compared with a share as at 31 December 2011.

Difference between the ownership interest and voting interest represents the effect of preference shares and/or indirect ownership.

#### **Changes in Group structure**

*During the year ended 31 December 2012*

An additional issue of ordinary shares of OJSC Sakhalinskaya kommunalnaya company was registered on 01 August 2012. As a result Group's share in OJSC Sakhalinskaya kommunalnaya company reduced to 48.19 percent. Starting from 01 August 2012 OJSC Sakhalinskaya kommunalnaya company became an associate company to the Group (Note 8).



As at 31 December 2012 due to additional share issue Group's share in OJSC Sakhalinskaya energy company has decreased to 12.09 percent (Note 8). OJSC Sakhalinskaya energy company is recognised as associate company to the Group as at 31 December 2012 based on factors listed below for the period ended 31 December 2011. Financial results of OJSC Sakhalinskaya energy company is not material for the Group's Consolidated Income statement for the year ended 31 December 2012.

*During the year ended 31 December 2011*

Resolution of the Russian Government No. 1174-p dated 07 July 2011 stipulated integration of grid assets of OJSC DRSK into OJSC FGC. On 19 December 2011 Management Board of the Company, (minutes No. 33 dated 19 December 2011) recommended to Board of Directors of the Company to determine the position of Company's representatives in Board of Directors of OJSC DEK related to sale of all shares of OJSC DRSK to OJSC FGC. As completion of the transaction became highly probable, as at 31 December 2011 the Group has classified the equity investments in OJSC DRSK as assets held for sale and a disposal group (Note 15).

On 28 October 2011 Federal Service for Financial Markets registered report on the results of the additional issue of ordinary shares of OJSC Sakhalinskaya energy company. The Company increased its shareholding to 17.27% as at 31 December 2011. The Company has its representative on the board of directors of OJSC Sakhalinskaya energy company, participates in policy-making processes and provides essential technical information, related to capital construction activities. Based on this OJSC Sakhalinskaya energy company is considered as an associate of the Group as at 31 December 2011. Financial results of OJSC Sakhalinskaya energy company for year ended 31 December 2011 are immaterial for the Group's Consolidated Income statement.

#### **Note 5. Segment information**

In accordance with IFRS 8 Operating Segments the Group presents an analysis of its performance in the context of the operating segments.

Operating segment is a component that is engaged in business activities that may earn revenues or incur expenses, operating results of which are regularly reviewed by the chief operating decision maker (CODM) and for which discrete financial information is available. The CODM is the person or group of persons who allocates resources and assesses the performance of the entity. The functions of CODM are performed by the Board of Directors of the Group.

#### **Description of products and services from which each reportable segment derives its revenue**

The Group is organised in five main operating segments:

- Segment 1 - OJSC DEK Group's segment (including OJSC DGK, OJSC DRSK and other OJSC DEK subsidiaries) consists of companies that generate electricity and heat and provide transportation, distribution, construction, repair and other services in the Far East region.
- Segment 2 - OJSC Kamchatskenergo segment represents subsidiaries that generate electricity and heat and provide transportation and distribution in the Kamchatka territory.
- Segment 3 - OJSC Magadanenergo segment represents subsidiaries that generate electricity and heat and provide transportation and distribution services in the Magadan region and Chukotka autonomous district.
- Segment 4 - OJSC Sakhalinenergo segment represents subsidiaries that generate electricity and heat and provide transportation and distribution in the Sakhalin region.
- Segment 5 - OJSC Yakutskenergo segment represents subsidiaries that generate electricity and heat and provide transportation and distribution services in the Republic of Sakha (Yakutiya).

OJSC DRSK, which is included in Segment 1, is classified as a disposal group (Note 15).

The Group also includes entities supporting Group's operations which are not considered as separate segment by the CODM. The entities render financial, managerial, repair and maintenance and other (such as educational, recreation, etc.) services to the Group and external parties.

**Factors that management used to identify the reportable segments**

The Group's segments represent five sub-holdings which were created mainly in accordance with different geographical areas. The Board of Directors monitors the operating results of its sub-holdings/business units separately for the purpose of making decisions about resource allocation and performance assessment.

**Measurement of operating segment profit or loss, assets and liabilities**

Segment performance and EBITDA (RSA) is evaluated based on gross profit or loss and is measured under RSA which differs significantly from the gross profit or loss in the IFRS consolidated financial statements. The differences between the measurements of reportable segment's profit or losses, assets and liabilities and Group's profit and losses, assets and liabilities are:

- income tax is not allocated to the segments;
- 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 prescribed in IAS 39;
- investments in subsidiaries are not consolidated, investments in associates are not accounted for using the equity method;
- impairment of property, plant and equipment is not considered;
- government grants are classified as other income;
- other intercompany assets and liabilities balances are not eliminated.

Transactions between the operating segments are made on normal commercial terms and conditions. Sales between segments are carried out at arm's length.

**RAO Energy System of East Group**  
**Notes to the Consolidated Financial Statements as at and for the year ended 31 December 2012**  
(in millions of Russian Rubles unless noted otherwise)

**Information about reportable segment profit or loss, assets and liabilities**

Segment information for the reportable segments for the year ended 31 December 2012 is set out below:

	Segment 1	Segment 2	Segment 3	Segment 4	Segment 5	Other	Reconciliation	Total
<b>2012</b>								
External revenue	81,859	9,827	8,646	7,273	21,112	2,141	426	131,284
Revenue from other segments	4,763	2	189	39	424	983	(6,400)	-
<b>Total revenue</b>	<b>86,622</b>	<b>9,829</b>	<b>8,835</b>	<b>7,312</b>	<b>21,536</b>	<b>3,124</b>	<b>(5,974)</b>	<b>131,284</b>
EBITDA*	5,833	(132)	554	752	4,585	(777)	1,564	12,379
<b>Total segment assets</b>	<b>111,906</b>	<b>14,153</b>	<b>10,166</b>	<b>8,349</b>	<b>38,285</b>	<b>2,683</b>	<b>(54,549)</b>	<b>130,993</b>
Investments in equity accounted investees	-	-	1	149	-	717	70	937
Capital expenditure**	7,465	649	599	1,276	2,961	3,728	(1,234)***	15,444
<b>Total segment liabilities</b>	<b>66,798</b>	<b>9,396</b>	<b>3,595</b>	<b>4,970</b>	<b>18,561</b>	<b>1,001</b>	<b>5,177</b>	<b>109,498</b>

Segment information for the reportable segments for the year ended 31 December 2011 is set out below:

	Segment 1	Segment 2	Segment 3	Segment 4	Segment 5	Other	Reconciliation	Total
<b>2011</b>								
External revenue	78,176	9,763	8,666	7,508	18,724	2,132	(277)	124,692
Revenue from other segments	4,625	6	180	11	873	996	(6,691)	-
<b>Total revenue</b>	<b>82,801</b>	<b>9,769</b>	<b>8,846</b>	<b>7,519</b>	<b>19,597</b>	<b>3,128</b>	<b>(6,968)</b>	<b>124,692</b>
EBITDA*	5,609	(104)	613	883	2,804	(319)	3,021	12,507
<b>Total segment assets</b>	<b>103,849</b>	<b>11,924</b>	<b>10,104</b>	<b>7,820</b>	<b>32,601</b>	<b>3,380</b>	<b>(39,367)</b>	<b>130,311</b>
Investments in equity accounted investees	-	-	1	-	-	925	21	947
Capital expenditure**	11,190	398	550	883	2,295	3,392	1,994	20,702
<b>Total segment liabilities</b>	<b>58,589</b>	<b>6,283</b>	<b>3,207</b>	<b>4,536</b>	<b>15,812</b>	<b>1,705</b>	<b>11,012</b>	<b>101,144</b>

\* EBITDA is determined as earnings before interest, tax, depreciation and amortisation and increased by the amount of loss (reduced by the amount of income) from revaluation of financial investments.

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

\*\*\* Capital expenditure includes additions to property, plant and equipment of OJSC DRSK in the amount of RR 3,644 million for the year ended 31 December 2012, when the company was classified as disposal group.

**RAO Energy System of East Group**
**Notes to the Consolidated Financial Statements as at and for the year ended 31 December 2012**

(in millions of Russian Rubles unless noted otherwise)

**Reconciliation of reportable segment profit or loss, assets and liabilities**

	Year ended 31 December 2012	Year ended 31 December 2011
<b>EBITDA (RSA) of the reportable segments</b>	<b>10,815</b>	<b>9,486</b>
<i>Reconciliation from RSA to IFRS:</i>		
Loss from disposal of property, plant and equipment	404	93
Accrual of allowance for impairment of trade and other receivables	381	1,985
Pension benefit obligations	166	(19)
Reconciliation adjustment related to Other income and expenses*	913	74
Finance lease expenses	882	117
Provisions for legal claims and restoration expenses	194	269
Write-off of prepaid expenses (RSA)	(8)	186
Work-in-progress adjustment	(26)	(36)
Net difference in the value of fixed assets and construction in progress	(901)	850
Provision for unused vacations and travel expenses for holidays	(384)	(183)
Write-off of research and development expenditures	(29)	2
Other reclassifications and adjustments	(28)	(317)
<b>EBITDA (IFRS) of the reportable segments</b>	<b>12,379</b>	<b>12,507</b>
Accrual of allowance for impairment of trade and other receivables	(3,133)	1,297
Impairment losses on property, plant and equipment	(5,784)	(20,262)
Net difference in depreciation	(4,374)	(6,726)
Loss from disposal of property, plant and equipment	(476)	175
<b>Operating loss</b>	<b>(1,388)</b>	<b>(13,009)</b>
Finance income	648	819
Finance expenses	(5,423)	(4,231)
Profit from disposals of subsidiaries	172	-
Share of results of associates	(10)	5
Impairment of investments in associates	(155)	-
<b>Loss before income tax</b>	<b>(6,156)</b>	<b>(16,416)</b>
	<b>31 December 2012</b>	<b>31 December 2011</b>
<b>Total reportable segment assets (RSA)</b>	<b>185,542</b>	<b>169,678</b>
Elimination of inter-segment assets	(1,469)	(3,260)
<i>Reconciliation from RSA to IFRS:</i>		
Net difference in the value of fixed assets and construction in progress	(60,993)	(49,181)
Deferred tax adjustment	(1,906)	(1,187)
Allowance for impairment of trade and other receivables	(3,813)	(1,732)
Finance lease adjustment	1,334	557
Assets of holding company (after elimination of intergroup balances)	13,691	17,384
Write-off of prepaid expenses	(685)	(759)
Work-in-progress adjustment	(99)	(370)
Concession agreements adjustment	162	-
Correction of available-for-sale financial assets according to market rate	(342)	(192)
Adjustment for treasury shares	(175)	-
Other reclassifications and adjustments	(254)	(627)
<b>Total consolidated assets</b>	<b>130,993</b>	<b>130,311</b>
<b>Total reportable segment liabilities (RSA)</b>	<b>104,321</b>	<b>90,132</b>
Elimination of inter-segment liabilities	(776)	(805)
<i>Reconciliation from RSA to IFRS:</i>		
Employee benefits	10,268	10,050
Provisions for legal claims and assets retirement obligation	268	441
Provision for unused vacations and travel expenses for holidays	712	108
Liabilities of holding company (after elimination of intergroup balances)	706	1,280
Elimination of intergroup liabilities to holding company	(7,094)	(4,655)
Deferred tax adjustment	1,036	3,953
Finance lease adjustment	2,282	1,736
Concession agreements adjustments	(2,445)	(559)
Other reclassifications and adjustments	220	(537)
<b>Total consolidated liabilities</b>	<b>109,498</b>	<b>101,144</b>

\* In RSA certain expenses are reflected as other income and expenses, while in IFRS they form a part of Expenses.

**RAO Energy System of East Group****Notes to the Consolidated Financial Statements as at and for the year ended 31 December 2012**

(in millions of Russian Rubles unless noted otherwise)

Adjustments related to external revenue by the reportable segments, calculated under RSA, in accordance with IFRS are not material either individually or collectively.

External revenue information for the reportable segments for the year ended 31 December 2012 and 31 December 2011 is set out below:

	Segment 1	Segment 2	Segment 3	Segment 4	Segment 5	Other	Total
<b>Year ended 31 December 2012</b>							
Sales of electricity and capacity	54,628	3,921	5,148	5,305	14,680	1,208	84,890
Heat and hot water sales	17,979	5,686	3,256	1,548	2,878	-	31,347
Other revenue	9,615	220	231	441	3,579	961	15,047
<b>Total revenue</b>	<b>82,222</b>	<b>9,827</b>	<b>8,635</b>	<b>7,294</b>	<b>21,137</b>	<b>2,169</b>	<b>131,284</b>
<b>Year ended 31 December 2011</b>							
Sales of electricity and capacity	52,396	3,951	5,416	5,077	13,676	1,182	81,698
Heat and hot water sales	14,157	5,631	3,031	2,008	2,500	-	27,327
Other revenue	11,317	180	219	423	2,579	949	15,667
<b>Total revenue</b>	<b>77,870</b>	<b>9,762</b>	<b>8,666</b>	<b>7,508</b>	<b>18,755</b>	<b>2,131</b>	<b>124,692</b>

**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. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

**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: OJSC Sberbank of Russia, The Central Bank of the Russian Federation, OJSC Bank VTB, OJSC Bank of Moscow, OJSC Gazprombank, OJSC TransKreditBank, OJSC Rosselkhozbank, OJSC Far East Bank and etc. (Notes 11, 14, 18). Loans are provided at market rates.

The Group sells electricity, capacity and heat to government-related entities. Prices for such electricity and capacity sales are based on tariffs set by FTS and executive bodies of constituents of the Russian Federation in charge of state price (tariffs) regulation. The Group's sales to government-related entities comprised approximately 35 percent of revenue for the year ended 31 December 2012 (for the year ended 31 December 2011: approximately 26 percent). The Group's purchases from government-related entities comprised approximately 24 percent of total expenses on purchased for the year ended 31 December 2012 (for the year ended 31 December 2011: 20 percent).

Operating lease commitments accounted by the Group with the Government are disclosed in Note 7.

**Transactions with Key management of the Group**

Compensation is paid to the members of the Management Board of the Company and the subsidiaries for their services in full time management positions. The compensation is made up of a contractual salary and performance bonus depending on the results of the work for the period based on key performance indicators. The compensation and key performance indicators are approved by the Board of Directors.

Fees, compensation or allowances to the General Directors and the members of the Board of Directors of the Company and the major subsidiaries for their services in their capacity and for attending Board meetings are paid depending on the results for the year.

Major part of compensation for Key management personnel is generally short-term excluding future payments under pension plans with defined benefits. Defined benefit payments to Key management of the Group are calculated based on the same terms as for the other employees.

Total remuneration paid to the General directors and the members of the Management Boards and Boards of Directors of the Company and the major subsidiaries for the year ended 31 December 2012 was RR 593 million (for the year ended 31 December 2011: RR 535 million).

**RAO Energy System of East Group****Notes to the Consolidated Financial Statements as at and for the year ended 31 December 2012**

(in millions of Russian Rubles unless noted otherwise)

**Parent company and entities under common control.** In the normal course of business the Group enters into transactions with the OJSC RusHydro (parent company) and entities under common control.

At 31 December 2012 and at 31 December 2011 the outstanding balances with entities controlled by OJSC RusHydro were as follows:

	31 December 2012	31 December 2011
Trade and other receivables	35	30
Trade and other payables	1,005	611
Current debt and current portion of non-current debt	58	-
Non-current debt	8,000	-

The income and expense items with entities controlled by OJSC RusHydro:

	Year ended 31 December 2012	Year ended 31 December 2011
Other revenue	182	188
Expenses	7,050	6,634
Finance expenses	249	-

The above balances include the following amounts of transactions and balances with parent company OJSC RusHydro:

	31 December 2012	31 December 2011
Trade and other receivables	3	-
Trade and other payables	564	460
Current debt and current portion of non-current debt	58	-
Non-current debt	8,000	-

The income and expense items with parent company OJSC RusHydro:

	Year ended 31 December 2012	Year ended 31 December 2011
Other revenue	5	9
Expenses	5,411	5,044
Finance expenses	249	-

**Associates.** The Group sells electricity and heat to its associates for RR 1,262 million for the year ended 31 December 2012 and RR 664 million for the year ended 31 December 2011. The Group purchases utilities from its associates for RR 35 million for the year ended 31 December 2012 (RR nil million for the year ended 31 December 2011). Accounts receivables with associates comprise RR 89 million as at 31 December 2012 and RR 101 million as at 31 December 2011.

**Note 7. Property, plant and equipment**

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

<b>Cost</b>	<b>Production buildings</b>	<b>Facilities</b>	<b>Machinery and equipment</b>	<b>Construction in progress</b>	<b>Other</b>	<b>Total</b>
<b>Opening balance as at 31 December 2011</b>	<b>21,198</b>	<b>27,778</b>	<b>24,306</b>	<b>10,326</b>	<b>4,600</b>	<b>88,208</b>
Revaluation reserve (net)	(625)	(2,469)	(1,168)	-	(1)	(4,263)
Additions	30	657	1,170	13,340	247	15,444
Transfers	1,129	3,380	6,765	(12,060)	786	-
Disposal of subsidiaries	-	(196)	(34)	(155)	(19)	(404)
Disposals	(469)	(22)	(252)	(356)	(339)	(1,438)
<b>Closing balance as at 31 December 2012</b>	<b>21,263</b>	<b>29,128</b>	<b>30,787</b>	<b>11,095</b>	<b>5,274</b>	<b>97,547</b>
<b>Accumulated depreciation (including impairment)</b>						
<b>Opening balance as at 31 December 2011</b>	<b>(8,182)</b>	<b>(12,844)</b>	<b>(11,704)</b>	<b>(3,258)</b>	<b>(2,549)</b>	<b>(38,537)</b>
Impairment charge to profit or loss	(888)	(1,899)	(2,005)	(1,004)	(94)	(5,890)
Reversal of impairment through profit or loss	635	662	590	163	1,128	3,178
Depreciation charge	(541)	(1,172)	(2,334)	-	(501)	(4,548)
Transfers	(214)	(361)	(743)	1,344	(26)	-
Disposal of subsidiaries	-	14	16	-	14	44
Disposals	55	21	238	136	120	570
<b>Closing balance as at 31 December 2012</b>	<b>(9,135)</b>	<b>(15,579)</b>	<b>(15,942)</b>	<b>(2,619)</b>	<b>(1,908)</b>	<b>(45,183)</b>
<b>Net book value as at 31 December 2012</b>	<b>12,128</b>	<b>13,549</b>	<b>14,845</b>	<b>8,476</b>	<b>3,366</b>	<b>52,364</b>
<b>Net book value as at 31 December 2011</b>	<b>13,016</b>	<b>14,934</b>	<b>12,602</b>	<b>7,068</b>	<b>2,051</b>	<b>49,671</b>

**RAO Energy System of East Group**
**Notes to the Consolidated Financial Statements as at and for the year ended 31 December 2012**

(in millions of Russian Rubles unless noted otherwise)

Cost	Production buildings	Facilities	Machinery and equipment	Construction in progress	Other	Total
<b>Opening balance as at 1 January 2011</b>	<b>19,418</b>	<b>36,024</b>	<b>22,946</b>	<b>7,399</b>	<b>5,282</b>	<b>91,069</b>
Revaluation reserve (net)	6,254	9,638	9,149	-	860	25,901
Additions	338	867	865	18,010	622	20,702
Transfers	1,401	4,095	5,463	(11,120)	161	-
Elimination of accumulated depreciation (as a result of revaluation)	(1,548)	(5,771)	(4,340)	-	(1,208)	(12,867)
Reclassification to disposal group (Note 15)	(4,332)	(16,799)	(9,660)	(3,343)	(916)	(35,050)
Disposals	(333)	(276)	(117)	(620)	(201)	(1,547)
<b>Closing balance as at 31 December 2011</b>	<b>21,198</b>	<b>27,778</b>	<b>24,306</b>	<b>10,326</b>	<b>4,600</b>	<b>88,208</b>
<b>Accumulated depreciation (including impairment)</b>						
<b>Opening balance as at 1 January 2011</b>	<b>(7,595)</b>	<b>(12,979)</b>	<b>(9,109)</b>	<b>(2,134)</b>	<b>(2,203)</b>	<b>(34,020)</b>
Revaluation write-down and impairment charge to profit or loss	(4,571)	(14,455)	(8,462)	(5,017)	(1,641)	(34,146)
Reversal of impairment through profit or loss	2,675	6,481	3,295	1,117	316	13,884
Depreciation charge	(1,055)	(1,807)	(3,456)	-	(563)	(6,881)
Transfers	(242)	(763)	(919)	1,936	(12)	-
Elimination of accumulated depreciation (as a result of revaluation)	1,548	5,771	4,340	-	1,208	12,867
Reclassification to disposal group (Note 15)	785	4,695	2,265	219	244	8,208
Disposals	273	213	342	621	102	1,551
<b>Closing balance as at 31 December 2011</b>	<b>(8,182)</b>	<b>(12,844)</b>	<b>(11,704)</b>	<b>(3,258)</b>	<b>(2,549)</b>	<b>(38,537)</b>
<b>Net book value as at 31 December 2011</b>	<b>13,016</b>	<b>14,934</b>	<b>12,602</b>	<b>7,068</b>	<b>2,051</b>	<b>49,671</b>
<b>Net book value as at 1 January 2011</b>	<b>11,823</b>	<b>23,045</b>	<b>13,837</b>	<b>5,265</b>	<b>3,079</b>	<b>57,049</b>

Included in the above carrying amount of RR 2,177 million (2011: RR 2,191 million) represents cost of assets relating to office buildings of the Group which are stated at non-revalued deemed cost.

Assets under construction represent the carrying amount of property, plant and equipment that has not yet been put into operation and advances issued to construction companies and suppliers of property, plant and equipment. As at 31 December 2012 such advances amounted to RR 1,473 million (31 December 2011: RR 1,790 million).

Additions to assets under construction include capitalized borrowing costs of RR 774 million (capitalized borrowing cost in 2011: RR 498 million including disposal group in amount of RR 89 million). The capitalization rate was 8.54 percent (2011: 8.72 percent).

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

Assets held under finance lease are included in property, plant and equipment with a carrying value of RR 1,067 million as at 31 December 2012 (RR 708 million as at 31 December 2011).

Assets held under leaseback are included in property, plant and equipment with a carrying value of RR 201 million as at 31 December 2012 (as at 31 December 2011: RR 171 million).

Starting from 1 January 2011 the Group changed its accounting policy for property, plant and equipment (except for assets under construction, office buildings and land) which are stated at revalued cost starting from 1 January 2011. As at 01 January 2011 the Group performed a revaluation of property, plant and equipment and the impairment test of assets as of 31 December 2011 was performed. As a result in 2011 the Group recognised revaluation reserve on property plant and equipment in the amount RR 25,901 million in other comprehensive income (net of RR 5,181 million of deferred tax) and impairment of



**RAO Energy System of East Group****Notes to the Consolidated Financial Statements as at and for the year ended 31 December 2012**

(in millions of Russian Rubles unless noted otherwise)

property plant and equipment in the amount of RR 20,262 million through profit and loss, including revaluation results.

<b>Net change of revaluation reserve and impairment charge</b>		<b>2011</b>	
<b>Company</b>	<b>Segment</b>	<b>Revaluation reserve change</b>	<b>Impairment charge</b>
OJSC DGK	Segment 1	7,963	(14,434)
OJSC DRSK	Segment 1	7,994	(1,555)
OJSC RAO Energy System of East	Other segments	-	(1,401)
OJSC Yakutskenergo	Segment 5	7,504	(799)
OJSC Sakhalinenergo	Segment 4	501	(772)
OJSC DEK	Segment 1	1,042	(633)
Other	Other segments	897	(668)
<b>Total</b>		<b>25,901</b>	<b>(20,262)</b>

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 if the assets had been carried under the cost model is as follows (net of property, plant and equipment of assets held for sale and a disposal group):

	<b>Production buildings</b>	<b>Facilities</b>	<b>Machinery and equipment</b>	<b>Construction in progress</b>	<b>Other</b>	<b>Total</b>
Net book value as at 31 December 2012	7,814	9,250	13,468	8,476	1,410	40,418
Net book value as at 31 December 2011	7,935	8,365	8,730	7,068	789	32,887

**Impairment as at 31 December 2012**

Management of the Group considered the market and economic environment in which the Group operates to assess whether any indicators of property, plant and equipment being impaired existed, or that an impairment loss recognised in prior periods may no longer exist or may have decreased for each reporting date. As a result of this analysis as at 31 December 2012 no indicators of significant changes of management's assumptions used to determine the recoverable amounts of cash-generating units as at 31 December 2011 were revealed except for the property, plant and equipment related to Group's companies operating in the Republic Sakha (Yakutiya) - OJSC Yakutskenergo, OJSC Sakhaenergo and OJSC Teploenergoservis (Segment 5).

During the period the Group recognised additional impairment loss in the amount of RR 6,122 million including RR 3,410 million in the consolidated statement of comprehensive income (net of deferred tax RR 853 million) and RR 2,712 million in the consolidated income statement.

The amount of impairment was estimated in accordance with IAS 36 Impairment of assets:

- all assets of subsidiaries were allocated to cash-generating units on the basis of regional tariff setting principal;
- the recoverable amount of assets was estimated as value in use calculated in accordance with discounted cash flow method.

In the impairment test of assets related to OJSC Yakutskenergo, OJSC Sakhaenergo and OJSC Teploenergoservis as at 31 December 2012 and 31 December 2011 discount rate equalling 14.00 percent was applied.

**RAO Energy System of East Group**  
**Notes to the Consolidated Financial Statements as at and for the year ended 31 December 2012**  
(in millions of Russian Rubles unless noted otherwise)

For the purpose of cash flow discounting as at 31 December 2012 and 31 December 2011 the following key assumptions were used:

Key assumptions used in impairment test	Year ended 31 December 2012	Year ended 31 December 2011
Information used	Actual operating results for the year 2012 and business plans for 2013-2018	Actual operating results for the year 2011 and business plans for 2012
Forecast period	17 years (2013-2039)	17 years (2012-2038)
Forecasted growth rates	Growth rate equals to a growth rate of operating expenses	
Consolidated forecast of electricity and capacity consumption	Based on management forecast and the forecast prepared by reputable independent company CJSC Energy Forecasting Agency	
Forecast of electricity, capacity and heat tariffs	Based on current system of tariff regulation (indexing method or "Cost+") limited by Ministry of Economic Development of the Russian Federation	
Forecast of capital expenditures	Based on the management forecasts of maintenance capital expenditures for modernization and reconstruction program	Based on the management valuation of capital expenditures on modernization and reconstruction program

The main grounds which caused such a significant impairment charge and reversals of previously charged impairment as at 31 December 2012 are the following:

- an increase of impairment charge for OJSC Yakutskenergo relates to expected partial reduction of production capacity of power stations due to construction of Yakutskaya power plant No.2 (the 1st stage) and increase of CAPEX amounts required to maintain existing property, plant and equipment during forecasted period;
- significant reversal of previously charged impairment occurred for OJSC Sakhaenergo and OJSC Teploenergoservis relates to significant growth of forecasted tariffs for electricity and heat set by FTS at the end of 2012 for the year 2013 and increase of government subsidies paid annually for compensation for the low electricity tariffs at which electricity and heat are sold in this region.

The following table as at 31 December 2012 presents sensitivities of profit and loss to reasonably possible changes in the post-tax discount rate, inflation rate and level of electricity and capacity tariffs applied at the date of the statement of financial position relative to the impairment assumptions made by the Group, with all other variables held constant:

Expected impact	Change forecast scenario factor					
	WACC		Production volume		Electricity and capacity tariffs	
	-0.5%	+0.5%	-0.5%	+0.5%	-0.5%	+0.5%
Impact on increase / (decrease) of carrying amount	513	(485)	(827)	827	(826)	826

### Pledged assets

As at 31 December 2012 RR 211 million of property, plant and equipment have been pledged as collateral for borrowings (RR 49 million as at 31 December 2011) (Note 18).

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

	31 December 2012	31 December 2011
Less than one year	1,165	1,290
Between one year and five years	3,704	4,131
After five years	21,689	25,116
<b>Total</b>	<b>26,558</b>	<b>30,537</b>

The major parts are the land areas leased by the Group at the territories on which the Group's electric power stations, substations 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 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.

**Note 8. Investments in associates**

The tables below demonstrate the movements in the carrying value of the Group's interests in associates during years ended 31 December 2012 and 31 December 2011:

<b>Associates</b>	<b>Carrying value as at 31 December 2011</b>	<b>Reclassification from investment in subsidiaries</b>	<b>Share of profit / (loss) of associates</b>	<b>Impairment of investments in associates</b>	<b>Carrying value as at 31 December 2012</b>
OJSC					
Magadanelectroset	13	-	1	-	14
OJSC ENIN	30	-	(1)	-	29
OJSC Sakhalinskaya energy company	904	-	(10)	-	894
OJSC Sakhalinskaya kommunalnaya company (Note 4)	-	155	-	(155)	-
<b>Total</b>	<b>947</b>	<b>155</b>	<b>(10)</b>	<b>(155)</b>	<b>937</b>

<b>Associates</b>	<b>Carrying value as at 1 January 2011</b>	<b>Share of profit / (loss) of associates</b>	<b>Reclassification from available for sale financial assets</b>	<b>Carrying value as at 31 December 2011</b>
OJSC Magadanelectroset	9	4	-	13
OJSC ENIN	29	1	-	30
OJSC Sakhalinskaya energy company	-	-	904	904
<b>Total Associates</b>	<b>38</b>	<b>5</b>	<b>904</b>	<b>947</b>

In 2012 and 2011 the Group did not receive dividends from associates.

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

<b>Associates</b>	<b>Ownership, %</b>	<b>Assets</b>	<b>Liabilities</b>	<b>Revenue</b>	<b>Profit / (loss)</b>
OJSC Magadanelectroset	45.91%	349	(289)	1,090	5
OJSC ENIN	30.42%	150	(55)	394	(4)
OJSC Sakhalinskaya energy company	12.09%	10,762	(3,371)	2	(349)
OJSC Sakhalinskaya kommunalnaya company (Note 4)	48.19%	1,127	(1,216)	2,219	(200)
<b>Total</b>		<b>12,388</b>	<b>(4,931)</b>	<b>3,705</b>	<b>(548)</b>

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

<b>Associates</b>	<b>Ownership, %</b>	<b>Assets</b>	<b>Liabilities</b>	<b>Revenue</b>	<b>Profit / (loss)</b>
OJSC Magadanelectroset	45.91%	299	(243)	1,033	17
OJSC ENIN	30.42%	191	(92)	444	4
OJSC Sakhalinskaya energy company (Note 4)	17.27%	7,460	(2,228)	-	164
<b>Total</b>		<b>7,950</b>	<b>(2,563)</b>	<b>1,477</b>	<b>185</b>

**Note 9. Available-for-sale financial assets**

The Group recognises available-for-sale financial assets at fair value. The changes in fair value, mainly reflect changes in shares quotations, determined on Moscow Stock Exchange as at 31 December 2012 and 31 December 2011.

The movements in available-for-sale financial assets for the years ended 31 December 2012 and 31 December 2011 are presented in tables below:

	31 December 2011	Income / (loss) recognised in income statement	Change in fair value recognised in other comprehensive income	31 December 2012
OJSC FGC UES	466	-	(132)	334
OJSC RusHydro	117	-	(29)	88
LLC IT Energy Service	49	10	-	59
OJSC Eksperimentalnaya TES	68	(48)	-	20
Other available-for-sale assets	85	-	-	85
<b>Total</b>	<b>785</b>	<b>(38)</b>	<b>(161)</b>	<b>586</b>

	1 January 2011	Additions	Reclassifi- cation from associates	Income/ (loss) recognised in income statement	Change in fair value recognised in other comprehensive income	31 December 2011
OJSC FGC UES	612	-	-	-	(146)	466
OJSC RusHydro	200	-	-	-	(83)	117
OJSC Sakhalinskaya energy company	600	400	(904)	(96)	-	-
OJSC Eksperimentalnaya TES	68	-	-	-	-	68
LLC IT Energy Service	41	-	-	8	-	49
Other available-for-sale assets	84	-	-	1	-	85
<b>Total</b>	<b>1,605</b>	<b>400</b>	<b>(904)</b>	<b>(87)</b>	<b>(229)</b>	<b>785</b>

**Note 10. Other non-current assets**

	31 December 2012	31 December 2011
Non-current accounts receivable - financial assets (Net of provision for impairment of accounts receivable of RR 87 million as at 31 December 2012 and RR 120 million as at 31 December 2011)	310	363
Other non-current assets	678	476
<b>Total other non-current assets</b>	<b>988</b>	<b>839</b>

Fair value of non-current accounts receivable approximates its carrying value.

**Note 11. Cash and cash equivalents**

	31 December 2012	31 December 2011
Term deposits with original maturity of less than three months	3,003	1,907
Cash at bank	2,769	2,408
Cash in hand	9	15
<b>Total cash and cash equivalents</b>	<b>5,781</b>	<b>4,330</b>

Cash and cash equivalents held as at 31 December 2012 and 31 December 2011 comprised current bank deposits with original maturities of three months or less in accordance with the agreements. The credit quality of cash and cash equivalents balances summarised below. Ratings are actual as at 31 December 2012.

	Rating	Rating agency	31 December 2012	31 December 2011
<b>Cash at banks</b>				
OJSC Sberbank of Russia	Baa1	Moody's	1,090	474
OJSC Asian-Pasific bank	B2	Moody's	604	-
OJSC AKB Rosbank	BBB+	Fitch Ratings	504	142
OJSC Gazprombank	BBB-	Standard & Poor's	95	990
OJSC Sobinbank	B3	Moody's	52	75
OJSC Bank VTB	Baa1	Moody's	25	44
OSJC Rosselkhozbank	Baa1	Moody's	24	37
OSJC Kamchatkomagroprombank	-	-	19	82
OSJC Transkreditbank	BBB	Standard & Poor's	14	64
OJSC Promsvyazbank	Ba2	Moody's	-	58
The Central Bank of the Russian Federation	-	-	-	31
Other	-	-	342	411
<b>Total cash at banks</b>			<b>2,769</b>	<b>2,408</b>
<b>Bank deposits</b>				
CJSC Peresvet Bank	B3	Moody's	1,750	-
CJSC Raiffeisenbank	BBB+	Fitch Ratings	885	-
OJSC Sberbank of Russia	Baa1	Moody's	221	30
OJSC Promsvyazbank	Ba2	Moody's	86	200
OJSC Bank Uralsib	BB-	Fitch Ratings	-	1,398
The Central Bank of the Russian Federation	-	-	-	187
Other	-	-	61	92
<b>Total cash equivalents</b>			<b>3,003</b>	<b>1,907</b>

The line Cash and cash equivalents as at 31 December 2012 in the Consolidated Statement of Cash Flows included RR 38 million of cash and cash equivalents held by the disposal group classified as held for sale (RR 77 million as at 31 December 2011) (Note 15).

**Note 12. Accounts receivable and prepayments**

	31 December 2012	31 December 2011
Trade receivables (Net of provision for impairment of accounts receivable of RR 6,297 million as at 31 December 2012 and RR 4,442 million as at 31 December 2011)	15,058	14,964
Other receivables (Net of provision for impairment of accounts receivable of RR 1,044 million as at 31 December 2012 and RR 585 million as at 31 December 2011)	1,044	2,363
<b>Total financial assets within accounts receivable</b>	<b>16,102</b>	<b>17,327</b>
Advances to suppliers and prepayments (Net of provision for impairment of accounts receivable of RR 119 million as at 31 December 2012 and RR 122 million as at 31 December 2011)	3,549	3,257
Value added tax recoverable	1,781	1,866
Income tax receivables	415	173
<b>Total accounts receivable and prepayments</b>	<b>21,847</b>	<b>22,623</b>

As at 31 December 2012 RR 807 million of accounts receivable and prepayments are presented within assets of disposal group (RR 578 million as at 31 December 2011) (Note 15).

The majority of customers, balances of which are included in trade receivables, comprise a single class, as they bear the same characteristics.

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). Management of 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 recorded value approximates their fair value.

Movements in the impairment provision for current and non-current trade and other receivables are as follows:

	2012	2011
As at 1 January	5,147	6,942
Charge for the year	3,490	1,837
Reversal of impairment	(761)	(2,396)
Trade receivables written-off as uncollectible	(253)	(1,008)
<b>Impairment provision as at 31 December</b>	<b>7,623</b>	<b>5,375</b>
Reclassification to disposal group (Note 15)	-	(228)
Disposal of subsidiaries	(195)	-
<b>As at 31 December</b>	<b>7,428</b>	<b>5,147</b>

As at 31 December 2012 current and non-current trade and other receivables in the amount of RR 6,327 million (31 December 2011: RR 6,096 million) were past due but not impaired. These receivables relate to a number of independent customers (without related parties) without recent history of default.

The ageing analysis of these trade receivables is as follows:

	31 December 2012	Provision as at 31 December 2012	31 December 2011	Provision as at 31 December 2011
Not past due	11,028	(943)	12,146	(552)
Less than 3 months	3,007	(123)	2,492	(142)
More than 3 and less than 12 months	3,093	(935)	3,204	(688)
More than one year	6,712	(5,427)	4,995	(3,765)
<b>Total</b>	<b>23,840</b>	<b>(7,428)</b>	<b>22,837</b>	<b>(5,147)</b>

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	12,430	11,629
Materials and supplies	3,857	3,181
Spare parts	1,041	929
Other materials	412	511
<b>Total inventories, gross</b>	<b>17,740</b>	<b>16,250</b>
Provision for inventory obsolescence	(70)	(62)
<b>Total inventories</b>	<b>17,670</b>	<b>16,188</b>

As at 31 December 2012 RR 330 million (RR 264 million as at 31 December 2011) of inventories are presented within assets of disposal group (Note 15).

No inventories have been pledged as collateral for borrowings as at 31 December 2012. Inventories in the amount of RR 259 million have been pledged as collateral for borrowings as at 31 December 2011 (Note 18).

**Note 14. Other current assets**

	31 December 2012	31 December 2011
Current deposits – financial assets	1,366	6,844
Other current investments	186	31
<b>Total other current assets</b>	<b>1,552</b>	<b>6,875</b>

Current deposits	Rating	Rating agency	Effective interest rate, %	31 December 2012	31 December 2011
CJSC Peresvet Bank	B3	Moody's	2.85	1,366	-
OJSK Bank Saint Petersburg	Ba3	Moody's	6.0-7.75	-	2,885
OJSK MDM Bank	BB-	Standard & Poor's	7.8-10.0	-	1,313
OJSK Promsvyazbank	Ba2	Moody's	2.85-9.75	-	1,037
OJSK NOTA-bank	B3	Moody's	7.5-13.0	-	800
CJSC Transcapitalbank	B1	Moody's	9.6	-	440
OJSK Alfa-Bank	BBB-	Fitch ratings	2.5	-	267
Others	-	-	5.0-5.5	-	102
<b>Total current deposits</b>				<b>1,366</b>	<b>6,844</b>

**Note 15. Assets and liabilities of a disposal group classified as held for sale**

The decision of the Russian Government No. 1174-p dated 07 July 2011 defined the transfer of OJSC DRSK shares to OJSC Federal Grid Company. The decree of the Russian President No. 1567 dated 22 November 2012 defined the structure of grid system – the foundation of unified holding company OJSC Russian Grids, which will receive control over OJSC FGC. According to this decision further Group's intentions are to transfer OJSC DRSK shares to OJSC Russian Grids. In accordance with management professional judgment the probability of shares transfer as at 31 December 2012 is still assessed as high, the Group has classified the equity investments in OJSC DRSK as assets of disposal group held for sale.

**RAO Energy System of East Group**
**Notes to the Consolidated Financial Statements as at and for the year ended 31 December 2012**

(in millions of Russian Rubles unless noted otherwise)

	Note	31 December 2012	31 December 2011
<b>Non-current assets</b>			
Property, plant and equipment		27,665	26,842
Other non-current assets		114	112
<b>Total non-current assets</b>		<b>27,779</b>	<b>26,954</b>
<b>Current assets</b>			
Cash and cash equivalents	11	38	77
Trade receivables	12	453	162
Advances to suppliers and prepayments	12	14	29
Other receivables	12	340	387
Inventories	13	330	264
<b>Total current assets</b>		<b>1,175</b>	<b>919</b>
<b>Assets of disposal group</b>		<b>28,954</b>	<b>27,873</b>
	Note	31 December 2012	31 December 2011
<b>Non-current liabilities</b>			
Deferred income tax liabilities	17	2,363	2,658
Non-current debt		3,951	3,596
Other non-current liabilities		1,948	1,888
<b>Total non-current liabilities</b>		<b>8,262</b>	<b>8,142</b>
<b>Current liabilities</b>			
Current debt and current portion of non-current debt		4,187	2,022
Trade accounts payable		2,825	2,068
Advances received		477	263
Other payables		483	388
Current income tax payable		-	5
Other taxes payable		160	205
<b>Total current liabilities</b>		<b>8,132</b>	<b>4,951</b>
<b>Liabilities of disposal group</b>		<b>16,394</b>	<b>13,093</b>

Non-current debt includes non-current loans received from OJSC Sberbank of Russia, OJSC Gazprombank, OJSC Nomos-Bank in RR currency with effective interest rate from 9.29 to 11.89 percent.

Current debt includes loans received from OJSC Sberbank, OJSC Sviaz-Bank, OJSC AKB Rosbank in RR currency with effective interest rate from 6.73 to 10.25 percent.

Other non-current liabilities include pension benefit obligations in amount of RR 1,707 million as at 31 December 2012 (1,635 million as at 31 December 2011) (Note 19).

Assets and liabilities of disposal group were remeasured to the lower of carrying amount and fair value less cost to sell at date of held for sale classification and further reporting dates. As at 30 June 2012 Assets and liabilities of disposal group were remeasured. Subsequent measurement resulted in RR 3,072 million of impairment of non-current assets of OJSC DRSK, disclosed within line Loss on disposal group remeasurement and impairment of property, plant and equipment of Consolidated Income Statement for the year ended 31 December 2012.

Revenue and expenses, excluding intragroup other revenue RR 15,117 million for the year ended 31 December 2012 (RR 15,562 million for the year ended 31 December 2011) and intragroup expenses RR 3,528 million for the year ended 31 December 2012 (RR 3,882 million for the year ended 31 December 2011) of a subsidiary classified as a disposal group as at 31 December 2011 and 31 December 2012 are as follows:



	Year ended 31 December 2012	Year ended 31 December 2011
Revenue	3,834	3,565
Expenses, including:	(17,416)	(18,289)
Electricity distribution expenses	(8,108)	(8,044)
Impairment of property, plant and equipment	(3,072)	(1,555)
Employee benefit expenses (including taxes and pension benefit expenses)	(4,650)	(4,609)
Depreciation of property, plant and equipment	-	(2,309)
<b>Operating loss</b>	<b>(13,582)</b>	<b>(14,724)</b>

**Note 16. Equity**

	Number of outstanding and fully paid shares (in thousands)	Ordinary shares	Preference shares	Total share capital
As at 31 December 2011	43,116,903	20,520,877	1,037,575	21,558,452
As at 31 December 2012	45,433,972	21,679,411	1,037,575	22,716,986

Company was established on 1 July 2008 and as at 31 December 2012 and as at 31 December 2011 all Company's shares were fully paid (Note 1).

On 07 February 2012 2,317,068,930 ordinary shares were issued, including 1,492,472,400 ordinary shares acquired by the Russian Federation, represented by the Federal Agency for State Property Management, for a consideration of RR 748 million. The Report on the share issue was registered with the FSFM (Federal Service of Financial Markets) on 07 February 2012. Prior to registration of the share issue these shares were accounted and disclosed within accounts payable of the Group (Note 21).

Nominal value per each share equal 0.5 RR for ordinary share and 0.5 RR for preference share.

**Ordinary shares and preference shares**

The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at shareholders meetings of the Company.

Holders of preference shares are entitled to receive annual dividends. Preference shares are entitled to a minimum annual dividend of 10 percent of net statutory profit of the Company divided by number of shares which constitute 25 percent from equity of the Company on the date of state registration of the Company as a legal entity.

The amount of dividends paid on each preference share may not be less than the amount of dividends paid on each ordinary share. If the preferred dividends are not paid or are paid not in full, then the preference shares give their holders the right to vote on all matters within the competence of the general meeting of shareholders, since the meeting following the annual meeting, which, irrespective of the reasons it was decided not to pay dividends or decided on partial payment of preferred dividends. Such a voice is terminated with the first payment of dividends on such shares in full.

**Dividends**

In accordance with Russian legislation, the Company distributes profits as dividends on the basis of financial statements prepared in accordance with Russian Standards of Accounting. The statutory accounting reports of the Company are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the net profit. For 2012, the current year net statutory profit for the Company as reported in the published annual statutory reporting forms was RR 371 million (2011: RR 6,121 million loss) and the closing balance of the accumulated profit including the current year net statutory profit totalled RR 14,289 million (2011: RR 13,918 million). However, legislation and other statutory laws and regulations are open to legal interpretation and accordingly management believes at present that it would not be appropriate to disclose an amount for distributable reserves in these financial statements.

Group did not declare dividends relating to years ended 31 December 2011 and 31 December 2010.

Dividends in the amount of RR 21 million relating to the year ended 31 December 2011 (for the year ended 31 December 2010: RR 29 million) were declared by the subsidiaries in favour of minority holders.

**Treasury shares**

Treasury shares as at 31 December 2012 amount to 820 851 279 ordinary shares in the amount of RR 410 million (31 December 2011: no ordinary shares). The shares were mainly acquired in the process of issuing shares, registered 07 February 2012.

Own shares carry voting rights in the same proportion as the other ordinary shares. Voting rights of ordinary shares of the Company owned by the Group are actually controlled by the Group.

**Note 17. Income Taxes**

Income tax expense recorded in profit or loss comprises the following:

	Year ended 31 December 2012	Year ended 31 December 2011
Current income tax expense	(259)	(600)
Deferred income tax benefit	1,495	318
<b>Total income tax</b>	<b>1,236</b>	<b>(282)</b>

During years ended 31 December 2012 and 31 December 2011 most entities of the Group were subject to tax rates of 20 percent on taxable profit.

**Reconciliation of effective tax rate:**

	Year ended 31 December 2012	Year ended 31 December 2011
<b>Loss before tax</b>	<b>(6,156)</b>	<b>(16,416)</b>
Theoretical income tax charge at statutory tax rate of 20 percent	1,232	3,288
Tax effect of items which are not deductible or assessable for taxation purposes	(502)	(946)
Deferred tax recognised in respect of disposal group	354	(2,254)
Unrecognised deferred tax assets	(275)	(300)
Tax losses carried forward	707	311
Other	(280)	(381)
<b>Total income tax charge</b>	<b>1,236</b>	<b>(282)</b>

Tax effect of items which are not deductible or assessable for taxation purposes relates mainly to the effect on social and charity costs (RR 227 million for the year ended 31 December 2012 and RR 264 million for the year ended 31 December 2011). Remaining amounts consist of other individually insignificant items which are not deductible for taxation purpose and relate to consulting services, disposal of investments and others.

Deferred tax assets not recognised in the year ended 31 December 2012 relate mainly to accumulated impairment loss accrued on property, plant and equipment. The deferred tax assets are not recognised if recoverability of deferred tax assets is uncertain.

**Deferred taxes analysis by type of temporary difference**

Differences between IFRS and statutory taxation regulations in Russia give rise to temporary differences between the carrying amount of 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.

In the context of the Group's current structure, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may be accrued even where there is a consolidated tax loss.

Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity.

**RAO Energy System of East Group**
**Notes to the Consolidated Financial Statements as at and for the year ended 31 December 2012**

(in millions of Russian Rubles unless noted otherwise)

The tax effect of the movements in the temporary differences for the years ended 31 December 2012 and 31 December 2011 are:

	31 December 2011	Charged to the income statement	Charged to the other comprehensive income	Reclassifica- tion (disposal group)	Disposal of subsidi- aries	31 December 2012
<b>Deferred income tax liabilities</b>	<b>(4,087)</b>	<b>1,271</b>	<b>885</b>	<b>(294)</b>	<b>25</b>	<b>(2,200)</b>
Property, plant and equipment	(1,931)	484	853	(92)	-	(686)
Trade and other receivables	(116)	108	-	-	-	(8)
Net assets of disposal group	(2,254)	354	-	-	-	(1,900)
Other	(75)	1	32	-	10	(32)
<i>Deferred tax offset on individual entity level</i>	289	324	-	(202)	15	426
<b>Deferred income tax assets</b>	<b>180</b>	<b>224</b>	<b>-</b>	<b>-</b>	<b>(90)</b>	<b>314</b>
Property, plant and equipment	31	45	-	-	(17)	59
Trade and other receivables	132	62	-	32	(23)	203
Inventory	3	14	-	-	-	17
Other	303	427	-	(234)	(35)	461
<i>Deferred tax offset on individual entity level</i>	(289)	(324)	-	202	(15)	(426)

	01 January 2011	Charged to the income statement	Charged to the other comprehensive income	Disposal of subsidiaries	31 December 2011
<b>Deferred income tax liabilities</b>	<b>(1,786)</b>	<b>176</b>	<b>(5,135)</b>	<b>2,658</b>	<b>(4,087)</b>
Property, plant and equipment	(1,978)	2,081	(5,181)	3,147	(1,931)
Trade and other receivables	(49)	(67)	-	-	(116)
Net assets of disposal group	-	(2,254)	-	-	(2,254)
Other	(483)	362	46	-	(75)
<i>Deferred tax offset on individual entity level</i>	724	54	-	(489)	289
<b>Deferred income tax assets</b>	<b>38</b>	<b>142</b>	<b>-</b>	<b>-</b>	<b>180</b>
Property, plant and equipment	85	(54)	-	-	31
Trade and other receivables	85	93	-	(46)	132
Inventory	64	(61)	-	-	3
Other	528	218	-	(443)	303
<i>Deferred tax offset on individual entity level</i>	(724)	(54)	-	489	(289)

Total amount of deductible temporary differences, occurred in separate Group companies, for which deferred income tax assets have not been recognised by the Group comprises RR 31,785 million and RR 30,410 million as at 31 December 2012 and 31 December 2011 respectively.

Corresponding deferred tax assets occurred in separate Group companies, which have not been recognised by the Group amount to RR 6,357 million and RR 6,082 million as at 31 December 2012 and 31 December 2011 respectively.

**RAO Energy System of East Group**
**Notes to the Consolidated Financial Statements as at and for the year ended 31 December 2012**

(in millions of Russian Rubles unless noted otherwise)

Current portion of deferred tax liabilities in the amount of RR 1,912 million as at 31 December 2012 (31 December 2011: RR 264 million) and RR 377 million as at 31 December 2012 (31 December 2011: RR 121 million) of deferred tax assets represents the amounts to be recovered during the next year.

**Note 18. Current and non-current debt**
*Non-current borrowings*

	Effective interest rate	Year of maturity	31 December 2012	31 December 2011
OJSC Sberbank	6.40-11.43%	2013-2016	14,553	21,182
OJSC RusHydro	8.83%/MosPrime+3.09%	2014-2021	8,000	-
OJSC Bank of Moscow	9.66-10.35%	2013-2015	7,717	-
OJSC AKB Rosbank	6.46-9.09%	2013-2014	6,132	7,458
OJSC Gazprombank	7.30-11.00%	2013-2016	3,494	7,149
Unsecured bonds issued (OJSC Yakutskenergo)	8.25%	2013	3,000	3,960
OJSC TransCreditBank	10.50-10.80%	2013-2014	901	300
OJSC NOMOS-Bank	11.89-12.00%	2014	380	-
OJSC NOTA-Bank	9.90%	2013-2014	370	-
OJSC Asian-Pacific Bank	11.70%	2014	274	-
Ministry of Finance of the Republic Sakha (Yakutiya)	2.63%	2013	177	409
OJSC Sobinbank	11.00%	2013	130	323
OJSC Rosselkhozbank	15.00-16.00%	2016-2018	125	127
OJSC Dalnevostochny bank	7.80%	2013	100	100
Other	8.00%	2014	226	313
Finance lease liabilities			1,448	1,481
<b>Total</b>			<b>47,027</b>	<b>42,802</b>
Less current portion of loans and borrowings			(21,775)	(8,124)
Less current finance lease liabilities			(764)	(576)
<b>Total Non-current borrowings</b>			<b>24,488</b>	<b>34,102</b>

*Current borrowings*

	Effective interest rate	31 December 2012	31 December 2011
OJSC Sberbank	8.65-10.50%	2,616	4,793
OJSC AKB Rosbank	7.68-9.35%	1,920	1,278
OJSC Nomos-Regiobank	10.00-11.50%	219	221
OJSC Gazprombank	10.00%	210	-
OJSC Asian-Pacific Bank	11.00-11.50%	162	-
OJSC Investtradebank	9.50-11.50%	160	-
OJSC Bank of Moscow	11.25%	60	109
OJSC AB Rossiya	-	-	2,300
OJSC TransCreditBank	-	-	212
OJSC Vozrozhdenie Bank	-	-	13
Other	9.90-13.00%	94	288
Current portion of loans and borrowings		21,775	8,124
Current finance lease liabilities		764	576
Interest payable		168	147
<b>Total current borrowings and current part of non-current borrowings</b>		<b>28,148</b>	<b>18,061</b>

Currency of all non-current and current borrowings is Russian Ruble.

As at 31 December 2012 RR 211 million of property, plant and equipment have been pledged as collateral for borrowings. No inventories have been pledged as collateral for borrowings as at 31 December 2012 (Note 7, 13).

**RAO Energy System of East Group****Notes to the Consolidated Financial Statements as at and for the year ended 31 December 2012**

(in millions of Russian Rubles unless noted otherwise)

As at 31 December 2011 RR 49 million of property, plant and equipment and RR 259 million of inventories have been pledged as collateral for borrowings (Note 7,13).

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 a covenant waiver from the bank confirming absence of intention to request early repayment of loans.

The Group did not apply hedge accounting and had not entered into any hedging arrangements in respect of its foreign currency obligations or 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
<b>Minimum lease payments at 31 December 2012</b>	843	821	-	1,664
Less future interest charges	(79)	(137)	-	(216)
<b>Present value of minimum lease payments at 31 December 2012</b>	<b>764</b>	<b>684</b>	-	<b>1,448</b>
<b>Minimum lease payments at 31 December 2011</b>	747	1,029	-	1,776
Less future interest charges	(171)	(124)	-	(295)
<b>Present value of minimum lease payments at 31 December 2011</b>	<b>576</b>	<b>905</b>	-	<b>1,481</b>

**Note 19. 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	7,491	8,964
Fair value of plan assets	(206)	(294)
Deficit in plan	7,285	8,670
Unrecognised actuarial gains	2,852	802
Unrecognised past service asset	130	134
<b>Net liability</b>	<b>10,267</b>	<b>9,606</b>

Amounts disclosed as at 31 December 2012 include RR 1,707 million of pension benefit obligations presented within liabilities of disposal group (RR 1,635 million as at 31 December 2011) (Note 15).

Amounts recognised within operating expenses in the consolidated income statement:

	2012	2011
Current service cost	305	522
Interest cost	749	746
Expected return on plan assets	(17)	(22)
Net actuarial loss recognised in year	45	6
Amortisation of past service cost	(80)	3
Settlement and curtailment gain	(34)	(128)
<b>Net expense recognised in consolidated income statement</b>	<b>968</b>	<b>1,127</b>

**RAO Energy System of East Group**
**Notes to the Consolidated Financial Statements as at and for the year ended 31 December 2012**

(in millions of Russian Rubles unless noted otherwise)

Movements in the net liability recognised in the consolidated statement of financial position are as follows:

	2012	2011
Net liability at the beginning of the year	9,606	8,835
Net expense recognised in profit or loss for the year	968	1,127
Contributions	(400)	(356)
Reclassification of plan assets	83	-
Other expenses	10	-
<b>Net liability at end of year</b>	<b>10,267</b>	<b>9,606</b>

The Group expects to contribute RR 376 million to the defined benefit plans during the year beginning 01 January 2013.

Movements in fair value of plan assets:

	2012	2011
Value at the beginning of the year	294	246
Reclassification of plan assets	(83)	-
Expected return on plan assets	17	22
Gain/(loss) on plan assets	(27)	5
Contributions by employer	400	355
Payments	(395)	(334)
<b>Value at year end</b>	<b>206</b>	<b>294</b>

Historical data for present value of the defined benefit obligation, plan assets and experience adjustments:

	2012	2011	2010	2009	2008
Present value of defined benefit obligations (DBO)	7,491	8,964	9,033	7,591	6,970
Fair value of plan assets	(206)	(294)	(246)	(219)	(254)
Deficit in plan assets	7,285	8,670	8,787	7,372	6,716
Gains/(losses) arising of experience adjustments on plan liabilities	1,506	333	193	(243)	117
Gains/(losses) arising of experience adjustments on plan assets	(27)	5	(24)	(23)	(17)

Principal actuarial assumptions as at 31 December (expressed as weighted averages):

	Year ended 31 December 2012	Year ended 31 December 2011
Discount rate at 31 December	7.00%	8.50%
Expected return on plan assets	8.00%	9.13%
Future salary increases	7.00%	9.72%
Future pension increases	5.50%	5.50%
Staff turnover	Statistical data of the Group	5.00%
Employees' average remaining working life (years)	Statistical data of the Group	10
Retirement age	Probability distribution of retirement with averages of 60/58 years old for male and female	60 years old for male; 58 years old for female
Mortality	Rosstat's Russian population table for 1998	Rosstat's Russian population table for 1998

**Note 20. Other non-current liabilities**

Other non-current liabilities	31 December 2012	31 December 2011
Pension benefit obligations (Note 19)*	8,560	7,971
Assets retirement obligation (Reserve for ash dump)	618	527
Other non-current liabilities	791	748
<b>Total other non-current liabilities</b>	<b>9,969</b>	<b>9,246</b>

\*Amounts disclosed as at 31 December 2012 include RR 1,707 million of pension benefit obligations presented within Liabilities of disposal group (RR 1,635 million as at 31 December 2011 ) (Note 15).

Other non-current liabilities includes non-current advances received under the contracts of technological connection to the grids, in the amount of RR 475 million as at 31 December 2012 and RR 500 million as at 31 December 2011.

**Note 21. Accounts payable and accruals**

	31 December 2012	31 December 2011
Trade payables	11,443	8,873
Other accounts payable	1,407	1,210
<b>Total financial liabilities within accounts payable and accruals</b>	<b>12,850</b>	<b>10,083</b>
Advances received	6,161	3,504
Settlements with personnel	4,157	3,703
Accounts payable in respect of share issue	-	748
Dividends payable	19	21
<b>Total accounts payable and accruals</b>	<b>23,187</b>	<b>18,059</b>

Payables to suppliers of property, plant and equipment of RR 1,116 million (31 December 2011: RR 743 million) included in current accounts payable.

**Note 22. Other taxes payable**

	31 December 2012	31 December 2011
Value added tax	2,766	2,570
Insurance contribution	1,109	995
Property tax	331	322
Other taxes	571	364
<b>Total other taxes payable</b>	<b>4,777</b>	<b>4,251</b>

**Note 23. Revenue**

	Year ended 31 December 2012	Year ended 31 December 2011
Sales of electricity and capacity	84,890	81,698
Heat and hot water sales	31,347	30,672
Other revenue	15,047	12,322
<b>Total revenue</b>	<b>131,284</b>	<b>124,692</b>

Other revenue for the years ended 31 December 2012 and 31 December 2011 mainly includes revenue from transportation of electricity and heat, repair and construction services, technological connection, resale of goods, rentals and communication services.

**Note 24. Government grants**

In accordance with Federal government law No. 371 dated 30 November 2011 About Federal budget for 2012-2014 and subdivisions of the Russian Federation decrees some subsidiaries are entitled government subsidies. These government subsidies appropriated for disposition of territory cross-subsidization for the electricity tariffs, compensation of the difference between economic value-added and reduced tariffs at which electricity and heat are sold and for loss compensation on purchased fuel. During the period the Group received government subsidies in amount of RR 10,796 million (in 2011 in the amount of RR 9,130 million) in the following subsidised territories: Kamchatka territory, Republic of Sakha (Yakutiya), Magadan region and other Far East regions.

**Note 25. Expenses**

	Year ended 31 December 2012	Year ended 31 December 2011
Fuel expenses	45,202	41,329
Employee benefit expenses (including payroll taxes and pension benefit expenses)	37,504	35,695
Electricity distribution expenses	11,613	11,193
Purchased electricity and capacity	8,955	8,646
Depreciation of property, plant and equipment	4,374	6,726
Third parties services, including:		-
Purchase and transportation of heat power	2,572	2,784
Other third parties services	2,569	1,986
Repairs and maintenance	2,556	2,282
Services of subcontracting companies	1,845	1,254
Rent	1,430	1,254
Security expenses	1,086	975
Transportation expenses	853	868
Consulting, legal and information expenses	833	693
Services of SO-CDU, NP Council Market, CFS	646	633
Agency expenses	466	451
Insurance cost	206	149
Other materials	7,128	7,145
Reversal / (accrual) of impairment for accounts receivable, net	3,133	(1,297)
Water usage expenses	1,686	1,760
Taxes other than on income	1,547	1,457
Social charges	532	842
Loss / (profit) on disposal of property, plant and equipment, net	476	(175)
Insurance indemnity	(103)	(336)
Other expenses	575	255
<b>Total expenses</b>	<b>137,684</b>	<b>126,569</b>



**Note 26. Finance income / (expenses)**

	Year ended 31 December 2012	Year ended 31 December 2011
Interest income	648	671
Foreign exchange gain	-	87
Other finance income	-	61
<b>Finance income</b>	<b>648</b>	<b>819</b>
Interest expense	(4,182)	(3,125)
Finance lease expense	(229)	(261)
Foreign exchange loss	(133)	-
Other finance expenses	(879)	(845)
<b>Finance expenses</b>	<b>(5,423)</b>	<b>(4,231)</b>

**Note 27. Earnings per share**

Basic earnings / (loss) per share are calculated by dividing the profit or loss attributable to shareholders by the weighted average number of ordinary and preference shares in issue during the year, excluding treasury shares.

The Company has no dilutive potential ordinary shares; therefore the diluted earnings per share equal the basic earnings per share.

Profit or losses per share from continuing operations are calculated as follows:

	31 December 2012	31 December 2011
Weighted average number of ordinary shares, in thousands	42,386,713	41,041,754
Weighted average number of preference shares, in thousands	2,075,149	2,075,149
<b>Loss attributable to ordinary and preference shareholders, thousand rubles</b>	<b>(2,945,234)</b>	<b>(9,914,253)</b>
Basic and diluted loss per ordinary and preference share from loss attributable to the owners of the Company (in RR per share)	(0.0662)	(0.2299)

**Note 28. Contingencies and Commitments**

**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.

**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.

**Tax contingencies.** Russian tax, currency and customs legislation are 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.

Russian transfer legislation was developed to new transactions from 1 January 2012. New principles are significantly detailed and have more accordance with international principles developed by Organization for Economic Co-operation and Development (OECD). The new transfer pricing legislation also provides the possibility for tax authorities to impose additional tax liabilities in respect of all controllable

transactions (transactions with interdependent parties and some sort of transactions with independent parties), if transactions do not comply with market conditions.

During the period the Group's subsidiaries had controllable transactions and transactions, which with high probability can be controllable. The Management of the Group implements internal control procedures to apply requirements of transfer pricing legislation.

There is no practice in application of new principles at the moment, consequences of trials with tax authorities of the Group's transfer pricing cannot be reliably estimated therefore it may be significant to the financial results and operations of the Group.

As Russian tax legislation does not provide definitive guidance in certain areas, the Group adopts, from time to time, interpretations of such uncertain areas that reduce the overall tax rate of the Group. While management currently estimates that the tax positions and interpretations that it has taken can probably be sustained, there is a possible risk that outflow of resources will be required should such tax positions and interpretations be challenged by the relevant authorities. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

Management believes that as at 31 December 2012 its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will 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.

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. The Group recognised environment provision for land recultivation as at 31 December 2012 and 31 December 2011 (Note 20)

**Compliance with covenants.** The Group is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default.

The Group was in partial compliance with covenants during years 2011 and 2012 and as at 31 December 2012 and 31 December 2011. Before the 31 December 2012 and 31 December 2011 management received a covenant waiver from the bank confirming absence of intention to request early repayment of loans (Note 18).

**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 expenditure commitments.** At 31 December 2012 the Group has contractual capital expenditure commitments in respect of property, plant and equipment totalling RR 7,697 million (31 December 2011: RR 6,746 million).

## **Note 29. Financial risk management**

The risk management function within the Group is carried out in respect of financial risks, operational and legal risks. Financial risks include market risk (interest rate risk and other price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are 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. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

The Group is exposed to industry risks in particular due to ongoing changes in the utilities industry due to the liberalisation of the electricity and capacity markets. To manage the risk the Group seeks to establish favorable legal and regulatory framework for electricity and capacity markets. The Group has been actively involved in the preparation of regulations in the utilities industry, implemented by the Ministry of Energy of the Russian Federation, NP Council Market, FTS.

**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.

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 and to minimize losses.

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

The Group's management monitors past due balances of receivables and provides ageing analysis and other information about credit risk as disclosed in Note 12.

Financial assets neither past due, nor impaired represented by a pool of different customers, mainly consumers of electricity and heat energy with no history of default and high probability of payments, which credit quality is assessed as high.

Significant part of allowance was created for individually not homogeneous customers based on history of past payments and management's assessment of its recoverability.

Cash has been placed in the financial institutions, which are considered at time of deposit to have minimal risk of default. The Group approves a list of banks for depositing its cash and rules for making such deposits. The Group performs regular assessment of these financial institutions' financial position, monitors their ratings assigned by independent agencies as well as their other performance indicators.

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

The Group's maximum exposure to credit risk by class of assets is reflected in the carrying amounts of financial assets in the Consolidated Statement of Financial Position (Note 32).

**Market risk.** The Group takes on exposure to market risks. Market risks arise from open positions in (i) interest bearing assets and liabilities, and (ii) 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 fluctuations.

**Interest rate risk.** Changes in interest rates impact primarily the fair value of loans and borrowings. The interest rates on most significant loans and borrowings are fixed. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

**Liquidity risk.** Liquidity risk is the risk that an entity will encounter difficulties in meeting obligations associated with financial liabilities. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages liquidity risk as follows:

- tariffs for electricity and heat are set on cost plus basis, which covered the majors of Group's entities expenses;
- the Group received continuing strong support from Government in the form of grants received for compensation of low electricity tariff (Note 24);
- the Group considers the possibility of restructuring of current borrowings and loans to postpone the payments and increase liquidity;
- significant part of current liabilities is represented by advances received for future services and electricity supply, which also guarantees the demand on Group's entities products.

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), gross loan commitments. Such undiscounted cash flows differ from the amount included in the Consolidated statement of financial position because the Consolidated statement of financial position amount is based on discounted cash flows.

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
<b>Liabilities</b>				
Current and non-current debt	29,733	8,218	16,628	5,257
Trade payables (Note 21)	11,443	-	-	-
Finance lease liabilities (Note 18)	843	325	496	-
<b>Total future payments, including future principal and interest payments</b>	<b>42,019</b>	<b>8,543</b>	<b>17,124</b>	<b>5,257</b>
<b>Liabilities of disposal group classified as held for sale (Note 15)</b>	<b>16,394</b>	<b>-</b>	<b>-</b>	<b>-</b>

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
<b>Liabilities</b>				
Current and non-current debt	20,042	30,141	5,807	556
Trade payables (Note 21)	8,873	-	-	-
Finance lease liabilities (Note 18)	747	689	340	-
<b>Total future payments, including future principal and interest payments</b>	<b>29,662</b>	<b>30,830</b>	<b>6,147</b>	<b>556</b>
<b>Liabilities of disposal group classified as held for sale (Note 15)</b>	<b>13,093</b>	<b>-</b>	<b>-</b>	<b>-</b>

### Note 30. Management of capital

Compliance with the Russian legislation requirements and policy of 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 thousand fold of minimal wage according to the federal law on the date of the company's registration;
- if net assets of the entity are less than share capital at the end of financial year next to the second financial year or every subsequent financial year, at the end of which net assets of the entity are less than share capital, entity must decrease its share capital to the value not exceeding its net assets or make a decision about liquidation of the company;
- if at the end of second financial year or every subsequent financial year net assets of the entity are less than minimum allowed share capital 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 when managing capital 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 equal to the Group's net assets was RR 21,495 million (31 December 2011: RR 29,167 million).

**Note 31. Fair value of financial instruments**

Fair value is the amount at which a financial instrument could be exchanged at 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 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 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.

Carrying amounts of liabilities at amortised cost approximate fair values.

**Note 32. 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
<b>Assets</b>			
<b>Other non-current assets (Note 10)</b>	310	-	310
Non-current accounts receivable	310	-	310
<b>Available-for-sale financial assets (Note 9)</b>	-	586	586
<b>Trade and other receivables (Note 12)</b>	16,102	-	16,102
Trade receivables	15,058	-	15,058
Other receivables	1,044	-	1,044
<b>Other current assets (Note 14)</b>	1,366	-	1,366
Current deposits	1,366	-	1,366
<b>Cash and cash equivalents (Note 11)</b>	5,781	-	5,781
<b>Total financial assets</b>	<b>23,559</b>	<b>586</b>	<b>24,145</b>
<b>Available-for-sale assets and financial assets of disposal group classified as held for sale</b>	831	-	831
<b>Total on-financial assets</b>	<b>77,894</b>	-	<b>77,894</b>
<b>Non-financial assets of disposal group classified as held for sale</b>	28,123	-	28,123
<b>Total assets</b>	<b>130,407</b>	<b>586</b>	<b>130,993</b>

All of the Group's financial liabilities with the exception of derivative financial instruments are carried at amortised cost.

**RAO Energy System of East Group****Notes to the Consolidated Financial Statements as at and for the year ended 31 December 2012**

(in millions of Russian Rubles unless noted otherwise)

The following table provides a reconciliation of classes 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
<b>Assets</b>			
<b>Other non-current assets (Note 10)</b>	363	-	363
Non-current accounts receivable	363	-	363
<b>Available-for-sale financial assets (Note 9)</b>	-	785	785
<b>Trade and other receivables (Note 12)</b>	17,327	-	17,327
Trade receivables	14,964	-	14,964
Other receivables	2,363	-	2,363
<b>Other current assets (Note 14)</b>	6,844	-	6,844
Current deposits	6,844	-	6,844
<b>Cash and cash equivalents (Note 11)</b>	4,330	-	4,330
<b>Total financial assets</b>	<b>28,864</b>	<b>785</b>	<b>29,649</b>
<b>Available-for-sale assets and financial assets of disposal group classified as held for sale</b>	626	-	626
<b>Total non-financial assets</b>	<b>72,789</b>	-	<b>72,789</b>
<b>Non-financial assets of disposal group classified as held for sale</b>	27,247	-	27,247
<b>Total assets</b>	<b>129,526</b>	<b>785</b>	<b>130,311</b>

**Note 33. Subsequent events**

After the end of the reporting period the Group has concluded loan agreement with OJSC Rosbank in total amount of RR 1,000 million with maturity date not later than 29 March 2015 and annual interest rate of 10.3 percent; also it has concluded loan agreement with OJSC Sberbank in total amount of RR 1,000 million with maturity date not later than 27 March 2015 and annual interest rate of 10 percent.

In January – March 2013 the Group received cash under credit lines of OJSC Sberbank in total amount of RR 2,500 million with maturity dates up to 13 December 2013 and annual interest rates from 8.1 to 9.25 percent.