MOSENERGO Group

Consolidated interim financial statements
(prepared in accordance with IFRS)
for the three months ended 31 March 2012
(unaudited)

MOSENERGO Group
Consolidated Interim Statement of Financial Position
(in millions of Russian Roubles)

	Note	31 March 2012	31 December 2011	31 December 2010
ASSETS				
Non-current assets				
Property, plant and equipment	7	183,209	185,295	178,224
Investment property	8	792	792	898
Advances for acquisition of property, plant and equipment		13,539	11,477	15,195
Trade and other receivables	11	1,209	5	15
Other non-current assets	12	3,398	2,234	1,165
Total non-current assets		**202,147**	**199,803**	**195,497**
Current assets				
Inventories	10	5,731	6,880	6,438
Income tax receivable		9	3	17
Trade and other receivables	11	31,892	27,147	21,115
Cash and cash equivalents	13	19,658	25,572	28,334
Other current assets	12	1,283	1,274	1,925
Assets classified as held for sale	9	1,751	1,742	754
Total current assets		**60,324**	**62,618**	**58,583**
Total assets		**262,471**	**262,421**	**254,080**
EQUITY AND LIABILITIES				
Equity	14			
Share capital		166,124	166,124	166,124
Treasury stock		(871)	(871)	(871)
Share premium		49,213	49,213	49,213
Reserves		83,837	83,837	84,911
Accumulated loss		(92,968)	(98,270)	(107,303)
Total equity		**205,335**	**200,033**	**192,074**
Non-current liabilities				
Non-current borrowings	15	9,896	10,223	12,564
Deferred tax liabilities	27	25,614	26,061	24,335
Employee benefits	16	231	221	197
Trade and other payables	17	564	747	946
Total non-current liabilities		**36,305**	**37,252**	**38,042**
Current liabilities				
Current borrowings and current portion of non-current borrowings	15	1,008	5,354	4,976
Trade and other payables	17	16,675	18,936	15,599
Income tax payable		667	19	812
Other taxes payable	18	2,024	433	2,389
Provisions	19	160	93	71
Liabilities classified as held for sale	9	297	301	117
Total current liabilities		**20,831**	**25,136**	**23,964**
Total liabilities		**57,136**	**62,388**	**62,006**
Total equity and liabilities		**262,471**	**262,421**	**254,080**

General Director V.G. Yakovlev

Deputy Chief Accountant A.S. Glinskaya

4 July 2012

MOSENERGO Group
Consolidated Interim Statement of Comprehensive Income
(in millions of Russian Roubles)

	Note	Three months ended 31 March 2012	Three months ended 31 March 2011
Revenue	20	58,026	60,255
Other operating income	25	341	321
Cost of materials	21	(32,022)	(31,391)
Heat transmission		(11,809)	(12,262)
Depreciation of property, plant and equipment	7	(3,325)	(2,957)
Personnel expenses	23	(2,227)	(2,180)
Other external supplies	22	(987)	(572)
Taxes other than income tax		(515)	(639)
Maintenance and repairs expenses		(458)	(347)
Other operating expenses	24	(1,040)	(768)
Results from operating activities		**5,984**	**9,460**
Financial income	26	889	487
Financial expenses	26	(173)	(236)
Profit before income tax		**6,700**	**9,711**
Income tax expense	27	(1,398)	(1,905)
Profit for the period		**5,302**	**7,806**

Other comprehensive income:			
Impairment loss on property, plant and equipment	27	-	(1)
Revaluation of available-for-sale financial assets	27	-	2
Other comprehensive income for the period, net of tax		-	**1**
Total comprehensive income for the period		**5,302**	**7,807**

Profit attributable to:			
Equity holders of the company		5,302	7,806

Basic and diluted earnings per share (in Russian Roubles)	27	0.13	0.20

General Director V.G. Yakovlev

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4 July 2012

(in millions of Russian Roubles)

	Note	Three months ended 31 March 2012	Three months ended 31 March 2011
Cash flow from operating activities			
Profit before income tax		**6,700**	**9,711**
Adjustments for:			
Depreciation of property, plant and equipment	7	3,325	2,957
Trade and other receivables impairment loss	24	548	302
Financial expenses	26	173	236
Litigations provision charge	19	70	1
Loss on disposal of property, plant and equipment	24	15	40
Financial income	26	(889)	(487)
Gain from disposal of assets classified as held for sale	25	(21)	(1)
Revaluation of assets classified as held for sale	25	(1)	(7)
Operating cash flows before changes in working capital and provisions		**9,920**	**12,752**
Change in inventories		1,147	621
Change in trade and other receivables		(6,870)	(17,049)
Change in other current and non-current assets		(423)	32
Change in trade and other payables		(797)	(802)
Change in taxes payables, other than income tax		1,606	1,206
Change in employee benefits		5	5
Change in provisions		(3)	(28)
Cash flows from/(used in) operations before income tax and		**4,585**	**(3,263)**
Income tax paid		(1,219)	(3,172)
Cash flows from/(used in) operating activities		**3,366**	**(6,435)**
Cash flows from investing activities			
Proceeds from sale of assets classified as held for sale		89	186
Proceeds from sale of property, plant and equipment		6	122
Interest received		473	264
Acquisition of property, plant and equipment		(5,353)	(3,019)
Acquisition of investments		-	(7,479)
Interest paid and capitalised		(183)	(471)
Cash flows used in investing activities		**(4,968)**	**(10,397)**
Cash flows from financing activities			
Proceeds from borrowings		-	76
Repayment of borrowings		(4,312)	-
Cash flows from/(used in) financing activities		**(4,312)**	**76**
Net decrease in cash and cash equivalents		(5,914)	(16,756)
Cash and cash equivalents at the beginning of the period	13	25,572	28,334
Exchange gain on cash and cash equivalents		-	-
Cash and cash equivalents at the end of the period	13	**19,658**	**11,578**

General Director V.G. Yakovlev

Deputy Chief Accountant A.S. Glinskaya

4 July 2012

MOSENERGO Group

Consolidated Interim Statement of Changes in Equity

(in millions of Russian Roubles)

Attributable to equity holders of OJSC "Mosenergo"

	Note	Share capital	Treasury stock	Share premium	Reserves	Accumulated loss	Total
Balance at 31 December 2010 as previously reported		**166,124**	**(871)**	**49,213**	**86,639**	**(107,336)**	**193,769**
Correction of prior period	3	-	-	-	(1,728)	33	(1,695)
Balance at 1 January 2011		**166,124**	**(871)**	**49,213**	**84,911**	**(107,303)**	**192,074**
Profit for the period		-	-	-	-	7,806	7,806
Other comprehensive income for the period:							
Impairment loss on property, plant and equipment	27	-	-	-	(1)	-	(1)
Revaluation of available-for-sale financial assets	27	-	-	-	2	-	2
Total comprehensive income for the period		-	-	-	**1**	**7,806**	**7,807**
Balance at 31 March 2011		**166,124**	**(871)**	**49,213**	**84,912**	**(99,497)**	**199,881**
Balance at 1 January 2012		**166,124**	**(871)**	**49,213**	**83,837**	**(98,270)**	**200,033**
Profit for the period		-	-	-	-	5,302	5,302
Total comprehensive income for the period		-	-	-	-	**5,302**	**5,302**
Balance at 31 March 2012		**166,124**	**(871)**	**49,213**	**83,837**	**(92,968)**	**205,335**

General Director V.G. Yakovlev

Deputy Chief Accountant A.S. Glinskaya

4 July 2012

Note 1. The Group and its operations

(a) Organisation and operations

The Open Joint Stock Company "Mosenergo" (the "Company") and its subsidiaries (together referred as the "Group" or the "Mosenergo Group") are primarily involved in generation of heat and electric power and heat distribution services in the Moscow city and Moscow region.

The Group's power and heat generation base includes 15 power plants with operational capacity equaled approximately 12,299 megawatts ("MW") and 35,011 gigacalories/hour ("Gkal/h") of electricity and heat capacity.

OJSC "Mosenergo" was registered under the legislation of the Russian Federation at 6 April 1993 in accordance with State Property Management Committee Decree 169-R dated 26 March 1993 following the privatisation process of electricity and heat power generation, transmission and distribution assets formerly under control of the Ministry of Energy of the Russian Federation .

The Company's registered office is located at 101/3, Prospekt Vernadskogo, Moscow, 119526, Russian Federation.

(b) Group formation

At 1 April 2005, the Company was reorganised through a spin-off following the reorganisation process within the Russian electricity sector aimed to introduce competition into the electricity market and to enable the companies of electricity sector to maintain and further expand production capacity. The Company's restructuring was approved by general shareholder's meeting at 28 June 2004. Before the restructuring took place the Company operated as an integrated utility model, which included generation, transmission and distribution activities. As a result of the restructuring 13 new entities were separated from the Company and each shareholder of the Company received ordinary shares of each of the separated entities pro rata to Company's shares held by them prior to spin-off.

A general shareholders' meeting held at 20 December 2006 approved a closed subscription for the additional shares issued in favour of OJSC "Gazprom" and its affiliates (together referred as the "Gazprom Group"). As a result, the majority shareholder of OJSC "Mosenergo" changed from RAO UES of Russia to Gazprom Group holding 53.47% of ordinary shares. Following the reorganisation process, an extraordinary general shareholder's meeting of RAO UES of Russia at 26 October 2007 approved the spin-off of several holding companies to which shares in electricity generation companies, including OJSC "Mosenergo", held by RAO UES of Russia, were transferred. Holdings separated from RAO UES of Russia were merged with generation companies by means of shares conversion, which enabled the shareholders of RAO UES of Russia to receive direct shares in generation companies after reorganisation. Accordingly, upon spin-off from RAO UES of Russia OJSC "Mosenergo Holding" (the "Mosenergo Holding") received stake in OJSC "Mosenergo" held by RAO UES of Russia. Simultaneously with the spin-off "Mosenergo Holding" was merged with the Company and its shares were converted into the Company's shares.

In February 2009, the Company's Board of Directors approved a program to improve the Company's organisational structure, which is aimed to concentrate production resources, optimise the labor capacity and supply chain. Organisational structure optimisation included the merge of several production branches situated geographically close to each other, reallocation and outsourcing of non-core functions.

In April 2009 OJSC "Gazprom" transferred its 53.47% share in the Company to its 100% subsidiary LLC "Gazprom Energoholding" (previously - LLS "Gazoenergeticheskaya Kompaniya") which became the parent company of OJSC "Mosenergo".

(c) Business environment

The Russian Federation displays certain characteristics of an emerging market. The international sovereign debt crisis has had a severe effect on the Russian economy and the situation in the Russian financial and corporate sectors.

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

Management determined impairment provisions by considering the economic situation and outlook at the end of the reporting period. Management is unable to predict all developments which could have an impact on the Russian economy and consequently what effect, if any, they could have on the future financial position of the Group. Management believes it is taking all the necessary measures to support the sustainability and development of the Group's business. The financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

(d) Relations with the state and current regulation

At the end of the reporting period the Russian Federation owned (both direct and indirect ownership) over 50% in OJSC “Gazprom” (the previous “Parent”), which held 53.47% of the Company through its 100% subsidiary LLC “Gazprom Energoholding” (immediate parent company). Thus the OJSC “Gazprom” is the ultimate parent company of the Group and Russian Federation is the ultimate controlling party of the Group.

The government of the Russian Federation directly affects the Group’s operations through regulations of wholesale and retail sales of electricity and heat exercised by the Federal Service on Tariffs (the “FST”) and the Regional Energy Commissions of Moscow and Moscow region (the “RECs”). JSC “System Operator of the United Power System” (the “SO UES”), which is controlled by the Russian Federation, regulates operations of generating assets of the Group.

The Group’s customer base as well as suppliers’ chain includes a large number of entities controlled by or related to the state.

As described in Note 6 and Note 32, the government’s economic, social and other policies could materially affect operations of the Group.

(e) Industry restructuring

Following the restructuring of the Russian electric utility sector aimed to introduce competition to the electricity (capacity) market, the New Wholesale Electric Power (capacity) Market Rules of the Transitional period (the “NOREM”), approved by Resolution of the Government of the Russian Federation № 529 dated 31 August 2006, were adopted. Under this new framework, electricity and capacity purchase-sales transactions in the regulated market sector are to be governed by a regulated bilateral contract system. Starting 1 September 2006 regulated contracts covered all volumes of electricity and capacity produced and consumed.

Starting 2007, the volumes of electricity and capacity traded in the wholesale market applying regulated prices are to be substantially reduced pursuant to Russian Federation Government Resolution No. 205 dated 7 April 2007 “On amending certain resolutions of the Russian Federation Government related to the calculation of electricity volumes sold at free (competitive) prices”. The Resolution states that electricity and capacity supplied at regulated prices will gradually decrease.

The period from 2006 to 2012 is considered as a transitional period. Upon the termination of the transitional period, the organisation of a competitive market for electricity market will be completed.

Electricity volumes produced, not covered by the regulated contracts, is traded at unregulated prices on the basis of free bilateral contracts or on a day-ahead market. Under free bilateral contracts market participants have the right to choose contracting parties, prices and volumes. The day-ahead market is based on competitive selection of bids submitted by suppliers and buyers the day before the electricity is supplied.

Starting 2012 the majority of the contracts for electricity and capacity supply were engaged at unregulated prices: free bilateral contracts or on a day-ahead market.

The introduction of the new wholesale market also covered capacity trading. Before the new market rules launch, suppliers were paid only for 85% of installed capacity at a flat-rate tariff. The new rules result in separate tariffs for electricity and capacity. Capacity tariffs are planned to be established at levels sufficient to maintain generation facilities of producers.

According to Russian Federation Government Resolution № 1172 of 27 December 2010 starting 1 January 2011 the capacity is supplied using the following schemes at the wholesale market:

- capacity trading at regulated prices (tariffs) based on sales contracts in volume, intended for supply to the population and consumer groups equivalent to the population;
- supply of capacity at open (unregulated) prices based on competitive selection of capacity: capacity trading by open contracts on capacity sale – provided that this capacity is selected on the basis of competitive selection of capacity;
- delivery of capacity according to contracts for provision of facilities: capacity trading by contracts on sale of capacity produced with the use of generating supply;
- capacity which comes in a forced regime (the generating facilities that are not selected as a result of a competitive selection, supporting their further work, which is necessitated by technological and other reasons).

Contract for provision of facilities provided on the one hand the obligation of suppliers to implement the approved investment program, on the other hand give a guarantee of payment capacity of the new (upgraded) generating facilities.

(in millions of Russian Roubles)

Note 2. Basis of preparation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that property, plant and equipment and investment property are revalued periodically; available-for-sale financial assets are measured at fair value; and the carrying amounts of equity items in existence at 31 December 2002 include adjustments for the effects of hyperinflation, which were calculated using conversion factors derived from the Russian Federation Consumer Price Index published by the Russian Statistics Agency, GosKomStat. Russia ceased to be hyperinflationary for IFRS purposes at 1 January 2003.

The methods used to measure fair values are discussed further in Note 4.

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble (RR), which is the Group's functional currency and the currency in which these consolidated financial statements are presented. All financial information presented in RR has been rounded to the nearest million.

(d) Use of estimates and judgment

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

- Note 7 – Property, plant and equipment;
- Note 8 – Investment property;
- Note 9 – Disposal group classified as held for sale, and
- Note 32 – Operating segments.

Note 3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by the Group entities.

(a) Restatement and reclassification of comparatives

The Company has restated the consolidated statements of financial position at 31 March 2011 and at 31 December 2010 and the consolidated statement of comprehensive income for the three months ended 31 March 2011 and for year ended 31 December 2010 to more appropriately reflect the underlying substance of certain transactions.

In addition, certain comparative amounts in consolidated statements of financial position and consolidated statement of comprehensive income have been reclassified to conform to the current period's presentation.

i) Effect of restatement at 31 December 2010

The following are the consolidated statement of financial position captions as reported previously and adjusted:

	As originally presented	Items	Changes due to restatement	Changes due to reclassification	As adjusted
Property, plant and equipment	180,559	1, 4	(2,429)	94	178,224
Other non-current assets	480	4	-	685	1,165
Other current assets	1,896	4	14	15	1,925
Total assets	**255,701**	**-**	**(2,415)**	**794**	**254,080**
Reserves	86,639	2	(1,728)	-	84,911

(in millions of Russian Roubles)

Accumulated loss	(107,336)	-	33	-	(107,303)
Non-current borrowings	11,770	4	-	794	12,564
Deferred tax liabilities	24,758	2	(423)	-	24,335
Employee benefits	410	3	(213)	-	197
Trade and other payables	16,625		(84)	-	16,545
Total equity and liabilities	**255,701**	**-**	**(2,415)**	**794**	**254,080**

The following are the consolidated statement of comprehensive income captions as reported previously and adjusted:

	As originally presented	Items	Changes due to restatement	Changes due to reclassification	As adjusted
Other operating income	1 574	-	(69)	-	1 505
Income on change in fair value of investment property	21	-	-	(21)	-
Depreciation of property, plant and equipment	(12 214)	1	277	-	(11 937)
Personnel expenses	(9 419)	-	16	(98)	(9 501)
Other operating expenses	(3 885)	-	5	119	(3 761)
Financial expenses	(169)	-	31	-	(138)
Income tax expense	(2 330)	-	(52)	-	(2 382)
Profit for the year	**8 668**	**-**	**208**	**-**	**8 876**

The following are main explanations of the corrections and reclassifications made:

Item 1 Decrease in property, plant and equipment in total amount of RR 2,706 million represents management's reassessment of its' right of possession of certain heat transmission networks, received during 1992 – 1997 on free of charge basis from the government. The reassessment was performed as a result of a denial by the state bodies to finalise legal registration of such assets. This amount was offset by depreciation in the amount of RR 277 million;

Item 2 Decrease in reserves in the amount of RR 2,160 million represents the reverse of the accumulated revaluation surplus attributable to certain heat transmission assets (see item 1 above) derecognized by the Company. The abovementioned sum offset by the related deferred tax in the amount of RR 432 million;

Item 3 Decrease in employee benefits in the amount of RR 213 million is due to adjustments related to cancellation of jubilee benefits which occurred in 2009, and

Item 4 Debt fees in the amount of RR 794 million were reclassified from "Non-current borrowings" to "Other non-current assets" to more appropriately reflect the underlying substance of these fees.

ii) Effect of restatement at 31 March 2011

The following are the consolidated statement of financial position captions as reported previously and adjusted:

	As originally presented	Items	Changes due to restatement	Changes due to reclassification	As adjusted
Property, plant and equipment	178,549	1, 4	(2,360)	31	176,220
Other non-current assets	519	4	-	622	1,141
Inventories	5,831		(10)	-	5,821
Other current assets	1,996	4	13	79	2,088
Total assets	**261,610**	**-**	**(2,357)**	**732**	**259,985**
Reserves	86,640	2	(1,728)	-	84,912
Accumulated loss	(99,355)	-	(143)	-	(99,498)
Non-current borrowings	11,881	4	-	732	12,613
Deferred tax liabilities	24,656	2	(486)	-	24,170
Total equity and liabilities	**261,610**	**-**	**(2,357)**	**732**	**258,978**

(in millions of Russian Roubles)

The following are the consolidated statement of comprehensive income captions as reported previously and adjusted:

	As originally presented	Items	Changes due to restatement	Changes due to reclassification	As adjusted
Other operating income	340	-	-	(19)	321
Cost of materials	(31,405)	-	-	14	(31,391)
Depreciation of property, plant and equipment	(3,020)	1	69	(6)	(2,957)
Personnel expenses	(1,850)	3	(297)	(33)	(2,180)
Other external supplies	(546)	-	-	(26)	(572)
Other operating expenses	(826)		(12)	70	(768)
Financial expenses	(27)	-	-	(209)	(236)
Financial income	278		-	209	487
Income tax expense	(1,970)	-	65	-	(1,905)
Profit for the period	**7,981**	**-**	**(175)**	**-**	**7,806**

The following are main explanations of the corrections and reclassifications made:

Item 1 Decrease in property, plant and equipment in total amount of RR 2,429 million represents management's reassessment of its' right of possession of certain heat transmission networks, received during 1992 – 1997 on free of charge basis from the government. The reassessment was performed as a result of a denial by the state bodies to finalise legal registration of such assets. This amount was offset by depreciation in the amount of RR 69 million;

Item 2 Decrease in reserves in the amount of RR 2,160 million represents the reverse of the accumulated revaluation surplus attributable to certain heat transmission assets (see item 1 above) derecognized by the Company. The abovementioned sum offset by the related deferred tax in the amount of RR 432 million;

Item 3 Decrease in Personnel expenses in the amount of RR 213 million is due to adjustments related to cancellation of jubilee benefits which occurred in 2009, and in amount of RR 84 million is due to to correction of an error caused by improper calculation of unused vacation reserve;

Item 4 Debt fees in the amount of RR 732 million were reclassified from "Non-current borrowings" to "Other non-current assets" to more appropriately reflect the underlying substance of these fees.

(b) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

(ii) Associates (equity accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Associates are accounted for using the equity method (equity accounted investees) and are recognised initially at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. Other post-acquisition changes in Group's share of net assets of an associate are recognised as follows: the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as share of result of associates, the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, 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 exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(c) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at the date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments.

(d) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Cash and cash equivalents comprise of cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Loans and receivables consist of financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the entity intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon initial recognition designates at fair value through profit or loss.

Held-to-maturity investments
If the Group has the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

Available-for-sale financial assets
The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, and foreign exchange gains or losses on available-for-sale monetary items, are recognised directly in other comprehensive income. When an investment is derecognised, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

(ii) Share capital

Ordinary shares
Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Repurchase of share capital (treasury stock)
When share capital recognised as equity is repurchased, the amount of the consideration paid which includes directly attributable costs, is net of any tax effects, and is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to / from retained earnings.

(e) Property, plant and equipment

(i) Recognition and measurement

Property, plant and equipment are subject to revaluation on a regular basis to ensure that the carrying amount does not differ materially from that, which would be determined using fair value at the balance sheet date. Increase in the carrying amount of property, plant and equipment as a result of revaluation is credited directly to other comprehensive income under the heading revaluation reserve, unless the decrease of the reserve was previously recognised in profit or loss. Decrease in the carrying amount shall be debited to other comprehensive income to the extent of any credit balance existing in the revaluation reserve. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revaluated amount of the asset.

The tax effects from the revaluation of property, plant and equipment are recognised in other comprehensive income and accumulated in equity.

Cost of acquired assets includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labor and any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Borrowing costs that are directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are recognised net in "other operating expenses" in profit or loss. The revaluation surplus is not transferred from reserve when the assets are disposed.

(ii) Reclassification to investment property

When the use of property changes from owner-occupied to investment property, the property is remeasured to fair value and reclassified as investment property. Any gain arising on remeasurement is recognised in profit or loss to the extent the gain reverses previous impairment loss on a specific property, with any remaining gain recognised in the revaluation reserve directly in other comprehensive income. Any loss is recognised in the revaluation reserve directly in other comprehensive income to the extent that an amount of revaluation is included in other comprehensive income relating to a specific property, with any remaining loss recognised immediately in profit or loss.

(iii) Reclassification to assets held-for-sale

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell. Any gain arising on remeasurement is recognised in profit or loss to the extent the gain reverses previous impairment loss on a specific property, with any remaining gain recognised in the revaluation reserve directly in other comprehensive income. Any loss is recognised in the revaluation reserve directly in other comprehensive income to the extent that an amount of revaluation is included in other comprehensive income relating to a specific property, with any remaining loss recognised immediately in profit or loss.

(iv) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in the profit or loss as incurred.

(v) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of lease term. Depreciation of an asset begins when it is available for use.

Depreciation methods, useful lives and residual values are reviewed at each reporting date. The estimate useful lives for the year 2011 were not changed for the year 2012 and were as follows:

- Buildings and constructions 20-60 years
- Plant and equipment 10-30 years
- Transmission networks 5-30 years
- Other 1-15 years

(f) Intangible assets

(i) Other intangible assets

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

(ii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

(iii) Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated useful lives of the software for the current and comparative periods equal to 7 years.

(g) Investment property

Investment property is property or construction in progress held or constructed either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at fair value with any change therein recognised in profit or loss.

When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

When the carrying amount of property is to be recovered principally through a sale transaction rather than through continuing use the property is remeasured to fair value and reclassified as assets held for sale. Any gain or loss on the remeasurement recognised in profit or loss.

(h) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

(j) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average cost principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(i) Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

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

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

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

Impairment losses for available-for-sale financial assets 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 investments. 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 through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through current period’s profit or loss.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than investment property, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in other comprehensive income if revaluation reserve existing to such assets, otherwise in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

(k) Non-current assets held for sale

Non – current assets that are expected to be recovered primarily through sale rather than through continuing use are classified as held-for-sale. Immediately before classification as held-for-sale, the assets are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group is allocated to remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, investment property and biological assets, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial recognition as held-for-sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

(l) Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss when they are due.

(ii) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognised past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on Russian government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in profit or loss.

Actuarial gains and losses which arise in the reporting period stay unrecognised. The Company recognises a portion of its actuarial gains and losses as income or expense if the net cumulative unrecognised actuarial gains and losses at the end of the previous reporting period exceeded the greater of:

- 10% of the present value of the defined benefit obligation at that date (before deducting plan assets), and
- 10% of the fair value of any plan assets at that date.

The portion of actuarial gains and losses to be recognised for each defined benefit plan is the excess determined as described above, divided by the expected average remaining working lives of the employees.

(iii) Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on Russian government bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed using the projected unit credit method. Any actuarial gains or losses are recognised in profit or loss in the period in which they arise.

(iiii) Termination benefits
Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

(iv) Short-term benefits
Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

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

(m) Provisions

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

(n) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief operating decision-maker. The Chief operating decision-maker responsible for allocating resources and assessing performance of the operating segments has been identified as a combination of the Board of Directors and Chief Executive Officer who are jointly make strategic decisions.

(o) Revenues

(i) Goods sold

Revenues from sales of electricity and heat are recognised when electricity and heat are supplied to customers.

Revenue from the sale of goods other than electricity and heat is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. Transfers of risks and rewards vary depending on the individual terms of the contract of sale.

(ii) Services
Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

(iii) Rental income
Rental income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

(p) Government subsidies

Government subsidies are assistance by government in the form of transfers of resources to the Group in return for past or future compliance with certain conditions relating to the operating activities of the Company.

Government subsidies are recognised initially as deferred income when there is reasonable assurance that they will be received and that the Company will comply with the conditions associated with the subsidy. Subsidies that compensate the Company for expenses incurred are recognised in profit or loss on a systematic basis in the same periods in which the expenses are recognised. Government subsidies that compensate the Company for the cost of an asset are recognised in the statement of comprehensive income on a systematic basis over the useful life of the asset. Unconditional government subsidies are recognised on profit or loss when subsidy becomes receivable. Government subsidies for the compensation of the difference between tariffs set to the urban population and the tariffs of the Company are recognised as income and included in other operating income.

(q) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(r) Financial income and expenses

Financial income comprises interest income on funds invested (including available-for-sale financial assets), dividend income and gains on the disposal of available-for-sale financial assets. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Financial expenses comprise interest expense on borrowings, unwinding of the discount on provisions and impairment losses recognised on financial assets. All borrowing costs are recognised in profit or loss using the effective interest method except for those which are capitalised.

Foreign currency gains and losses are reported on gross basis.

(s) Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income, in which case it is recognised in the consolidated statement of changes in equity.

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

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable the profit or loss, and differences relating to investments in subsidiaries and associates to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(t) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

(u) New Standards and Interpretations

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

- IFRS 9, Financial Instruments: Classification and Measurement. IFRS 9, issued in November 2009, replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities and in December 2011 to (i) change its effective date to annual periods beginning on or after 1 January 2015 and (ii) add transition disclosures. Key features of the standard are as follows:
  - Financial assets 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 Group expected that the revised standard does not have any effect on its financial statements.

- IFRS 10, Consolidated Financial Statements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation - special purpose entities". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. The Group expected that the revised standard does not have any effect on its financial statements.

- IFRS 11, Joint Arrangements, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities-Non-Monetary Contributions by Ventures". Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. The Group expected that the revised standard does not have any effect on its financial statements.

- IFRS 12, Disclosure of Interest in Other Entities, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), 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 expected that the revised standard does not have any effect on its financial statements.

- Amendment to IFRS (IAS) 12,Deferred tax: compensation for the asset underlying the deferred tax (released in December 2010, effective for annual periods beginning on or after 1 January 2012). In accordance with amendments to IFRS (IAS) 12, deferred tax on investment property accounted for the calculation of the fair value model under IAS (IAS) 40, will be determined based on the assumption that the present value will be recovered through the sale of the asset. Also, the amendments contained the requirement that the deferred tax on non-depreciable assets at the revaluation model under IAS (IAS) 16, must always be based on purchase price of the asset. The Group does not expect that the amendments will have a significant impact on the future consolidated financial statements since the Group has applied these principles.

- 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 expected that the revised standard does not have any effect on its financial statements.

- IAS 27, Separate Financial Statements, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013), was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10, Consolidated Financial Statements. The Group expected that the revised standard does not have any effect 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 Board's project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged. The Group expected that the revised standard does not have any effect on its financial statements.

- Amended IAS 34, Annual Improvements, (revised in 2011 and effective for annual periods beginning on or after 1 January 2013), to align the disclosure requirements for segment assets and segment liabilities in interim financial reports with those in IFRS 8. The amended IAS 34 will now require the disclosure of a measure of total assets and liabilities for a particular reportable segment. In addition, such disclosure is only required when:

– The amount is regularly provided to the entity's chief operating decision maker, and
– There is a material change from the amount disclosed for that segment in the last annual financial statements.

- Amendments to IFRS 7, Financial Instruments: Disclosures (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011)require additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party, yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised, but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The Group expected that the revised standard does not have any effect 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), change the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be 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 have no impact on measurement of transactions and balances.

- Amended IAS 19, Employee Benefits (issued in June 2011, effective for periods beginning on or after 1 January 2013), makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income. The Group expected that the revised standard does not have any effect on its financial statements.

- Amendments to IFRS 7, Financial Instruments: Disclosures (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013) require 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 Group expected that the revised standard does not have any effect on its financial statements.

- Amendments to IAS 32, Classification of Rights Issues (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014) added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The Group expected that the revised standard does not have any effect on its financial statements.

- Amendments to IFRS 1 "First-time adoption of IFRS", relating to severe hyperinflation and eliminating references to fixed dates for certain exceptions and exemptions, the amendment to IAS 12 "Income taxes", which introduces a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale, and IFRIC 20, "Stripping Costs in the Production Phase of a Surface Mine", which considers when and how to account for the benefits arising from the stripping activity in mining industry, will not have any impact on these financial statements.

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

(ii) There are no new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 January 2012.

Note 4. Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the methods, described further. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Property, plant and equipment and investment property

The fair value of property, plant and equipment and investment property is determined either using market approach, depreciated replacement cost or income approach.

The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of items of plant, equipment, fixtures and fittings is based on quoted market prices for similar items.

When no quoted market prices are available, the fair value of property, plant and equipment is primarily determined applying depreciated replacement cost method or income approach. The depreciated replacement cost method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation, and obsolescence. Under the income approach, the values of the property are derived from the present value of future cash flows expected to be derived from the use and eventual sale of the property.

(b) Investments in equity and debt securities

The fair values of available-for-sale financial assets are determined by reference to their quoted closing bid price at the reporting date.

(c) Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

(d) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

Note 5. Financial risk management

(a) Overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk;
- market risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The General Director has overall responsibility for proper functioning of the Group's internal controls system. The Board of Directors establishes and oversights of the Group's risk management framework and control environment mitigating those risks. The Audit Committee as part of Board of Directors evaluates the internal controls system effectiveness. The Group's Audit Committee is assisted in its oversight role by the Director of Internal Audit, who oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Direction of Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

The risk management functions are performed by several departments of the Company. Credit risk is considered by the Department on Account and Analysis of Financial Risks. Liquidity risk is addressed by the Treasury Department and the

Department on Budgeting and Managerial Accounting. These departments are accountable to the Deputy General Director on Finance and Budgeting who supervises and coordinates the work of the risk management system.

The Group's risk management policies are summarised in the Company's Regulations on Risk Management which are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The procedures carried out in relation to the Company's risk analysis include examination of the customers reliability, analysis of bank guarantees for prepayments given to suppliers, bank currency position analysis, sensitivity analysis of exchange and interest rates for borrowings, budget implementation analysis etc.

The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive internal control environment in which all employees understand their roles and obligations.

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

(i) Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Geographically credit risk is concentrated in the city of Moscow and Moscow Region as most of sales are made in this area. Creditworthiness of existing customers is periodically evaluated based on internal and external information regarding history of settlements with these customers. The Group constantly analyses accounts receivable turnover ratios, maturity dates and takes appropriate measures on collection of debts due. Approximately 90-95% of the customers are the clients of the Group for the period longer than 2-3 years.

There are standard contract terms for any customer purchasing energy under regulated contracts, the day-ahead market or the balancing market. Individual terms can be stipulated in free bilateral contracts for electricity (capacity). Special conditions are envisaged by the Russian legislation on Power industry for some heat consumers such as state companies, housing organisations and entities, which may not be limited or refused energy supply because it can lead to casualties or other harmful aftermath (hospitals, schools etc.). Currently no upper limits for debt due from a single customer are established. Gradually the Group plans to switch to 100% prepayment approach when the transitional period from regulated to free bilateral selling contracts will be completed.

In monitoring customer credit risk, customers are grouped according to the accounts receivable type and maturity dates. Accounts receivable are divided into five major groups, which are current, overdue, long-term, doubtful and irrecoverable accounts receivable. As early as an account receivable is classified as current measures are taken on collection of debt due, which include oral and written notices, instituting a claim, putting in a late payment penalty etc.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

(ii) Guarantees

The Group's policy does not stipulate providing any financial guarantees for customers.

(iii) Investments

The Group limits its exposure to credit risk by only investing in liquid securities and only with counterparties that have a credit rating of at least Baa 1 from Moody's and Aaa from Moody's, except for related parties. Given these high credit ratings, management does not expect any counterparty to fail to meet its obligations.

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's 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 liquidity risk management is performed on three different levels. Long-term policies are incorporated in the overall financial model of the Company. Middle-term monitoring is fulfilled during the quarterly and monthly planning of the Group's budgets. Short-term actions include planning and control of daily cash receipts and payments of the Company.

Liquidity management system includes also drawing up monthly, quarterly and yearly cash budgets, comparing actual amounts to planned and explaining any discrepancies found.

(d) Market risk

(in millions of Russian Roubles)

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

(i) Currency risk

The Group is exposed to currency risk on purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities. The currencies in which these transactions primarily are denominated are Euro, USD and Swiss Francs (CHF).

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

The Group's policy in respect of mitigating currency risk includes minimising share of borrowings in foreign currencies comparing to total credit portfolio, which is 50% at 31 March 2012 (at 31 December 2011: 37%, at 31 December 2010: 18%). To minimise currency risk the Group prepares budgets taking into account possible changes in exchange rates, creates special reserves to cover contingent expenses and losses. Currently the Group considers the possibility of hedging currency risks by means of corresponding derivatives in the future.

(ii) Interest rate risk

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. 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 favorable to the Group over the expected period until maturity.

The Group constantly analyses dynamics of variable interest rates. To minimise interest rate risk the Group prepares budgets taking into account possible changes of interest rates creates special reserves to cover contingent expenses and losses. Currently the Group considers the possibility of hedging currency risks using corresponding derivatives in the future.

(e) Capital management

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 Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Group defines as net operating profit divided by total shareholders' equity. The Board of Directors also monitors the level of dividends to ordinary shareholders.

There were no changes in the Group's approach to capital management during the year.

Consistent with other companies of the industry, the Group monitors capital on the basis of the gearing ratio. The ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings, as shown in the consolidated statement of financial position, less cash. Total capital is calculated as equity, as shown in the consolidated statement of financial position, plus the net debt.

The gearing ratios at 31 March 2012, at 31 December 2011 and at 31 December 2010 were as follows:

	31 March 2012	**31 December 2011**	**31 December 2010**
Cash and cash equivalents (Note 13)	19,658	25,572	28,334
Borrowings (Note 15)	(10,904)	(15,577)	(17,540)
Net cash	8,754	9,995	10,794
Equity	(205,335)	(200,033)	(192,074)
Total capital	**(196,581)**	**(190,038)**	**(181,280)**
Gearing ratio	**-**	**-**	**-**

(in millions of Russian Roubles)

(i) Loans' covenants

In accordance with loan facilities the Group maintains an optimal capital structure by tracking certain requirements:

- the maximum level of Net financial Debt/EBITDA;
- minimum level of EBITDA/Interest expense, and
- minimum level of own paid tangible assets.

These ratios are included as covenants into loan agreements (see Note 15). The Group is in compliance with externally imposed capital requirements.

(ii) Legislation requirements

The Group is subject to the following externally imposed capital requirements that have been established for joint stock companies by the legislation of Russian Federation:

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

At 31 March 2012, the Group was in compliance with the above share capital requirements.

Note 6. Related party transactions

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions during the three months ended 31 March 2012, and three months ended 31 March 2011, or had significant balances outstanding at 31 March 2012, at 31 December 2011 and at 31 December 2010 are detailed below. OJSC "Gazprom" is an ultimate Parent Company of OJSC "Mosenergo" during the current and prior reporting periods. The Russian Federation is the ultimate controlling party of the Group during the current and prior reporting periods.

(a) Transactions with Gazprom Group and its associates
Company has the following turnover and balances outstanding with Gazprom Group and its associates.

Revenue

	Thtree months ended 31 March 2012	**Thtree months ended 31 March 2011**
Heat	191	34
Electricity	104	86
Other revenue	10	3
Total	**305**	**123**

Expenses

	Thtree months ended 31 March 2012	**Thtree months ended 31 March 2011**
Fuel expenses	(25,844)	(26,371)
Security services	(1)	(2)
Other operating expenses	(25)	(73)
Total	**(25,871)**	**(26,446)**

Other operating expenses for the three months ended 31 March 2012 are from OJSC "Neftyanoi dom", associate of OJSC "Gazprom", in the amount of RR 22 million (for the three months ended 31 March 2011: RR 60 million).

Financial income and expenses

(in millions of Russian Roubles)

	Thtree months ended 31 March 2012	Thtree months ended 31 March 2011
Financial income	106	66
Net financial income	**106**	**66**

Financial income for the three months ended 31 March 2012 and for the three months ended 31 March 2011 are from OJSC "Gazprombank", associate of OJSC "Gazprom".

Outstanding balance

	Outstanding balance at 31 March 2012	Outstanding balance at 31 December 2011	Outstanding balance at 31 December 2010
Cash and cash equivalents	1,919	9,547	8,478
Trade and other receivables	80	269	95
Total assets	**1,999**	**9,816**	**8,573**
Trade and other payables	(2,023)	(810)	(2,618)
Total liabilities	**(2,023)**	**(810)**	**(2,618)**

Trade and other receivables include an outstanding balance with OJSC "Gazprombank" and OJSC "Neftyanoi dom", associate of OJSC "Gazprom", in the amount of RR 7 million and RR 0 million, respectevly, at 31 March 2012 (at 31 December 2011: RR 96 million and RR 0 million, respectevly, at 31 December 2010: RR 50 million and RR 0 million, respectively).

Cash and cash equivalents for the three months ended 31 March 2012, for the year ended 31 December 2011 and for the year 31 December 2010 are from OJSC "Gazprombank", associate of OJSC "Gazprom".

Trade and other payables include an outstanding balance with LLC "Gazprom mezhregiongaz Moskva" and LLC "Gazpromneft Centr", associate of OJSC "Gazprom", in the amount of RR 1,989 million and RR 0 million, respectively, at 31 March 2012 (at 31 December 2011: RR 735 million, and RR 0 million, respectively, at 31 December 2010: RR 2,484 million and RR 0 million, respectively).

(b) Transactions with key management

Key management personnel (the members of the Board of Directors and Management Committee of the Group) received the following remuneration, which is included in personnel expenses:

Expenses

	Thtree months ended 31 March 2012	Thtree months ended 31 March 2011
Wages and salaries	25	23
Social taxes and contributions	3	1
Termination benefits	1	-
Total	**29**	**24**

Outstanding balance

	Outstanding balance at 31 March 2012	Outstanding balance at 31 December 2011
Wages and salaries	1	-
Total	**1**	**-**

(c) Transactions with other state-controlled entities

(in millions of Russian Roubles)

Information below excludes transactions and outstanding balances with Gazprom Group and its associates as disclosed in Note 6(a).

In the normal course of business the Group enters into transactions with other entities under control of government of the Russian Federation.

Revenue

	Thtree months ended 31 March 2012	**Thtree months ended 31 March 2011**
Heat	24,798	27,055
Electricity	20,565	25,145
Other revenue	429	454
Total	**45,792**	**52,655**

Expenses

	Thtree months ended 31 March 2012	**Thtree months ended 31 March 2011**
Heat transmission	(11,809)	(12,262)
Purchased heat and electricity	(3,305)	(3,174)
Electricity market administration fees	(296)	(287)
Water usage expenses	(269)	(245)
Fuel expenses	(58)	(62)
Security services	(38)	(83)
Fire prevention services	(6)	(17)
Other operating expenses	(221)	(146)
Total	**(15,988)**	**(16,276)**

Financial income and expenses

	Thtree months ended 31 March 2012	**Thtree months ended 31 March 2011**
Financial income	181	84
Net financial income	**181**	**84**

Outstanding balance

	Outstanding balance at 31 March 2012	**Outstanding balance at 31 December 2011**	**Outstanding balance at 31 December 2010**
Trade and other receivables	24,195	20,031	15,321
Cash and cash equivalents	5,557	14,206	13,261
Other current assets	523	523	523
Total assets	**30,275**	**34,760**	**29,105**
Trade and other payables	(7,835)	(8,341)	(7,278)
Total liabilities	**(7,835)**	**(8,341)**	**(7,278)**

(in millions of Russian Roubles)

Note 7. Property, plant and equipment

Appraised value

	Buildings and constructions	Plant and equipment	Transmission networks	Other	Construction in progress	Total
Balance at 1 January 2011	**100,453**	**65,784**	**10,894**	**5,107**	**20,925**	**203,163**
Additions	8	-	-	10	1,212	1,230
Disposals	(58)	(1)	(3)	(19)	(1)	(82)
Transfers	726	199	12	26	(963)	-
Elimination of accumulated depreciation on property, plant and equipment transferred to assets classified as held for sale	(25)	-	-	-	-	(25)
Transfer to assets classified as held for sale	(214)	-	-	-	-	(214)
Balance at 31 March 2011	**100,890**	**65,982**	**10,903**	**5,124**	**21,173**	**204,072**
Balance at 1 January 2012	**104,368**	**74,511**	**11,100**	**6,891**	**27,144**	**224,014**
Additions	-	-	-	-	1,307	1,307
Disposals	(16)	(11)	(5)	(11)	-	(43)
Transfers	95	451	1	96	(643)	-
Elimination of accumulatid depreciation on property, plant and equipment transferred to assets classified as held for sale	(3)	-	-	-	-	(3)
Transfer to assets classified as held for sale	(49)	-	-	-	-	(49)
Balance at 31 March 2012	**104,395**	**74,951**	**11,096**	**6,976**	**27,808**	**225,226**

Accumulated depreciation (including impairment)

	Buildings and constructions	Plant and equipment	Transmission networks	Other	Construction in progress	Total
Balance at 1 January 2011	**(12,423)**	**(7,609)**	**(2,518)**	**(2,136)**	**(253)**	**(24,939)**
Depreciation charge	(1,496)	(951)	(325)	(185)	-	(2,957)
Disposals	13	1	1	5	-	20
Elimination of accumulated depreciation on property, plant and equipment transferred to assets classified as held for sale	25	-	-	-	-	25
Impairment loss	(1)	-	-	-	-	(1)
Balance at 31 March 2011	**(13,882)**	**(8,559)**	**(2,842)**	**(2,316)**	**(253)**	**(27,852)**
Balance at 1 January 2012	**(19,489)**	**(11,983)**	**(3,863)**	**(3,131)**	**(253)**	**(38,719)**
Depreciation charge	(1,570)	(1,121)	(337)	(297)	-	(3,325)
Disposals	9	5	3	7	-	24
Elimination of accumulated depreciation on property, plant and equipment transferred to assets classified as held for sale	3	-	-	-	-	3
Balance at 31 March 2012	**(21,047)**	**(13,099)**	**(4,197)**	**(3,421)**	**(253)**	**(42,017)**

(in millions of Russian Roubles)

Net book value

	Buildings and constructions	Plant and equipment	Transmission networks	Other	Construction in progress	Total
At 1 January 2011	88,030	58,175	8,376	2,971	20,672	**178,224**
At 1 March 2011	87,008	57,423	8,061	2,808	20,920	**176,220**
At 1 January 2012	84,879	62,528	7,237	3,760	26,891	**185,295**
At 1 March 2012	83,348	61,852	6,899	3,555	27,555	**183,209**

Net book value had no revaluation taken place

	Buildings and constructions	Plant and equipment	Transmission networks	Other	Construction in progress	Total
At 1 January 2011	33,370	37,862	1,961	2,561	15,692	**91,446**
At 1 March 2011	33,285	37,234	1,889	2,356	16,059	**90,823**
At 1 January 2012	35,975	43,281	1,894	3,402	21,979	**106,531**
At 1 March 2012	34,444	42,932	1,806	3,233	22,643	**105,058**

Borrowing costs of RR 249 million and RR 396 million for the three months ended 31 March 2012 and 31 March 2011, respectively, are capitalised in additions above. Capitalisation rates of 2.28% and 2.25% for the three months ended 31 March 2012 and 31 March 2011, were used to determine the amount of borrowing costs eligible for capitalization. The capitalization rate represented the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period.

There were no properties pledged as security for Company's bank loans at 31 March 2012, at 31 December 2011 and at 31 December 2010.

(a) Revaluation

The Group changed its accounting policy in respect of property, plant and equipment measurement from cost model to revaluation model starting from 1 January 2007 in order to provide users of the financial statements with more reliable information about the value of the Group’s property, plant and equipment.

The appraised value of property, plant and equipment presented above was estimated as fair value by independent appraiser at 31 December 2008.

In 2011 the Group determined that the carrying amount of property, plant and equipment does not differ materially from that which would be determined using fair value at the end of reporting period and, therefore, revaluation was not performed at 31 December 2011.

(b) Impairment

The Group assessed at 31 December 2011 whether there were any indicators that the Group assets may be impaired. During the procedure both external and internal indications were considered that could require the Group to estimate the recoverable amount of the assets.

The Company assessed the indicators of the assets impairment and concluded that significant changes with adverse effect did not take place in the period on the entity in the technological, market, economic or legal environment in which the entity operates as well as in the segment to which assets are dedicated. Additionally, there is strong evidence of an absence of physical obsolescence and damage of particular assets, as well as the worsening of economic performance of assets. Therefore impairment test was not performed at 31 December 2011.

(c) Leased assets

The Group leases production plant and equipment under a number of finance lease agreements. All leases provide the Group with the option to purchase the buildings and equipment at a beneficial price. The leased plant and equipment secures lease obligations (see Note 30). At 31 March 2012 the net carrying amount of leased plant and equipment was 219 RR million (at 31 December 2011: RR 230 million, at 31 December 2010: RR 300 million).

(in millions of Russian Roubles)

Note 8. Investment property

	2012	2011
Balance at 1 January	**792**	**898**
Balance at 31 March	**792**	**898**

The fair value of the Group's investment property at 31 March 2012 was determined to be RR 792 million (at 31 December 2011: RR 792 million, at 31 December 2010: RR 898 million) and based on the market trends for the three months 2012 (at 31 December 2011: on trends for the year 2011, at 31 December 2010: on trends for the year 2010).

Rental income for three months ended 31 March 2012 and for hree months ended 31 March 2011 amounted to RR 25 million and RR 24 million, respectively, was recognised in the consolidated interim statement of comprehensive income in other revenue.

Where the Group is the lessor, the future minimum lease payments receivable under non-cancellable operating leases are as follows:

	31 March 2012	31 December 2011	31 December 2010
Less than one year	112	108	118
Between one and five years	-	-	-
More than five years	-	-	-
Total	**112**	**108**	**118**

Note 9. Disposal group classified as held for sale

(a) Assets classified as held for sale

	31 March 2012	31 December 2011	31 December 2010
Property, plant and equipment	1,709	1,700	463
Investment property	42	42	291
Total	**1,751**	**1,742**	**754**

(b) Liabilities classified as held for sale

	31 March 2012	31 December 2011	31 December 2010
Deferred tax liabilities	297	301	117
Total	**297**	**301**	**117**

During the three months ended 31 March 2012 the Group was in the process of disposing non-core assets which led to transfers to assets classified as held for sale from property, plant and equipment assets in amount of RR 49 million and from investment property in amount of RR 0 million (for the year ended 31 December 2011: RR 1,776 million and RR 45 million, respectively).

At 31 March 2012 the Company keep on possessing assets for disposals in amount RR 1,751 million and corresponding to them liabilities in amount of RR 297 million (at 31 December 2011: RR 1,742 million and RR 301 million, respectively, at 31 December 2010: RR 754 million and RR 117 million, respectively). The Company envisages selling its real estate portfolio listed above during 2012.

(in millions of Russian Roubles)

Note 10. Inventories

	31 March 2012	31 December 2011	31 December 2010
Fuel	3,797	4,994	4,528
Raw materials and consumables	1,834	1,847	1,847
Other inventories	100	39	63
Total	**5,731**	**6,880**	**6,438**

Raw materials and consumables are stated net of a provision for obsolete inventory amounted to RR 9 million, RR 9 million and RR 12 million at 31 March 2011, at 31 December 2011 and at 31 December 2010, respectively. The write-downs and reversals are included in other materials expenses.

Inventories held by the Company are not subject to any retention of title clauses.

Note 11. Trade and other receivables

	31 March 2012	31 December 2011	31 December 2010
Trade receivables	26,961	21,380	15,860
Other receivables	4,161	4,021	3,026
Financial assets	**31,122**	**25,401**	**18,886**
Advances to suppliers and prepaid expenses	1,000	931	565
VAT recoverable	246	235	1,194
Taxes other than income tax prepaid	36	115	39
Other receivables	697	470	446
Total	**33,101**	**27,152**	**21,130**
Current assets	31,892	27,147	21,115
Non-current assets	1,209	5	15
Total	**33,101**	**27,152**	**21,130**

Trade receivables balances are recorded net of provision for impairment in amount of RR 3,066 million, RR 2,516 million and RR 1,241 million at 31 March 2012, at 31 December 2011 and at 31 December 2010, respectively.

Other receivables balances are recorded net of provision for impairment in amount of RR 209 million, RR 211 million and RR 193 million at 31 March 2012, at 31 December 2011 and at 31 December 2010, respectively.

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables is disclosed in Note 29.

Note 12. Other assets

	31 March 2012	31 December 2011	31 December 2010
Other non-current assets			
Intangible assets	865	503	432
Other investments	277	9	13
Investments in equity accounted investees	-	-	5
Other assets	2,256	1,722	715
Total	**3,398**	**2,234**	**1,165**

	31 March 2012	31 December 2011	31 December 2010
Other current assets			
Constructed assets financed by the government of Moscow city	523	523	523
Other assets	760	751	1,402
Total	**1,283**	**1,274**	**1,925**

(in millions of Russian Roubles)

Other assets include current and non-current input VAT from advances for acquisition of property, plant and equipment in total amount of RR 1,992 million, RR 1,477 million and RR 1,136 million at 31 March 2012, at 31 December 2011 and at 31 December 2010, respectively.

Intangible assets in amount of RR 381 million recognized as the at net present value of lease payments under two service concession agreements with MP “Khimkinskaya teploset” for a heating infrastructure located in Khimki, Moscow Region. The service agreements contractually oblige the Group to provide heating services on behalf of the public sector entity and operate and maintain that infrastructure for 49 years through current and capital repairs. At the end of the term of agreements the operator should return operational infrastructure to grantor in working order except depreciation. There is no construction service exchanging for financial assets or intangible assets in current period.

Other investments include interest-free promissory notes of CJSC “Alfa-Bank” in total amount of RR 268 million with a maturity of second falf of 2013.

Since June 2005 the Group was engaged in the construction of the power plant further to be jointly used by the Group and the government of Moscow city. Construction of the distribution unit is jointly financed and shall be distributed between the parties involved upon completion. Included in other payables and accrued expenses liability to the government of Moscow city amounted to RR 523 million.

Note 13. Cash and cash equivalents

	31 March 2012	31 December 2011	31 December 2010
Call deposits	19,414	23,526	24,529
Bank balances	244	2,046	3,805
Total	**19,658**	**25,572**	**28,334**

Call deposits are qualified as cash equivalents when it is original maturity is three month or less.

Information in respect of call deposits and applicable interest rates is as follows:

	31 March 2012		31 December 2011		31 December 2010	
Bank	**%**	**Balances**	**%**	**Balances**	**%**	**Balances**
OJSC “AB “Russia”	10.50	11,565	-	-	5.50	3,000
OJSC “Bank VTB”	7.40	5,557	7.78	14,205	3.72	13,260
OJSC “Gazprombank”	6.63	1,918	7.78	9,321	4.25	8,269
OJSC “Alfa Bank”	4.27	374	-	-	-	-
Total	-	**19,414**	-	**23,526**	-	**24,529**

Note 14. Equity

(a) Share capital and share premium

At 31 March 2012 the authorised share capital comprised 39,749,359,700 ordinary shares (at 31 December 2011: 39,749,359,700, at 31 December 2010: 39,749,359,700) of RR 1.00 par value each. All issued shares are fully paid.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. In respect of the Company’s shares that are held by the Group (see below), all rights are suspended until those shares are reissued.

Share premium amounted to RR 49,213 million represents excess of the cash proceeds from the issue of share capital over its par value net of the transaction costs amounted to RR 7 million.

(b) Treasury stock

The treasury stock at 31 March 2012, at 31 December 2011 and at 31 December 2010 amounted to RR 871 million.

No decisions regarding further operations with treasury stock were made by the Company’s management.

(in millions of Russian Roubles)

(c) Reserves

At 31 March 2012 reserves composed of the revaluation of available-for-sale financial assets in amount of RR 3 million (at 31 December 2011: RR 3 million, at 31 December 2010: RR 8 million, respectively) and the revaluation reserve relates to the revaluation of property, plant and equipment in amount of RR 83,834 million (for the result of financial year 2009: RR 83,834, for the result of financial year 2010: RR 84,903 million, respectively).

(d) Dividends

In June 2011 the general shareholders meeting made the decision to pay dividends for the result of financial year 2010. The amount of declared dividends on the issuer shares was RR 0.02 per share, total amount of dividends is RR 792 million (for the result of financial year 2009: RR 0.01262335 per share, total amount of dividends is RR 500 million).

The decision related to dividends distribution for fiscal year 2011 is scheduled at the general shareholders' meeting in 19 June 2012.

Note 15. Borrowings

The note provides information about the contractual terms of the Group's interest-bearing borrowings, which are measured at amortised cost.

	31 March 2012	31 December 2011	31 December 2010
Non-current borrowings			
Unsecured bond issues	5,000	5,000	9,783
Unsecured bank loans	4,896	5,223	2,781
Total	**9,896**	**10,223**	**12,564**
Current borrowings and current portion of non-current borrowings			
Current portion of unsecured bond issues	471	4,783	4,629
Current portion of unsecured bank loans	537	571	347
Total	**1,008**	**5,354**	**4,976**

(a) Terms and debt repayment schedule

Terms and conditions of outstanding liabilities are as follows:

	Currency	Nominal interest rate	Year of maturity	31 March 2012		31 December 2011		31 December 2010	
				Face value	Carrying amount	Face value	Carrying amount	Face value	Carrying amount
Unsecured bank loans				**5,720**	**5,433**	**6,087**	**5,794**	**3,282**	**3,128**
Credit Agricole CIB Deutschland	EURO	EURIBOR 6M+1.95%	2025	2,529	2,335	2,691	2,490	840	831
BNP Paribas	EURO	EURIBOR 6M+2%	2023	2,317	2,187	2,465	2,329	2,146	1,922
Credit Agricole CIB Deutschland	EURO	7.2%	2014	815	852	868	912	296	375
Credit Agricole CIB Deutschland	EURO	EURIBOR 6M+1%	2027	59	59	63	63	-	-
Unsecured bond				**5,471**	**5,471**	**9,783**	**9,783**	**14,412**	**14,412**
Unsecured bond issue № 3	Russian Roubles	10.25%	2014	5,000	5,000	5,000	5,000	5,000	5,000
Unsecured bond issue № 2	Russian Roubles	7.65%	2013	471	471	4,783	4,783	4,783	4,783
Unsecured bond issue № 1	Russian Roubles	12.50%	2011	-	-	-	-	4,629	4,629
Total				**11,191**	**10,904**	**15,870**	**15,577**	**17,694**	**17,540**

The unsecured bonds of the third issue are subject to early redemption in December 2012. Notwithstanding this event, management does not expect that the bondholders would call for early redemption of bonds and continues to classify the liability in amount of RR 5,000 million as non-current liabilities at 31 March 2012 and 31 December 2011.

(in millions of Russian Roubles)

Note 16. Employee benefits

The Group sponsors a post-employment and other long-term benefit program that covers the majority of the Company's employees. The plan principally consists of a defined contribution plan enabling employees to contribute a portion of their salary to the plan and equivalent portion of contribution from the Company. The plan is administrated by non-state pension fund.

To be entitled for participation in this defined contribution pension plan an employee should meet certain age and past service requirements. Maximum possible amount of employer's contribution is limited and depends on employee's position in the Company.

In addition to defined contribution pension plan the Company maintains several plans of a defined benefit nature which are provided in accordance with collective bargaining agreement and other documents. The main benefits provided under this agreement are lump sum upon retirement and material assistance.

A new collective bargaining agreement came into force since 1 January 2012. There were no significant changes in benefits provided via the agreement compared to the version effective in prior year.

During the course of 2008 - 2011 the Company implemented the restructuring programme which resulted in redundancies. Compensations for redundancies paid by the Company for the three months ended 31 March 2012 and for the three months ended 31 March 2011 amounted to RR 2 million and RR 4 million, respectively, were recognised in the consolidated statement of comprehensive income in personal expenses.

	31 March 2012	31 December 2011	31 December 2010
Present value of unfunded obligations	278	278	300
Recognised liability for defined benefit obligations	278	278	300
Unrecognised actuarial gains/(losses)	11	6	(19)
Unrecognised past service cost	(58)	(63)	(84)
Net liability recognised in the consolidated statement of financial position	**231**	**221**	**197**

(a) Movement in the present value of the defined benefit obligations

	2012	2011
Defined benefit obligations at 1 January	278	300
Interest on employee benefit obligations	5	6
Current service cost	2	2
Benefits paid	(1)	(1)
Actuarial gains	(6)	(9)
Defined benefit obligations at 31 March	**278**	**298**

(b) Expenses recognised in profit or loss

	Three months ended 31 March 2012	Three months ended 31 March 2011
Termination benefits	2	4
Interest on employee benefit obligations	5	6
Amortisation of past service cost	4	4
Current service cost	2	2
Total	**15**	**16**

(c) Actuarial assumptions

Principal actuarial assumptions (expressed as weighted averages) are as follows:

(i) Financial assumptions

	31 March 2012	31 December 2011
Discount rate	8.50%	8.50%
Inflation rate	6.00%	6.00%
Future salary increases	7.50%	7.50%
Future pension increases	6.00%	6.00%

(in millions of Russian Roubles)

(ii) Demographic assumptions

Withdrawal rates assumption is as follows*:* expected staff turnover rates vary depending on employee past service in range from 25% p.a. for employees with 1 year of past service to around 7% p.a. for those who have 20 or more years of service. Compared to previous period the changes in the assumption are insignificant.

Retirement ages assumption is as follows*:* average retirement ages are 62 years for men and 58 years for women. Very similar retirement ages were used in previous period.

Mortality table: Russian urban population mortality table 1986-87.

(d) Historical information

	31 March 2012	31 December 2011	31 December 2010	31 December 2009	31 December 2008
Present value of the defined benefit obligation	278	278	300	245	482
Deficit in the plan	**278**	**278**	**300**	**245**	**482**
Experience adjustments arising on plan liabilities	7	(10)	18	(3)	42

In 2012 the Company expects to contribute RR 40 million to its defined benefit plans.

Note 17. Trade and other payables

	31 March 2012	31 December 2011	31 December 2010
Trade payables	7,820	9,165	10,324
Other payables	3,120	4,717	2,417
Financial liabilities	**10,940**	**13,882**	**12,741**
Advances received	2,855	3,235	2,864
Other payable	3,444	2,566	940
Total	**17,239**	**19,683**	**16,545**
Current liabilities	16,675	18,936	15,599
Non-current liabilities	564	747	946
Total	**17,239**	**19,683**	**16,545**

Other payables as part of financial liabilities include:

- accounts payable for cession agreement to OJSC “MOEK” amounted to RR 1,591 million at 31 March 2012 (at 31 December 2011: RR 1,591 million, at 31 December 2010: RR 0 million).
- accounts payable for acquisition of property, plant and equipment amounted to RR 719 million at 31 March 2012 (at 31 December 2011: RR 2,468 million, at 31 December 2010: RR 1,691 million).

Other payables as part of non-financial liabilities include VAT on advances amounted to RR 1,974 million at 31 March 2012 (at 31 December 2011: RR 1,487 million, at 31 December 2010: RR 45 million). The Group’s exposure to currency and liquidity risks related to trade and other payables is disclosed in Note 29.

Note 18. Other taxes payable

	31 March 2012	31 December 2011	31 December 2010
VAT payable	1,347	279	1,588
Property tax payable	387	-	579
Social contributions payable	218	129	189
Other taxes payable	72	25	33
Total	**2,024**	**433**	**2,389**

(in millions of Russian Roubles)

Note 19. Provisions

	2012	2011
Balance at 1 January	93	71
Provisions made during the period	72	1
Provisions used during the period	(3)	(28)
Provisions recovered during the period	(2)	-
Balance at 31 March	**160**	**44**

The legal provision balance was made by the Company in amount of RR 160 million and RR 44 million at 31 March 2012 and at 31 March 2011, respectively. At 31 March 2012 the majority of this balance in amount of RR 140 million was made in respect of the claims from OJSC “MTK”.

Note 20. Revenue

	Three months ended 31 March 2012	Three months ended 31 March 2011
Heat	31,982	32,183
Electricity	25,365	27,457
Other revenue	679	615
Total	**58,026**	**60,255**

Other revenue relates to rent, water usage, repair and maintenance services provided by the Group.

Approximately 4% and 5% of sales of electricity for the three months ended 31 March 2012 and for the three months ended 31 March 2011, respectively, relates to resale of purchased electricity on wholesale market OREM.

Note 21. Cost of materials

	Three months ended 31 March 2012	Three months ended 31 March 2011
Fuel expenses	28,360	27,731
Purchased heat and electricity	3,308	3,193
Water usage expenses	270	245
Other materials expenses	84	222
Total	**32,022**	**31,391**

Electricity is purchased mainly on wholesale electricity market.

(in millions of Russian Roubles)

Note 22. Other external supplies

	Three months ended 31 March 2012	Three months ended 31 March 2011
Electricity market administration fees	296	287
Desalted water supply	290	-
Security services	122	97
Cetification and testing	73	2
Cleaning services	67	56
Transport services	51	40
Communication services	22	21
Fire prevention services	19	17
Health service executive	12	13
Other services	35	39
Total	**987**	**572**

Electricity market administration fees include payments to OJSC “Administrator torgovoi sistemy” and CJSC “Centr finansovyh raschetov” for arrangement of settlements between parties on electricity market and payments to JSC “SO UES” for regulation of generating assets operation of the Group.

Note 23. Personnel expenses

	Three months ended 31 March 2012	Three months ended 31 March 2011
Wages and salaries	1,666	1,593
Payroll tax	481	518
Voluntary medical insurance expenses	26	25
Catering	25	24
Personnel training expenses	21	10
Amortisation of past service cost	4	4
Termination benefits	2	4
Current service cost	2	2
Total	**2,227**	**2,180**

The Group average headcount totaled 7,712 and 8,516 at 31 March 2012 and at 31 March 2011, respectively.

Note 24. Other operating expenses

	Three months ended 31 March 2012	Three months ended 31 March 2011
Trade and other receivables impairment loss	548	302
Rent payments	182	152
Fines and penalties from business contracts	76	(20)
Legal, consulting and data processing services	71	141
Insurance expenses	56	66
Software expenses	28	27
Loss on disposal of property, plant and equipment	15	40
Environmental payments	12	9
Bank services	9	9
Other miscellaneous	43	42
Total	**1,040**	**768**

(in millions of Russian Roubles)

Note 25. Other operating income

	Three months ended 31 March 2012	Three months ended 31 March 2011
Subsidies on the difference in tariffs for sales to the urban population	297	285
Gain from disposal of assets classified as held for sale	21	1
Revaluation of assets classified as held for sale	1	7
Other miscellaneous	22	28
Total	**341**	**321**

Reimbursement from government of Moscow city represents cash paid to the Company to compensate the difference between tariffs set to the urban population and the tariffs of the Company.

Note 26. Financial income and expenses

	Three months ended 31 March 2012	Three months ended 31 March 2011
Financial income		
Foreign exchange gain	501	245
Interest income on bank deposits	331	223
Other interest income	57	19
Total	**889**	**487**
Financial expenses		
Interest expenses on borrowings	(249)	(396)
Foreign exchange loss	(109)	(212)
Lease expenses	(6)	(8)
Interest on employee benefit obligations	(5)	(6)
Other interest expenses	(53)	(10)
Total	**(422)**	**(632)**
Less capitalised interest expenses on borrowings related to qualifying assets (Note 7)	249	396
Net financial expenses recognised in profit or loss	**(173)**	**(236)**

	Three months ended 31 March 2012	Three months ended 31 March 2011
Interest income	388	242
Interest expenses	(59)	(18)
Net interest	**329**	**224**

Net interest result by categories of assets and liabilities

	Three months ended 31 March 2012	Three months ended 31 March 2011
Cash and cash equivalents	388	164
Investments	-	79
Liabilities carried at amortised cost	(59)	(19)
Total	**329**	**224**

(in millions of Russian Roubles)

Note 27. Income tax

(a) Income tax

The applicable tax rate of the Group is the income tax rate of 20% (for the three months ended 31 March 2011: 20%).

	Three months ended 31 March 2012	Three months ended 31 March 2011
Current tax expense		
Current period	(1,906)	(2,065)
Over provided in prior periods	57	-
Deferred tax expense		
Origination and reversal of temporary differences	451	160
Income tax expense	**(1,398)**	**(1,905)**

Reconciliation of effective tax rate is as follows:

	Three months ended 31 March 2012	Three months ended 31 March 2011
Profit before income tax	6,700	9,711
Income tax at applicable tax rate	(1,340)	(1,942)
Non-deductible / non-taxable items	(115)	37
Other	57	-
Income tax expense	**(1,398)**	**(1,905)**

(b) Tax effects of components of other comprehensive income

	Three months ended 31 March 2012			Three months ended 31 March 2011		
	Before tax	**Tax charge**	**After tax**	**Before tax**	**Tax charge**	**After tax**
Revaluation of available-for-sale financial assets	-	-	-	4	(2)	2
Impairment loss on property, plant and equipment	-	-	-	(1)	-	(1)
Total	**-**	**-**	**-**	**3**	**(2)**	**1**

(c) Deferred income tax

Recognised deferred tax assets and liabilities are as follows:

	Assets		Liabilities		Net	
	31 March 2012	**31 March 2011**	**31 March 2012**	**31 March 2011**	**31 March 2012**	**31 March 2011**
Property, plant and equipment	-	-	(25,196)	(24,082)	(25,196)	(24,082)
Assets classified as held for sale	-	-	(297)	(125)	(297)	(125)
Investment property	-	-	(46)	(55)	(46)	(55)
Trade and other receivables	-	-	(280)	(11)	(280)	(11)
Trade and other payables	79	99	-	-	79	99
Employee benefits	47	42	-	-	47	42
Provisions	32	8	-	-	32	8
Borrowings	-	-	(58)	(31)	(58)	(31)
Other current and non-current assets	-	-	(224)	(178)	(224)	(178)
Other	32	39	-	-	32	39
Total	**190**	**188**	**(26,101)**	**(24,482)**	**(25,911)**	**(24,294)**

(in millions of Russian Roubles)

Movements in deferred income tax during the three months ended 31 March 2011 and the three months ended 31 March 2012 are as follows:

	31 December 2010	**Recognised in income**	**Recognised in equity**	**Reclassification**	**31 March 2011**
Property, plant and equipment	(24,297)	186	-	29	(24,082)
Assets classified as held for sale	(117)	21	-	(29)	(125)
Investment property	(54)	(1)	-	-	(55)
Trade and other receivables	32	(43)	-	-	(11)
Trade and other payables	111	(12)	-	-	99
Employee benefits	40	2	-	-	42
Provisions	14	(6)	-	-	8
Borrowings	(31)	-	-	-	(31)
Other current and non-current assets	(186)	10	(2)	-	(178)
Other	36	3	-	-	39
Total	**(24,452)**	**160**	**(2)**	**-**	**(24,294)**

	31 December 2011	**Recognised in income**	**Recognised in equity**	**Reclassification**	**31 March 20112**
Property, plant and equipment	(25,448)	249	-	3	(25,196)
Assets classified as held for sale	(301)	7	-	(3)	(297)
Investment property	(45)	(1)	-	-	(46)
Trade and other receivables	(616)	336	-	-	(280)
Trade and other payables	154	(75)	-	-	79
Employee benefits	45	2	-	-	47
Provisions	18	14	-	-	32
Borrowings	(59)	1	-	-	(58)
Other current and non-current assets	(149)	(75)	-	-	(224)
Other	39	(7)	-	-	32
Total	**(26,362)**	**451**	**-**	**-**	**(25,911)**

Note 28. Earnings per share

The calculation of basic earnings per share was based on the profit attributable to ordinary shareholders and weighted average number of ordinary shares outstanding, calculated as follows:

	Year ended 31 March 2012	**Year ended 31 March 2011**
Issued shares	39,749,360	39,749,360
Effect of own shares held	(140,229)	(140,229)
Weighted average number of ordinary shares (thousands)	**39,609,131**	**39,609,131**

The following is a reconciliation of the profit attributable to ordinary shareholders:

	Three months ended 31 March 2012	**Three months ended 31 March 2011**
Weighted average number of ordinary shares issued (thousands)	39,609,131	39,609,131
Profit for the period	5,302	7,806
Profit per ordinary share (basic and diluted) (in Russian Roubles)	**0.13**	**0.20**

(in millions of Russian Roubles)

Note 29. Financial instruments

(a) Credit risk

(i) Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Carrying amount		
	31 March 2012	**31 December 2011**	**31 December 2010**
Loans and receivables	**31,122**	**25,401**	**18,886**
Trade and other receivables (Note 11)	31,122	25,401	18,886
Held-to-maturity investments	**268**	**-**	**-**
Other assets (Note 12)	268	-	-
Available-for-sale financial assets	**9**	**9**	**13**
Other assets (Note 12)	9	9	13
Cash and cash equivalents (Note 13)	**19,658**	**25,572**	**28,334**
Total financial assets	**51,057**	**50,982**	**47,233**

The maximum exposure to credit risk for receivables at the reporting date by type of sales was:

	Carrying amount		
	31 March 2012	**31 December 2011**	**31 December 2010**
Heat	20,031	14,760	11,408
Electricity	4,857	6,181	3,777
Other	6,234	4,460	3,701
Total	**31,122**	**25,401**	**18,886**

Debtors within two main classes of accounts receivable – electricity and heat – are quite homogenous regarding their credit quality and concentration of credit risk.

The account receivables of the Group are primarily comprised of a few, large, reputed customers who purchase electricity and heat. Historical data, including payment history during the recent credit crisis, would suggest that the risk of default from such customers is very low.

The most important customers of the Group, OJSC “MOEK” and CJSC “CFR”, accounts for RR 13,562 million and RR 2,640 million, respectively, for the trade receivables carrying amount at 31 March 2012 (at 31 December 2011: RR 10,684 million and RR 2,317 million, respectively, at 31 December 2010: RR 7,707 million and RR 3,556 million, respectively).

(ii) Impairment losses

The aging of trade and other receivables at the reporting date was:

	31 March 2012		**31 December 2011**		**31 December 2010**	
	Gross	**Impairment**	**Gross**	**Impairment**	**Gross**	**Impairment**
Not past due	13,314	-	16,185	-	11,086	-
Past due 0-30 days	15,051	-	6,399	-	4,870	-
Past due 31-120 days	551	-	776	-	935	-
Past due 121-365 days	1,232	-	1,850	-	1,743	-
More than one year	4,249	3,275	2,918	2,727	1,686	1,434
Total	**34,397**	**3,275**	**28,128**	**2,727**	**20,320**	**1,434**

(in millions of Russian Roubles)

The movement in the allowance for impairment in respect of trade and other receivables during the period was as follows:

	2012	2011
Balance at 1 January	**2,727**	**1,434**
Impairment loss recognised during the period	548	302
Allowance used during the period	-	(1)
Balance at 31 March	**3,275**	**1,735**

The impairment allowance at 31 March 2012 of RR 3,275 million (at 31 December 2011: RR 2,727 million, at 31 December 2010: RR 1,434 million) relates to the customers that were declared bankrupt or had significant liquidity problems during the reporting period.

Based on historic default rates, the Group believes that no impairment allowance is necessary in respect of trade and other receivables not past due or past due by up to 365 days; 87.65 percent of the balance (at 31 December 2011: 89.63 percent, at 31 December 2010: 91.70 percent), which includes the amount owed by the most significant customer of the Group (see above), relates to customers that have a good track record with the Group.

The allowance accounts in respect of trade and other receivables are used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amount is considered irrecoverable and written off against the financial asset directly.

(iii) Credit risk related to the Group's cash in banks and call deposits

All bank balances and call deposits are neither past due nor impaired. Analysis by credit quality of bank balances and call deposits are as follows:

Name of the bank	Rating agency	Rating	31 March 2012	Rating	31 December 2011	Rating	31 December 2010
OJSC "AB "Russia"	Moody's Interfax	A3.ru	11,806	A3.ru	154	Baa1.ru	3,084
OJSC Bank "VTB"	Fitch Ratings	AAA(rus)	5,557	AAA(rus)	14,205	AAA(rus)	13,260
OJSC "Gazprombank"	Standard & Poor's	ruAA+	1,919	ruAA+	9,546	ruAA	8,478
OJSC "Alfa-Bank"	Fitch Ratings	AA(rus)	374	AA(rus)	1,663	AA-(rus)	3,507
Other	-	-	2	-	4	-	5
Total			**19,658**		**25,572**		**28,334**

The Company pursues the policy of cooperation with a number of the top Russian banks, which is approved by the Board of Directors.

(b) Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments at 31 March 2012:

	Carrying amount	Contractual cash flows	0-6 moths	6-12 moths	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	Over 5 yrs
Non-derivative financial liabilities									
Unsecured bank loans	5,433	7,272	343	348	1,001	790	609	590	3,591
Unsecured bond issues	5,471	7,009	258	729	511	5,511	-	-	-
Trade and other payables	10,940	10,940	10,820	-	119	-	-	-	-
Total	**21,844**	**25,221**	**11,421**	**1,077**	**1,631**	**6,301**	**609**	**590**	**3,591**

The following are the contractual maturities of financial liabilities, including estimated interest payments at 31 December 2011:

(in millions of Russian Roubles)

	Carrying amount	Contractual cash flows	0-6 moths	6-12 moths	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	Over 5 yrs
Non-derivative financial liabilities									
Unsecured bank loans	5,794	7,611	372	366	1,047	828	635	615	3,748
Unsecured bond issues	9,783	11,498	5,220	256	511	5,511	-	-	-
Trade and other payables	13,882	13,882	13,779	-	103	-	-	-	-
Total	**29,459**	**32,991**	**19,371**	**622**	**1,661**	**6,339**	**635**	**615**	**3,748**

The following are the contractual maturities of financial liabilities, including estimated interest payments at 31 December 2010:

	Carrying amount	Contractual cash flows	0-6 moths	6-12 moths	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	Over 5 yrs
Non-derivative financial liabilities									
Unsecured bank loans	3,128	4,234	174	351	678	663	451	259	1,658
Unsecured bond issues	14,412	17,581	727	5,356	5,476	511	5,511	-	-
Trade and other payables	12,741	12,741	12,669	-	72	-	-	-	-
Total	**30,281**	**34,556**	**13,570**	**5,707**	**6,226**	**1,174**	**5,962**	**259**	**1,658**

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

(c) *Currency risk*

(i) Exposure to currency risk

	EURO-denominated		
	31 March 2012	**31 December 2011**	**31 December 2010**
Unsecured bank loans	(5,433)	(5,794)	(3,128)
Gross balance sheet exposure	**(5,433)**	**(5,794)**	**(3,128)**
Estimated forecasted interest expenses	(173)	(119)	(73)
Gross exposure	**(173)**	**(119)**	**(73)**
Net exposure	**(5,606)**	**(5,913)**	**(3,201)**

The following significant exchange rates applied during the period:

	Average rate			**Reporting date spot rate**		
	31 March 2012	**31 December 2011**	**31 December 2010**	**31 March 2012**	**31 December 2011**	**31 December 2010**
EURO 1	39.5782	40.8848	40.2980	39.1707	41.6714	40.3331

(ii) Sensitivity analysis

A 3% strengthening of the RR against EUR at 31 March 2012 would have increased equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 31 December 2011 and 31 December 2010.

	31 March 2012	**31 December 2011**	**31 December 2010**
EURO	179	189	102

A 3% weakening of the RR against the EUR at 31 March 2012 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

The actual decrease in the average exchange rates for the period ended 31 March 2012 was approximately 3% for the EURO (at 31 December 2011: 1%, at 31 December 2010: (9%)), although the difference between the two actual extremes in the reported period was approximately 6% (at 31 December 2011: 11%, at 31 December 2010: 16%).

(in millions of Russian Roubles)

(d) Interest rate risk

(i) *Profile*

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

	Carrying amount		
	31 March 2012	**31 December 2011**	**31 December 2010**
Fixed rate instruments			
Financial assets (Note 10, 11, 12, 13)	51,057	50,982	47,233
Financial liabilities (Note 15,17)	(17,263)	(24,577)	(27,528)
Total	**33,794**	**26,405**	**19,705**
Variable rate instruments			
Financial liabilities (Note 15)	(4,581)	(4,882)	(2,753)
Total	**(4,581)**	**(4,882)**	**(2,753)**

(ii) Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss.

(iii) Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 31 March 2012, 31 December 2011 and 31 December 2010.

	31 March 2012		**31 December 2011**		**31 December 2010**	
	100 bp increase	**100 bp decrease**	**100 bp increase**	**100 bp decrease**	**100 bp increase**	**100 bp decrease**
Variable rate instruments	(14.1)	14.1	(35.0)	35.0	(30.2)	30.2
Cash flow sensitivity (net)	**(14.1)**	**14.1**	**(35.0)**	**35.0**	**(30.2)**	**30.2**

(e) Fair values

The management believes that the fair value of the Group's financial assets and liabilities approximates their carrying amounts:

	31 March 2012		**31 December 2011**		**31 December 2010**	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Cash and cash equivalents (Note 13)	19,658	19,658	25,572	25,572	28,334	28,334
Trade and other receivables (Note 11)	31,122	31,122	25,401	25,401	18,886	18,886
Other investments (Note 12)	277	277	9	9	13	13
Trade and other payables (Note 17)	(10,940)	(10,940)	(13,882)	(13,882)	(12,741)	(12,741)
Unsecured bond issues (Note 15)	(5,471)	(5,542)	(9,783)	(9,946)	(14,412)	(14,951)
Unsecured bank loans (Note 15)	(5,433)	(5,433)	(5,794)	(5,794)	(3,128)	(3,128)

The basis for determining fair values is disclosed in Note 4.

Note 30. Leases

(a) Operating leases

(in millions of Russian Roubles)

Operating leases refer mainly to long-term rental agreements for land rent where generation facilities of the Group are located. The leases typically run for periods from 5 to 45 years with an option to renew the lease. During the three months ended 31 March 2012 and the three months ended 31 March 2011 operating lease expenses in amount of RR 182 million and RR 152 million, respectively, were recognised in the consolidated interim statement of comprehensive income.

Non-cancellable operating lease rentals are payable as follows:

	31 March 2012	**31 December 2011**
Less than one year	471	399
Between one and five years	1,890	1,596
More than five years	11,657	9,296
Total	**14,018**	**11,291**

(b) Finance leases

Finance lease rentals are payable as follows (see Note 7):

	31 March 2012			**31 December 2011**			**31 December 2010**		
	Future minimum lease payments	**Interest**	**Present value of minimum lease payments**	**Future minimum lease payments**	**Interest**	**Present value of minimum lease payments**	**Future minimum lease payments**	**Interest**	**Present value of minimum lease payments**
Less than one year	16	7	9	11	2	9	127	25	102
Between one and five years	3	-	3	6	1	5	24	5	19
More than five years	-	-	-	-	-	-	-	-	-
Total	**19**	**7**	**12**	**17**	**3**	**14**	**151**	**30**	**121**

Note 31. Commitments and contingencies

(a) Capital commitments

At 31 March 2012 the Group was involved in a number of contracts for construction and purchase of property, plant and equipment for RR 28,346 million (at 31 December 2011: RR 23,525 million, at 31 December 2010: RR 13,376 million). The amount includes Capacity Supply Contracts capital commitments for the amount RR 24,243 million (at 31 December 2011: RR 16,694 million, at 31 December 2010: RR 6,483 million).

(b) Taxation environment

The taxation systems in the Russian Federation are relatively new and are characterised by numerous taxes and frequently changing legislation, which is often unclear, contradictory, and subject to interpretation. Often, differing interpretations exist among different tax authorities within the same jurisdictions and among taxing authorities in different jurisdictions. Taxes are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and interest charges. In the Russian Federation a tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

(c) Environmental liabilities

Environmental regulations are currently in the process of development in the Russian Federation. Group evaluates on a regular basis its obligations due to new and amended legislation. As liabilities in respect of environmental obligations can be measured, they are immediately recognised in profit or loss. Currently the likelihood and amount of potential environmental liabilities cannot be estimated reliably but could be material. However, management believes that under existing legislation there are no significant unrecorded liabilities or contingencies, which could have a materially adverse effect on the operating results or financial position of the Group.

(in millions of Russian Roubles)

(d) Insurance

The insurance industry in the Russian Federation is in a developing stage and many forms of insurance protection common in other parts of the world are not generally available. Management believes that the Group has adequate property damage coverage for its main production assets. The Group does not have full coverage for business interruption and third party liability. Until the Group obtains adequate insurance coverage, there is a risk that the loss from business interruption and third party 0liability could have a material adverse effect on the Group's operations and financial position.

(e) Guarantees

The Group has issued direct guarantees to third parties which require the Group to make contingent payments based on the occurrence of certain events consisting primarily of guarantees for mortgages of Group employees amounted to RR 122 million at 31 March 2012 (at 31 December 2011: RR 150 million, at 31 December 2010: RR 208 million).

Note 32. Operating segments

The chief operating decision-maker has been identified as the Board of Directors and Chief Executive Officer. The decision-maker reviews the Group's internal reporting in order to assess performance and allocate resources. The Group has determined the operating segments based on these reports to be individual power generating units.

The decision-maker assesses the operating performance of these individual power generating units based on their gross margin which is calculated as revenue less directly attributable costs. Interest income and expenditure are not allocated to this measure as these are central costs of the Group. Other information provided to the decision-maker is measured in a manner consistent with that in the financial statements.

The operating segments are aggregated into two primary reporting segments; electricity and heat. Despite of the fact that there are modernised and unmodernised power generating units amongst operating segments which show significantly different gross margins, this aggregation is premised on the identical nature of their products, production process, the class of customers, the methods used to distribute their products and the nature of the regulatory environment. This aggregation results from the similar economic characteristics, over the long run, of these two distinct outputs.

Other services and products sold by the Group mainly include rent services, feed water sales, agricultural products, and maintenance services. These are not included within the reportable operating segments. The results of these operations are included in the "all other segments" column.

Taxes balances and available-for-sale financial assets are not considered to be segment assets but rather are managed by the central function. These are part of the reconciliation to total consolidated statement of financial position assets.

(a) Segment information

The segment information for the three months ended 31 March 2012 and 31 March 2012 is as follows:

	Note	Heat	Electricity	All other segments	Total
Revenue from external customers	**20**	**31,982**	**25,365**	**679**	**58,026**
Expenses:					
Fuel and water usage expenses	21	-	(28,630)	-	(28,630)
Heat transmission		(11,809)	-	-	(11,809)
Purchased electricity	21	-	(2,948)	-	(2,948)
Purchased heat	21	(360)	-	-	(360)
Gross margin		**19,813**	**(6,213)**	**679**	**14,279**
Segment assets		**42,099**	**203,047**	**17,003**	**262,149**

The segment information for the three months ended 31 March 2011 and 31 December 2011 is as follows:

(in millions of Russian Roubles)

	Note	Heat	Electricity	All other segments	Total
Revenue from external customers	**20**	**32,183**	**27,457**	**615**	**60,255**
Expenses:					
Fuel and water usage expenses	21	-	(27,976)	-	(27,976)
Heat transmission		(12,262)	-	-	(12,262)
Purchased electricity	21	-	(2,808)	-	(2,808)
Purchased heat	21	(385)	-	-	(385)
Gross margin		**19,536**	**(3,327)**	**615**	**16,824**
Segment assets		**36,827**	**208,984**	**16,483**	**262,294**

The segment assets include impairment loss recognised for property, plant and equipment for the three months ended 31 March 2012 in total amount RR 0 million (at 31 December 2011: RR 1,343 million which was allocated to electricity segment).

A reconciliation of adjusted gross margin to profit before tax provided as follows:

	Note	Three months ended 31 March 2012	Three months ended 31 March 2011
Gross margin for reportable segments		13,600	16,209
Other segments gross margin		679	615
Other operating income	25	341	321
Financial income	26	889	487
Depreciation of property, plant and equipment	7	(3,325)	(2,957)
Personnel expenses	23	(2,227)	(2,180)
Other operating expenses	24	(1,040)	(768)
Other external supplies	22	(987)	(572)
Taxes other than income tax		(515)	(639)
Maintenance and repairs expenses		(458)	(347)
Financial expenses	26	(173)	(236)
Other materials expenses	21	(84)	(222)
Profit before income tax		**6,700**	**9,711**

(b) Reportable segments' assets

The amounts provided to the decision makers with respect to total assets are measured in a manner consistent with that of the financial statements. These assets are allocated based on the operations of the segment and the physical location of the asset.

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

	Note	31 March 2012	31 December 2011
Segment assets		262,149	262,294
Unallocated:			
Taxes other than income tax prepaid	11	36	115
Income tax receivables		9	3
Other investments	12	277	9
Total assets per consolidated interim statement of financial position		**262,471**	**262,421**

(c) Information about major customers

During the three months ended 31 March 2012 there were certain external customers, revenues from transactions with whom exceeded 10% of the Group's revenues:

- Revenue from OJSC "MOEK" amounted to RR 19,942 million. The revenue was obtained from sales of heat relating to heat segment.
- Revenue from CJSC "ZFR" amounted to RR 15,800 million. The revenue was obtained from sales of electricity and capacity relating to electricity segment.

- Revenue from OJSC "Mosenergosbyt" amounted to RR 4,141 million. The revenue was obtained from sales of electricity and capacity relating to electricity segment.

During the three month ended 31 March 2011 there were certain external customers, revenues from transactions with whom exceeded 10% of the Group's revenues:

- Revenue from OJSC "MOEK" amounted to RR 20,535 million. The revenue was obtained from sales of heat relating to heat segment.
- Revenue from CJSC "ZFR" amounted to RR 18,634 million. The revenue was obtained from sales of electricity and capacity relating to electricity segment.
- Revenue from OJSC "Mosenergosbyt" amounted to RR 4,387 million. The revenue was obtained from sales of electricity and capacity relating to electricity segment.