

**OGK-2 GROUP
CONSOLIDATED FINANCIAL STATEMENTS
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)
FOR THE YEAR ENDED 31 DECEMBER 2011**



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Independent Auditors' Report

To the Board of Directors of Open Joint Stock Company "The Second Generating Company of the Wholesale Electric Power Market" (OJSC "OGK-2").

We have audited the accompanying consolidated financial statements of OJSC "OGK-2" (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2011, the consolidated income statement and consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO KPMG

ZAO KPMG

25 April 2012

OGK-2 Group
Consolidated Statement of Financial Position as at 31 December 2011
(in thousands of Russian Roubles)

	Notes	31 December 2011	31 December 2010 (Restated)
ASSETS			
Non-current assets			
Property, plant and equipment	6	106,497,335	92,102,951
Intangible assets	7	1,297,359	1,578,057
Other non-current assets	8	3,211,158	3,211,345
Total non-current assets		111,005,852	96,892,353
Current assets			
Cash and cash equivalents	9	359,116	5,362,378
Trade and other receivables	10	13,585,399	9,396,684
Inventories	11	6,158,002	5,932,819
Current income tax prepayments		894,405	34,794
Other current assets	12	-	34,201
Total current assets		20,996,922	20,760,876
TOTAL ASSETS		132,002,774	117,653,229
EQUITY AND LIABILITIES			
Equity			
Share capital	13		
Ordinary shares		21,518,239	11,872,828
Treasury shares		(4,058,238)	(12,037)
Share premium		23,916,508	23,916,508
Retained earnings		41,097,814	51,121,762
Total equity		82,474,323	86,899,061
Non-current liabilities			
Deferred income tax liabilities	14	6,234,194	4,908,984
Non-current debt	15	27,168,240	15,134,527
Retirement benefit obligations	20	1,682,222	1,530,399
Restoration provision	21	521,670	518,038
Other long-term liabilities	16	241,261	602,925
Total non-current liabilities		35,847,587	22,694,873
Current liabilities			
Current debt and current portion of non-current debt	17	5,601,708	10,290
Trade and other payables	18	7,431,510	6,958,994
Other taxes payable	19	597,478	583,660
Current income tax payable		-	457,611
Restoration provision	21	50,168	48,740
Total current liabilities		13,680,864	8,059,295
Total liabilities		49,528,451	30,754,168
TOTAL EQUITY AND LIABILITIES		132,002,774	117,653,229

General Director



A.A. Mityushov

Chief Accountant

B.Z. Dolgoarshinnih

20 April 2012

OGK-2 Group**Consolidated Income Statement for the year ended 31 December 2011**

(in thousands of Russian Roubles, except for earning per ordinary share information)

	Notes	Year ended 31 December 2011	Year ended 31 December 2010 (Restated)
Revenues	22	104,895,639	96,462,808
Operating expenses	23	(102,366,383)	(89,136,835)
Other operating items		(311,344)	33,119
Operating profit		2,217,912	7,359,092
Finance income	24	138,849	657,079
Finance costs	25	(1,934,398)	(1,603,708)
Profit before income tax		422,363	6,412,463
Income tax charge	14	(412,213)	(1,742,273)
Profit for the year		10,150	4,670,190
Attributable to:			
Shareholders of OJSC OGK-2		10,150	4,670,190
Earning per ordinary share for profit attributable to the shareholders of OJSC OGK-2 – basic and diluted (in Russian Roubles)	26	0.0002	0.0787

The consolidated income statement is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 45

OGK-2 Group**Consolidated Statement of Comprehensive Income for the year ended 31 December 2011**

(in thousands of Russian Roubles)

	Notes	Year ended 31 December 2011	Year ended 31 December 2010 (Restated)
Profit for the year		10,150	4,670,190
Net change in fair value of available-for-sale investments (net of income tax)	13	(48,781)	41,030
Total comprehensive (expense) / income for the year		(38,631)	4,711,220
Attributable to:			
Shareholders of OJSC OGK-2		(38,631)	4,711,220

The consolidated statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 45

OGK-2 Group
Consolidated Statement of Cash Flows for the year ended 31 December 2011
(in thousands of Russian Roubles)

	Notes	Year ended 31 December 2011	Year ended 31 December 2010 (Restated)
CASH FLOW FROM OPERATING ACTIVITIES:			
Profit before income tax		422,363	6,412,463
Adjustments to reconcile profit before income tax to net cash provided by operations:			
Depreciation of property, plant and equipment	6	3,610,463	3,116,202
Charge / (reversal) of property, plant and equipment impairment	6	7,208	(4,615)
Amortisation of intangible assets	7	72,075	68,551
Charge of provision for impairment of trade and other receivables	23	1,206,926	1,127,852
Reversal of provision for inventory obsolescence	23	(4,144)	(56,670)
Finance income	24	(138,849)	(657,079)
Finance costs	25	1,934,398	1,603,708
Increase in retirement benefit obligations	23	145,446	134,662
Employee share option plan		-	1,792
Loss on disposal of assets	23	516,520	36,842
Other non-cash items		515,979	62,993
Operating cash flows before working capital changes and income tax paid		8,288,385	11,846,701
Working capital changes:			
(Increase) / decrease in trade and other receivables		(5,297,025)	3,267,131
Payments in respect of retirement benefit obligations		(188,268)	(154,131)
Increase in inventories		(294,203)	(441,135)
Decrease in other current assets		34,201	19,216
Increase in other non-current assets		-	(238,324)
Decrease in trade and other payables		(1,161,676)	(1,619,794)
Decrease in other non-current liabilities		(43,339)	(275,705)
Increase / (decrease) in taxes payable, other than income tax		267,989	(329,733)
Income tax paid in cash		(666,093)	(1,490,471)
Net cash generated from operating activities		939,971	10,583,755
CASH FLOW FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(17,146,175)	(11,400,461)
Proceeds from sale of property, plant and equipment		23,551	56,457
Purchase of intangible assets		(119,099)	(63,641)
Increase in other non-current assets		(1,700)	-
Proceeds from deposits		-	2,792,450
Interest received		45,935	393,526
Net cash used in investing activities		(17,197,488)	(8,221,669)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from short-term borrowings		25,529,822	19,900,000
Proceeds from long-term borrowings		13,401,877	13,600,000
Repayment of short-term borrowings		(21,529,821)	(24,500,000)
Repayment of long-term borrowings (bonds)		-	(8,388,258)
Interest paid		(1,664,458)	(1,026,715)
Payments under finance lease		(105,250)	(38,468)
Finance lease advance		(14,300)	-
Expenses for share issue		(38,307)	-
Dividend paid by the Group to shareholders of OGK-2		(279,107)	-
Purchase of treasury shares	13	(4,046,201)	(6,458)
Refund of premium paid to secure settlement of share-based payments		-	709,688
Net cash generated from financing activities		11,254,255	249,789
Net (decrease) / increase in cash and cash equivalents		(5,003,262)	2,611,875
Cash and cash equivalents at the beginning of the year	9	5,362,378	2,750,503
Cash and cash equivalents at the end of the year	9	359,116	5,362,378

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 45

OGK-2 Group**Consolidated Statement of Changes in Equity for the year ended 31 December 2011**

(in thousands of Russian Roubles)

	Share capital	Treasury shares	Share premium	Retained earnings	Total
At 1 January 2010 (Restated)	11,872,828	(5,579)	23,916,508	45,699,062	81,482,819
Profit for the year	-	-	-	4,670,190	4,670,190
Available-for-sale investments	-	-	-	41,030	41,030
Total comprehensive income for the year	-	-	-	4,711,220	4,711,220
Acquisition of treasury shares	-	(6,458)	-	-	(6,458)
Employee share option plan	-	-	-	711,480	711,480
At 31 December 2010 (Restated)	11,872,828	(12,037)	23,916,508	51,121,762	86,899,061
At 1 January 2011 (Restated)	11,872,828	(12,037)	23,916,508	51,121,762	86,899,061
Profit for the year	-	-	-	10,150	10,150
Available-for-sale investments	-	-	-	(48,781)	(48,781)
Total comprehensive expense for the year	-	-	-	(38,631)	(38,631)
Share issue	9,645,411	-	-	(9,683,718)	(38,307)
Dividends	-	-	-	(301,599)	(301,599)
Acquisition of treasury shares (Note 13)	-	(4,046,201)	-	-	(4,046,201)
At 31 December 2011	21,518,239	(4,058,238)	23,916,508	41,097,814	82,474,323

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 45

OGK-2 Group

Notes to Consolidated Financial Statements for the year ended 31 December 2011

(in thousands of Russian Roubles)

Note 1. The Group and its operations

Open Joint Stock Company "The Second Generating Company of the Wholesale Electric Power Market" (OJSC "OGK-2", or the "Company") was established on 9 March 2005 within the framework of Russian electricity sector restructuring in accordance with the Resolution No. 1254-r adopted by the Russian Federation Government on 1 September 2003.

On 21 June 2011 the General Shareholders Meeting of OJSC "OGK-2" made a decision to merge OJSC "OGK-2" with another company controlled by Gazprom, Open Joint Stock Company "The Sixth Generating Company of the Wholesale Electric Power Market" ("OJSC "OGK-6") in accordance with terms specified in the OJSC "OGK-2" and OJSC "OGK-6" merger agreement (refer to Note 13). OJSC "OGK-6" was established on 17 March 2005 within the framework of Russian electricity sector restructuring in accordance with the Resolution No. 1254-r adopted by the Russian Federation Government on 1 September 2003. The merger resulted in the transfer of assets and liabilities of OJSC "OGK-6" to OJSC "OGK-2". Upon the completion of the merger OJSC "OGK-6" ceased to exist. The merger has been completed on 1 November 2011.

OJSC "OGK-2" and its following subsidiaries form the OGK-2 Group ("the Group"):

	% owned	
	31 December 2011	31 December 2010
LLC "OGK-InvestProekt" (the former subsidiary of OJSC "OGK-6")	100%	100%
LLC "OGK-2 Finance"	100%	100%

The Group's primary activities are generation and sale of electric and heat power. The Group consists of the following power stations (plants): Troitskaya GRES, Stavropolskaya GRES, Pskovskaya GRES, Serovskaya GRES, Surgutskaya GRES-1, Adlerskaya TES, Kirishskaya GRES, Ryazanskaya GRES, Novochebasskaya GRES, Krasnoyarskaya GRES-2, Cherepovetskaya GRES.

The Company is registered by the Izobilnensk District Inspectorate of the RF Ministry of Taxation of Stavropol Region.

The Company's office is located at 101-3, Vernadskogo Avenue, 119526, Moscow, Russian Federation.

Operating environment of the Group. The Group's operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. The consolidated 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.

Relations with the state and current regulation. As at 31 December 2011 the Company is controlled by Gazprom, the largest Russian gas production company.

Until 1 July 2008, Russian Open Joint Stock Company for Energy and Electrification Unified Energy System of Russia ("RAO UES") owned 65.47% of the Company, on 1 July 2008 as part of electric industry restructuring process RAO UES ceased to exist as a separate legal entity. Also as a result of the restructuring process Gazprom Group has obtained control over the Company at this date.

Gazprom Group, in its turn, is controlled by the Russian Federation; therefore, the Russian Government is the ultimate controlling party of the Group as at 31 December 2011 and 31 December 2010.

The Group's customer base includes a large number of entities controlled by or related to the State. The list of the Group's major fuel suppliers includes subsidiaries of Gazprom.

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.

As described in Note 29, the government's economic, social and other policies could have material effects on the operations of the Group.

Changes in the industry. In January 2011 the process of energy market liberalization, which had started in 2006, was completed. From that moment a competitive wholesale market has been in operation, where electricity and capacity are sold at free, unregulated prices, except for volumes of electricity and capacity sold to the public and categories of consumers of an equivalent status, for whom government tariff regulation still applies.

Starting 2011 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.

Note 2. Basis of preparation

Statement of compliance. These consolidated financial statements ("financial statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS") and related interpretations adopted by the International Accounting Standards Board ("IASB").

The Company and each subsidiary of the Company individually maintains its own books of accounts and prepares its statutory financial statements in accordance with the RAR. The accompanying financial statements are based on the statutory records adjusted and reclassified for the purpose of presentation in accordance with IFRS.

Basis of measurement. The consolidated financial statements are prepared on the historical cost basis except:

- Financial investments classified as available-for-sale;
- Defined benefit plan asset is recognised as the net total of the plan assets, plus unrecognised past service cost and unrecognised actuarial losses, less unrecognised actuarial gains and the present value of the defined benefit obligation.

Restatement. These consolidated financial statements have been prepared as if the merger of OJSC "OGK-2" and OJSC "OGK-6" described in Note 1 had been completed prior to 1 January 2010.

As at 1 January 2010 the accounting policy of OJSC "OGK-6" was aligned with the accounting policy of OJSC "OGK-2" and have been applied consistently to all periods presented in these financial statements. As part of this alignment OJSC "OGK-6" changed it's accounting policy and presentation as follows:

- Switched from revaluation to historical cost basis of measurement of property, plant and equipment. As a result of this the carrying value of OJSC "OGK-6"'s property, plant and equipment has declined from RR 69,124,560 thousand to RR 55,188,498 thousand.

OGK-2 Group
Notes to Consolidated Financial Statements for the year ended 31 December 2011

(in thousands of Russian Roubles)

- Software and licenses, were reclassified to intangible assets from other non-current assets. As a result intangible assets increased and other non-current assets decreased from nil and RR 942,833 thousand to RR 102,730 thousand and RR 840,103 thousand respectively.
- Prepayments on insurance and other taxes (excluding current profit tax), were reclassified to other receivables from other current assets. As a result trade and other receivables increased from RR 3,288,455 thousand to RR 3,387,386 thousand. Bank deposit was reclassified to other current assets from short-term investments. Short-term investments and other current assets decreased from RR 24,670 thousand and RR 108,462 thousand to nil and RR 34,201 thousand respectively.

All intra-group transactions were eliminated. Subject to these adjustments, all line items (assets, liabilities, revenues, expenses and equity) are added together on line by line basis.

The comparative information has been restated for the effect of the merger of OJSC "OGK-2" and OJSC "OGK-6" as described below:

31 December 2010	As previously reported, 31 December 2010, in thousand RR	Retrospective consolidation of OJSC "OGK-6", in thousand RR	As restated, 31 December 2010, in thousand RR
ASSETS			
Non-current assets			
Property, plant and equipment	36,677,606	55,425,345	92,102,951
Intangible assets	1,475,327	102,730	1,578,057
Other non-current assets	2,608,089	603,256	3,211,345
Total non-current assets	40,761,022	56,131,331	96,892,353
Current assets			
Cash and cash equivalents	3,023,466	2,338,912	5,362,378
Trade and other receivables	6,012,009	3,384,675	9,396,684
Inventories	2,293,939	3,638,880	5,932,819
Current income tax prepayments	28,035	6,759	34,794
Other current assets	-	34,201	34,201
Total current assets	11,357,449	9,403,427	20,760,876
TOTAL ASSETS	52,118,471	65,534,758	117,653,229
EQUITY AND LIABILITIES			
Equity			
Share capital			
Ordinary shares	11,872,828	-	11,872,828
Treasury shares	(12,037)	-	(12,037)
Share premium	23,916,508	-	23,916,508
Retained earnings	4,590,133	46,531,629	51,121,762
Total equity	40,367,432	46,531,629	86,899,061
Non-current liabilities			
Deferred income tax liabilities	1,995,773	2,913,211	4,908,984
Non-current debt	5,000,000	10,134,527	15,134,527
Retirement benefit obligations	632,397	898,002	1,530,399
Restoration provision	518,038	-	518,038
Other long-term liabilities	59,747	543,178	602,925
Total non-current liabilities	8,205,955	14,488,918	22,694,873
Current liabilities			
Current debt and current portion of non-current debt	-	10,290	10,290
Trade and other payables	3,144,644	3,814,350	6,958,994
Other taxes payable	351,700	231,960	583,660
Current income tax	-	457,611	457,611
Restoration provision	48,740	-	48,740
Total current liabilities	3,545,084	4,514,211	8,059,295
Total liabilities	11,751,039	19,003,129	30,754,168
TOTAL EQUITY AND LIABILITIES	52,118,471	65,534,758	117,653,229

OGK-2 Group**Notes to Consolidated Financial Statements for the year ended 31 December 2011**

(in thousands of Russian Roubles)

	As previously reported, year ended 31 December 2010, in thousand RR	Retrospective consolidation of OJSC "OGK-6", in thousand RR	As restated, year ended 31 December 2010, in thousand RR
Revenues	47,863,630	48,599,178	96,462,808
Operating expenses	(44,002,333)	(45,134,502)	(89,136,835)
Other operating items	(261,523)	294,642	33,119
Operating profit	3,599,774	3,759,318	7,359,092
Finance income	506,364	150,715	657,079
Finance costs	(889,784)	(713,924)	(1,603,708)
Profit before income tax	3,216,354	3,196,109	6,412,463
Income tax charge	(1,025,189)	(717,084)	(1,742,273)
Profit for the year	2,191,165	2,479,025	4,670,190
Earning per ordinary share for profit attributable to the shareholders of OJSC OGK-2 – basic and diluted (in Russian Roubles)	0.0669	0.0118	0.0787

Functional and presentation currency. The national currency of the Russian Federation is the RR, which is the functional currency of the Company and its subsidiaries and the currency in which these financial statements are presented. All financial information presented in RR has been rounded to the nearest thousand.

Going concern. The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realisation of assets and the satisfaction of liabilities in the normal course of business. The recoverability of the Group's assets, as well as the future operations of the Group, may be significantly affected by the current and future economic environment. The accompanying financial statements do not include any adjustments should the Group be unable to continue as a going concern.

Critical accounting estimates and assumptions. The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgments, apart from those involving estimations, in the process of applying the accounting policies. Judgments that have the most significant effect on the amounts recognized in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Provision for impairment of trade and other receivables

Provision for impairment of trade and other receivables is based on the Group's assessment of whether the collectability of specific customer accounts worsened compared to prior estimates. If there is deterioration in a major customer's creditworthiness or actual defaults are higher than the estimates, the actual results could differ from these estimates. See effect of these critical accounting estimates and assumptions in Note 10.

Provision for impairment of property, plant and equipment

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the difference is recognised as an expense (impairment loss) in the income statement in the period in which the reduction is identified. If conditions change and management determines that the value of property, plant and equipment and assets under construction has increased, the impairment provision will be fully or partially reversed. See effect of these critical accounting estimates and assumptions in Note 6. As described in Notes 1 and 29, the Government's economic, social and other policies could have material effects on the operations of the Group.

Useful lives of property, plant and equipment

The estimation of the useful lives of items of property, plant and equipment is a matter of management judgment based upon experience with similar assets. In determining the useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear and tear and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments for future depreciation rates. See effect of these critical accounting estimates and assumptions in Note 6.

Tax contingencies

Russian tax legislation is subject to varying interpretations and changes, which can occur frequently. Where the Group management believes it is probable that their interpretation of the relevant legislation and the Group's tax positions cannot be sustained, an appropriate amount is accrued for in these financial statements. See effect of these critical accounting estimates and assumptions in Note 29.

Restoration provision

The Group reviews its decommissioning liability, representing site restoration provisions, at each reporting date and adjusts it to reflect the current best estimate in accordance with IFRIC 1 "Changes in Existing Decommissioning, Restoration and Similar Liabilities". The amount recognized as a provision is the best estimate of the expenditures required to settle the present obligation at the reporting date based on the requirements of the current legislation of the country where the respective operating assets are located. The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Considerable judgment is required in forecasting future site restoration costs. Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision when there is sufficient objective evidence that they will occur. See effect of these critical accounting estimates and assumptions in Note 21.

Note 3. New accounting developments

The following new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2011, and have not been applied in preparing these consolidated financial statements. The Group plans to adopt these pronouncements when they become effective.

IAS 19 (2011) *Employee Benefits*. The amended standard will introduce a number of significant changes to IAS 19. First, the corridor method is removed and, therefore, all changes in the present value of the defined benefit obligation and in the fair value of plan assets will be recognised immediately as they occur. Secondly, the amendment will eliminate the current ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss. Thirdly, the expected return on plan assets recognised in profit or loss will be calculated based on the rate used to discount the defined benefit obligation. The amended standard shall be applied to annual periods beginning on or after 1 July 2013 and early adoption is permitted. The amendment generally applies retrospectively.

IAS 28 (2011) *Investments in Associates and Joint Ventures* combines the requirements in IAS 28 (2008) and IAS 31 that were carried forward but not incorporated into IFRS 11 and IFRS 12. The amended standard will become effective for annual periods beginning of or after 1 January 2013 with retrospective application required. Early adoption of IAS 28 (2011) is permitted provided the entity also early-adopts IFRS 10, IFRS 11, IFRS 12 and IAS 27 (2011).

IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2015. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during 2012. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Group does not intend to adopt this standard early.

IFRS 10 *Consolidated Financial Statements* will be effective for annual periods beginning on or after 1 January 2013. The new standard supersedes IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 introduces a single control model which includes entities that are currently within the scope of SIC-12 *Consolidation – Special Purpose Entities*.

Under the new three-step control model, an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with that investee, has the ability to affect those returns through its power over that investee and there is a link between power and returns. Consolidation procedures are carried forward from IAS 27 (2008). When the adoption of IFRS 10 does not result in a change in the previous consolidation or non-consolidation of an investee, no adjustments to accounting are required on initial application. When the adoption results in a change in the consolidation or non-consolidation of an investee, the new standard may be adopted with either full retrospective application from date that control was obtained or lost or, if not practicable, with limited retrospective application from the beginning of the earliest period for which the application is practicable, which may be the current period. Early adoption of IFRS 10 is permitted provided an entity also early-adopts IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011). The amendment is expected to have no significant impact on the Group's consolidated financial statements.

IFRS 11 *Joint Arrangements* will be effective for annual periods beginning on or after 1 January 2013 with retrospective application required. The new standard supersedes IAS 31 *Interests in Joint Ventures*. The main change introduced by IFRS 11 is that all joint arrangements are classified either as joint operations, which are consolidated on a proportionate basis, or as joint ventures, for which the equity method is applied. The type of arrangement is determined based on the rights and obligations of the parties to the arrangement arising from joint arrangement's structure, legal form, contractual arrangement and other facts and circumstances. When the adoption of IFRS 11 results a change in the accounting model, the change is accounted for retrospectively from the beginning of the earliest period presented. Under the new standard all parties to a joint arrangement are within the scope of IFRS 11 even if all parties do not participate in the joint control. Early adoption of IFRS 11 is permitted provided the entity also early-adopts IFRS 10, IFRS 12, IAS 27 (2011) and IAS 28 (2011).

IFRS 12 *Disclosure of Interests in Other Entities* will be effective for annual periods beginning on or after 1 January 2013. The new standard contains disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The expanded and new disclosure requirements aim to provide information to enable the users to evaluate the nature of risks associated with an entity's interests in other entities and the effects of those interests on the entity's financial position, financial performance and cash flows. Entities may present some of the IFRS 12 disclosures early without a need to early-adopt the other new and amended standards. However, if IFRS 12 is early-adopted in full, then IFRS 10, IFRS 11, IAS 27 (2011) and IAS 28 (2011) must also be early-adopted.

IFRS 13 *Fair Value Measurement* will be effective for annual periods beginning on or after 1 January 2013. The new standard replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It provides a revised definition of fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurement that currently exist in certain standards. The standard is applied prospectively with early adoption permitted. Comparative disclosure information is not required for periods before the date of initial application.

Amendment to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income*. The amendment requires that an entity presents separately items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss. Additionally, the amendment changes the title of the statement of comprehensive income to statement of profit or loss and other comprehensive income. However, the use of other titles is permitted. The amendment shall be applied retrospectively from 1 July 2012 and early adoption is permitted.

Amendment to IFRS 7 *Disclosures – Transfers of Financial Assets* introduces additional disclosure requirements for transfers of financial assets in situations where assets are not derecognised in their entirety or where the assets are derecognised in their entirety but a continuing involvement in the transferred assets is retained. The new disclosure requirements are designated to enable the users of financial statements to better understand the nature of the risks and rewards associated with these assets. The amendment is effective for annual periods beginning on or after 1 July 2011.

Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into

effect for annual periods beginning after 1 January 2011. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

The Group has not yet analysed the likely impact of the new as Standards, amendments to Standards and Interpretations on its financial position or performance, except as stated above.

Note 4. Summary of significant accounting policies

Principles of consolidation. The financial statements comprise the financial statements of the Company and those entities whose operations are controlled by the Company.

A) Subsidiaries

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases. Non-controlling interest is disclosed as part of equity.

B) Transactions eliminated on consolidation

Inter-company balances and transactions and any unrealized gains arising from inter-company transactions, are eliminated in preparing these financial statements.

Transfers of businesses from parties under common control. The Group was formed by the combination of a number of businesses under common control. Contributions to share capital of shares in subsidiaries (businesses) from parties under common control are accounted for using predecessor basis of accounting. Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are restated. The assets and liabilities of the subsidiaries transferred under common control are accounted for at the predecessor entity's carrying amounts. Because of the consequent use of the predecessor basis of accounting, the principal component of the net equity recognised for the Group is based on the historic carrying value of the net assets of the businesses contributed as recorded in the IFRS financial records of the predecessor enterprises, rather than the fair values of those net assets. In accordance with the predecessor basis of accounting any difference between the carrying amount of net assets and the nominal value of share capital contributed and share premium is accounted for in these financial statements as retained earnings.

Foreign currency. Monetary assets and liabilities, held by the Group and denominated in foreign currencies at the reporting date, are translated into RR at the exchange rates prevailing at that date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Gains and losses resulting from the settlement of such transactions and from the translation of the monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

The official Russian Rouble to US dollar exchange rates as determined by the Central Bank of the Russian Federation were 32.1961 and 30.4769 as at 31 December 2011 and 31 December 2010, respectively. The official RR to EURO exchange rates as determined by the Central Bank of the Russian Federation were 41.6714 and 40.3331 as at 31 December 2011 and 31 December 2010, respectively.

Dividends. Dividends are recognized as a liability and deducted from equity at the reporting date only if they are declared (approved by shareholders) before or on the reporting date. Dividends are disclosed when they are declared after the reporting date, but before the financial statements are authorized for issue.

Property, plant and equipment. Following the predecessor basis of accounting property, plant and equipment were recognized at the carrying value determined in accordance with IFRS by the predecessors.

Property, plant and equipment are stated at depreciated cost less impairment. Adjustments are made for additions, disposals and depreciation charges. At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the difference is recognised as an expense (impairment loss) in the income statement. An impairment loss recognised in prior years is reversed if there has been an increase in the estimated fair value or value in use used to determine an asset's recoverable amount.

OGK-2 Group**Notes to Consolidated Financial Statements for the year ended 31 December 2011**

(in thousands of Russian Roubles)

Renewals and improvements are capitalised and the assets replaced are retired. The cost of repair and maintenance is expensed as incurred. Gains and losses arising from the retirement of property, plant and equipment are included in the income statement as incurred.

Social assets are not capitalised as they are not expected to result in future economic benefits to the Group. Costs associated with a fulfilment of the Group's social responsibilities are expensed as incurred.

Land is not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives. Depreciation of property, plant and equipment, evaluated by the independent appraisers at 31 December 1997, was calculated using depreciation rates based on remaining useful lives identified on the date of evaluation.

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

The remaining useful lives, in years, are as follows:

Classes of property, plant and equipment	At 31 December 2010	At 31 December 2011
Production buildings	26-43	25-42
Constructions	8-31	7-30
Energy machinery and equipment	8-25	7-24
Other machinery and equipment	2-25	1-24
Other	2-19	2-18

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

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. For assets and liabilities with offsetting market risks, the Group may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

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

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Classification of financial assets. The Group classifies its financial assets into the following categories: loans and receivables and available-for-sale investments. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) *Loans and receivables.* Loans and receivables are non-derivative financial assets with fixed or determinable payment terms, which are not quoted on an active market. These assets are included into the current assets except when the maturity is greater than 12 months after the reporting date. These assets are classified as non-current assets.

(b) *Available-for-sale investments.* Available-for-sale financial assets include investment securities which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date.

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

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

Derecognition of financial assets. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

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

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of available-for-sale 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.

Cash and cash equivalents. Cash comprises cash in hand and cash deposited on demand at banks. Cash equivalents comprise short-term highly liquid investments that are readily convertible into cash and have a maturity of three months or less from the date of acquisition and are subject to insignificant changes in value.

Trade and other receivables. Trade and other receivables are recorded inclusive of value added taxes. Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. In practice, the entity has estimated that the nominal amount of trade and other receivables approximates the fair value at inception. A provision for impairment of trade receivables is established when there is an objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 90 days overdue) are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate for similar borrowers. The carrying amount of the asset is reduced through the use of an impairment provision account, and the amount of the loss is recognised in the income statement within operating expenses. When a receivable is uncollectible, it is written off against the impairment provision account for receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in the income statement.

Derecognition of non-derivative financial liabilities. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method. Other financial liabilities comprise loans and borrowings and trade and other payables.

Trade and other payables and accrued charges. Trade and other payables are stated inclusive of value added tax. Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method. If trade and other payables are restructured and the discounted present value of the cash flows under the restructured terms discounted using the original effective interest rate differs by more than ten percent from the discounted present value of the remaining cash flows of the original financial liability, then the fair value of the restructured payable is measured as the discounted present value of the cash flows under the restructured terms. In this case the amount of the discount is credited to the income statement (finance costs) as a gain on restructuring, and the non-current portion of the discounted payable is classified as other non-current liabilities. The discount is amortized as interest expense.

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

Treasury shares. Where the Company or its subsidiaries purchase the Company's equity instruments, the consideration paid, including any directly attributable incremental costs, net of income taxes, is deducted from equity attributable to the Company's owners until the equity instruments are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's owners.

Debt. Debt is recognized initially at its' fair value. In subsequent periods, debt is stated at amortized cost using the effective yield method; any difference between the fair value at initial recognition (net of transaction costs) and the redemption amount is recognized in the income statement as an interest expense over the period of the debt obligation.

Environmental liabilities. Liabilities for environmental remediation are recorded where there is a present legal obligation as a result of past events, the payment is probable and reliable estimates can be made.

Value added tax on purchases and sales (VAT). Output VAT related to sales is payable to tax authorities on the earlier of (a) receipt of advance from customers or (b) delivery of goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of goods or services and the respective VAT invoice. Input VAT from advances paid to suppliers after 1 January 2009 is recoverable upon advance payment provided the receipt of respective VAT invoice.

The tax authorities permit the settlement of VAT on net basis. VAT related to sales and purchases is recognized in the statement of financial position at nominal value on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

Inventories. Inventories are valued at the lower of net realizable value and weighed average acquisition cost. Provision is made for potential losses on obsolete or slow-moving inventories, taking into account their expected use and future realizable value.

Intangible assets. The Company's intangible assets have definite useful lives and primarily include capitalised computer software and licences. Acquired computer software and licences, are capitalised on the basis of the costs incurred to acquire and bring them to use.

Development costs that are directly associated with identifiable and unique software controlled by the Company are recorded as intangible assets if an inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. Maintenance costs associated with computer software are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives.

Intangible assets are reviewed for impairment whenever the events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Income tax. The income tax expense represents the sum of the tax currently payable and deferred income tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

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

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

Prepayments/Advances paid. Prepayments/advances paid are carried at cost less provision for impairment. A prepayment/advance paid is classified as non-current when the goods or services relating to the prepayment/advance paid are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments/advances paid to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Advances paid to capital contractors and to acquire intangible assets are included into carrying amount of construction in progress balance of property, plant and equipment and intangible assets balance, respectively, excluding related input VAT. Input VAT from the advances paid is included into carrying amount of other non-current assets. The input VAT is stated at its nominal value. Other prepayments/advances paid offset when the goods or services relating to the prepayments/advances are received. If there is an indication that the assets, goods or services relating to a prepayment/advances paid will not be received, the carrying value of the prepayment advance paid is written down accordingly and a corresponding impairment loss is recognised in profit or loss.

Borrowing costs. Prior to 1 January 2009, the Group recognised all borrowing costs as an expense in the period in which they are incurred.

Starting from 1 January 2009 the Group adopted revised IAS 23 Borrowing Costs. The main change is the removal of the option of immediately recognising as an expense borrowing costs related to assets that take a substantial period of time to get ready for use or sale.

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale (a qualifying asset) form part of the cost of that asset, if the commencement date for capitalisation is on or after 1 January 2009. Other borrowing costs are recognised as an expense using the effective interest method.

The Group capitalises borrowing costs that would have been avoided if it had not made capital expenditure on qualifying assets. The commencement date for capitalisation is when (i) the Group incurs expenditures for the qualifying asset; (ii) it incurs borrowing costs; and (iii) it undertakes activities that are necessary to prepare the asset for its intended use or sale. Capitalisation ceases when all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

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

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

Restoration provision. Estimated costs of dismantling and removing an item of property, plant and equipment (asset retirement obligations) are added to the cost of the item either when an item is acquired or as the item is used during a particular period for purposes other than to produce inventories during that period. Changes in the measurement of an existing asset retirement obligation result from changes in the estimated timing or amount of the outflows, or from changes in the discount rate. These changes adjust the cost of the related asset in the current period for assets carried under the cost model. The Group has an obligation to restore the surface of ash dumps when they are full.

Finance leases. Where the Group is a lessee in a lease which transfers substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The corresponding rental obligations, net of future finance charges, are included in debts. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest cost is charged to the income statement over the lease period using the effective interest method.

Operating leases. Management applies judgment in determining whether to account for lease agreements as finance or operating leases. In the application of this judgment, management makes assessment of various factors including which party carries the risks and rewards of ownership, the extent of the lease term and whether early termination clauses can be exercised by the counterparties to the lease.

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

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

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

Benefit plans define the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognised in the statement of financial position in respect of defined benefit pension plans operated by

the Group is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses. The defined benefit obligations are calculated using the projected unit credit method. The present value of the defined benefit obligations are determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid associated with the operation of the plans, and that have terms to maturity approximating the terms of the related retirement benefit obligations.

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

The effect of curtailment or settlement of a defined benefit plan is recognised immediately in the income statement.

Revenue recognition. Revenue is recognized on the delivery of electricity, capacity, heat and provision of other services during the period. Revenues are measured at the fair value of consideration received or receivable. Revenue amounts are represented exclusive of value added tax. Effective 1 January 2010 the Group started to present electricity purchases entered into to support a delivery of non-regulated bilateral contracts net within revenue.

Segment reporting. Operating segments are operations that generate revenue and incur expenses that are covered by separate financial information regularly submitted to the decision-making body which is represented by the Company's Management Board. The Management Board of the Company controls and allocates economic resources of the Group between segments and evaluates segment's operating efficiency. The Group discloses seven reporting segments: Surgutskaya GRES-1, Troitskaya GRES, Stavropolskaya GRES, Serovskaya GRES, Kirishskaya GRES, Ryazanskaya GRES, Novochercasskaya GRES. Pskovskaya GRES and Adlerskaya TES are included in other operating segments based on quantitative criteria. Before the merger (see Note 1) the Group disclosed Pskovskaya GRES and Adlerskaya TES as separate reporting segments.

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, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

Note 5. Related Parties

Information on transactions and balances with related parties is presented below. All transactions were made in Russian Federation and in Russian Roubles. Transactions with related parties have been made mostly on the same terms and conditions as similar operations with the parties external to the Group. Prices for natural gas and heat are based on tariffs set by FST, prices for electricity and capacity are based on tariffs set by FST and also based on competitive takeoff on the wholesale electricity (capacity) market. Loans are granted at market rates. Bank deposits are invested at market rates.

OGK-2 Group**Notes to Consolidated Financial Statements for the year ended 31 December 2011**

(in thousands of Russian Roubles)

Transactions with Gazprom Group and its associates

Transactions with Gazprom Group were as follows:

	12 months ended 31 December 2011	12 months ended 31 December 2010 (Restated)
<i>Sales:</i>		
Sales of electricity and capacity	10,533,902	12,747,534
Sales of heat	333	382
Other sales	21,525	-
<i>Other income</i>	44	45,874
<i>Purchases:</i>		
Purchases of gas	42,680,503	34,977,573
Other purchases	1,032,000	323,041
<i>Other expenses</i>	3,102	48,970

Balances with Gazprom Group were as follows:

	31 December 2011	31 December 2010 (Restated)
Trade and other receivables	564,467	164,364
Trade and other payables	601,901	916,840
Loans (non-current debt)	6,901,877	-
Cash OJSC "Gazprombank"	823	6

Interest expense accrued in respect of loans for the year ended 31 December 2011 was RR 87,436 thousand (for the year ended 31 December 2010: nil). The Group had no deposits held in banks related to Gazprom Group as at 31 December 2011 and as at 31 December 2010. Interest income on bank deposits accrued for the year ended 31 December 2011 equals zero (for the year ended 31 December 2010: RR 108,086 thousand).

Transactions with state-controlled entities and its associates

In the normal course of business the Group enters into transactions with other entities under Government control (in addition to transactions with Gazprom Group), including sales of electricity and capacity, heat, purchases of electricity and capacity resources, services and other transactions. These transactions (except for sales and purchases of electricity and capacity) are not significant either individually or collectively. The Group received guarantee from OJSC "VTB" in the amount of RR 3,300,000 thousand, as described in Note 6.

Information concerning sales and purchases of electricity and capacity with state-controlled entities is presented below:

	12 months ended 31 December 2011	12 months ended 31 December 2010 (Restated)
Sales of electricity and capacity	22,210,242	13,093,540
Charge of provision for impairment of trade receivables	1,097,769	80,255
Reversal of provision for impairment of trade receivables	(66,091)	(87,190)
Purchases of electricity and capacity	8,575,160	13,625,923

Significant balances with state-controlled entities were as follows:

	31 December 2011	31 December 2010 (Restated)
Trade and other receivables, gross	3,436,396	2,177,227
Provision for impairment of trade and other receivables	(1,856,575)	(451,941)
Trade and other payables	725,758	539,548

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Transactions with key management

Compensation is paid to members of the Management Board of the Company for their services in full time management positions. The compensation is made up of a contractual salary and a performance bonus depending on results for the period according to Russian statutory financial results of the Company. The compensation is approved by the Board of Directors. Discretionary bonuses are also payable to members of the Management Board, which are approved by the Chairman of the Management Board according to his perception of the value of their contribution.

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

Total remuneration accrued to the members of the Board of Directors and Management Board is presented below:

	Year ended 31 December 2011		Year ended 31 December 2010 (Restated)	
	Expenses	Accrued liabilities	Expenses	Accrued liabilities
Remuneration	267,721	2,733	226,952	793
Social funds contribution	3,148	-	2,175	-
Medical insurance	1,317	-	2,107	-
Share option plan	-	-	(1,415)	-
Retirement benefit obligations	4,133	28,652	883	5,645

Transactions with other related parties

Transactions with other related parties represent transactions with the pension fund of energy industry (NPF Electroenergetiki). For the year ended 31 December 2011 the Group has expenses of RR 154,717 thousand from transactions with NPF Electroenergetiki (2010: RR 172,228 thousand).

Note 6. Property, plant and equipment

Cost	Production buildings	Constructions	Energy machinery and equipment	Other machinery and equipment	Other	Construction in progress	Total
Opening balance as at 1 January 2011 (Restated)	31,645,204	16,029,174	29,082,518	12,298,686	1,365,105	45,906,647	136,327,334
Additions	46,771	45,693	14	329,209	204,237	17,541,000	18,166,924
Transfer	313,604	550,106	1,083,267	1,403,846	22,039	(3,372,862)	-
Disposals	(93,440)	(86,242)	(122,319)	(25,122)	(42,129)	(43,872)	(413,124)
Reclassification	(18)	249,097	(1,375,718)	1,126,678	(39)	-	-
Closing balance as at 31 December 2011	31,912,121	16,787,828	28,667,762	15,133,297	1,549,213	60,030,913	154,081,134
Accumulated depreciation (including impairment)							
Opening balance as at 1 January 2011 (Restated)	(13,083,487)	(8,731,090)	(15,663,231)	(5,558,085)	(859,914)	(328,576)	(44,224,383)
Charge for the period	(615,837)	(599,680)	(1,253,061)	(998,698)	(143,187)	-	(3,610,463)
Charge of impairment	-	-	-	-	-	(7,208)	(7,208)
Disposals	49,044	53,165	90,194	23,208	36,495	6,149	258,255
Reclassification	16	(173,710)	912,059	(738,398)	33	-	-
Closing balance as at 31 December 2011	(13,650,264)	(9,451,315)	(15,914,039)	(7,271,973)	(966,573)	(329,635)	(47,583,799)
Net book value as at 31 December 2011	18,261,857	7,336,513	12,753,723	7,861,324	582,640	59,701,278	106,497,335
Net book value as at 31 December 2010 (Restated)	18,561,717	7,298,084	13,419,287	6,740,601	505,191	45,578,071	92,102,951

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Cost	Production buildings	Constructions	Energy machinery and equipment	Other machinery and equipment	Other	Construction in progress	Total
Opening balance as at 1 January 2010 (Restated)	30,672,284	15,234,357	25,377,066	10,249,002	1,267,601	41,282,660	124,082,970
Additions	20,605	219,676	2,412	151,545	101,122	12,202,370	12,697,730
Transfer	983,354	684,354	3,751,782	1,998,148	40,727	(7,458,365)	-
Disposals	(31,039)	(109,213)	(48,742)	(100,009)	(44,345)	(120,018)	(453,366)
Closing balance as at 31 December 2010 (Restated)	31,645,204	16,029,174	29,082,518	12,298,686	1,365,105	45,906,647	136,327,334
Accumulated depreciation (including impairment)							
Opening balance as at 1 January 2010 (Restated)	(12,511,578)	(8,253,044)	(14,589,894)	(4,865,687)	(751,872)	(442,404)	(41,414,479)
Charge for the period	(590,875)	(547,217)	(1,086,854)	(752,480)	(138,776)	-	(3,116,202)
Reversal of impairment	-	-	-	-	-	4,615	4,615
Disposals	18,966	69,171	13,517	60,082	30,734	109,213	301,683
Closing balance as at 31 December 2010 (Restated)	(13,083,487)	(8,731,090)	(15,663,231)	(5,558,085)	(859,914)	(328,576)	(44,224,383)
Net book value as at 31 December 2010 (Restated)	18,561,717	7,298,084	13,419,287	6,740,601	505,191	45,578,071	92,102,951
Net book value as at 31 December 2009 (Restated)	18,160,706	6,981,313	10,787,172	5,383,315	515,729	40,840,256	82,668,491

Construction in progress as at 31 December 2011 and 31 December 2010 includes prepayments for property, plant and equipment in the amount of RR 23,510,369 thousand and RR 19,851,288 thousand respectively.

The Group capitalized borrowing costs attributable to the acquisition, construction or production of an asset in the amount of RR 15,440 thousand (2010: RR 12,065 thousand), with a capitalisation rate of 7.25 % (2010: 7.39 %).

The assets received by the Group as a result of the merger with its predecessors did not include the land on which the Group's buildings and facilities are situated. The Group has the right to rent this land. In accordance with Russian legislation this right should be formalized either into purchase of this land upon application to the state registration body, or into lease of this land prior to 1 July 2012. As at 31 December 2011 the Group owns land (included in the group "Other") with the carrying amount of RR 64,407 thousand (as at 31 December 2010: RR 55,796 thousand).

Capitalization of ash dump restoration costs is recognised within the group "Constructions" (see Note 21).

As at 31 December 2011 the advances given to major contractors: OJSC "E4 Group" to build a power unit on site of Serovskaya GRES amounted to RR 7,217,993 thousand (net of VAT) and CJSC "QUARTZ-Novie Technologii" to build a power unit on site of Troitskaya GRES amounted to RR 12,617,121 thousand (net of VAT) (as at 31 December 2010: RR 7,217,993 thousand (net of VAT) OJSC "E4 Group" and RR 9,859,636 thousand (net of VAT) CJSC "QUARTZ-Novie Technologii"). The respective input VAT is recognised within other non-current assets balance (see Note 8).

The return of the advance payments made to CJSC "QUARTZ-Novie Technologii" to secure the contractor's obligations under the general construction contract with the Group as at 31 December 2011 in the amount of RR 3,300,000 thousand was guaranteed to the Group by OJSC "VTB" and in the amount of RR 12,672,692 thousand was guaranteed by the contract of pledge of property rights by OJSC "QUARTZ-Novie Technologii" (as at 31 December 2010: RR 220,568 thousand by OJSC "Alfa-bank").

The return of the advance payments made to OJSC "E4 Group" to secure the contractor's obligations under the general construction contract with the Group as at 31 December 2011 in the amount of RR 5,213,936 thousand was guaranteed by the contract of pledge of property rights by OJSC "E4 Group" (as at 31 December 2010: 4,122,056 thousand).

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Also as at 31 December 2011 the return of the advance payments made to CJSC "PF VIS" for construction of a power unit on site of Novocherkasskaya GRES in the amount of RR 939,582 thousand (net of VAT) in case of non-fulfilment of construction obligations was guaranteed by OJSC "BANK "ROSSIYA" in the amount of RR 1,631,834 thousand.

Impairment

The impairment provision balance included in accumulated depreciation as at 31 December 2011 in the amount of RR 329,635 thousand (as at 31 December 2010 – RR 328,576 thousand) relates to the assets under construction that have been indefinitely suspended for further construction and are not included in the Group's investment program (see Note 27).

Finance lease

The Group leased certain equipment under a number of finance lease agreements. At the end of the leases the Group has the option to purchase the equipment at a beneficial price. The net book value of leased property, plant and equipment is presented below:

	31 December 2011	31 December 2010 (Restated)
Energy machinery and equipment	48,238	55,499
Other machinery and equipment	196,287	42,147
Other	117,042	38,541
Total	361,567	136,187

The leased equipment secures lease obligations.

Operating lease

The Group leases a number of land plots owned by local governments and real estate under operating leases. Lease payments are determined by lease agreements. Lease agreements are concluded for the different periods. Part of the lease contracts is concluded for a year with right of future prolongation, maximum lease period is 48 years.

Operating lease rentals are payable as follows:

	31 December 2011	31 December 2010 (Restated)
Not later than one year	616,193	329,693
Later than one year and not later than five years	1,489,902	229,938
Later than five years and not later than ten years	620,992	173,193
Later than ten years	1,973,651	983,839
Total	4,700,738	1,716,663

The land areas leased by the Group are the territories on which the Group's electric power stations and other assets are located. Lease payments are reviewed regularly to reflect market rentals.

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Note 7. Intangible assets

	SAP R-3 software	System NSI software	Other intangibles	Total intangible assets
Cost				
Balance as at 1 January 2011 (Restated)	1,172,956	619,050	336,224	2,128,230
Additions	123,361	-	81,407	204,768
Disposals	(736,400)	-	(7,116)	(743,516)
Balance as at 31 December 2011	559,917	619,050	410,515	1,589,482
Balance as at 1 January 2010 (Restated)	1,168,060	619,050	277,480	2,064,590
Additions	4,896	-	58,744	63,640
Balance as at 31 December 2010 (Restated)	1,172,956	619,050	336,224	2,128,230
Amortisation (including impairment)				
Balance as at 1 January 2011 (Restated)	(418,580)	-	(131,593)	(550,173)
Charge for the period	(14,750)	-	(57,325)	(72,075)
Disposals	330,125	-	-	330,125
Balance as at 31 December 2011	(103,205)	-	(188,918)	(292,123)
Balance as at 1 January 2010 (Restated)	(407,014)	-	(74,608)	(481,622)
Charge for the period	(11,566)	-	(56,985)	(68,551)
Balance as at 31 December 2010 (Restated)	(418,580)	-	(131,593)	(550,173)
Net book value as at 31 December 2011	456,712	619,050	221,597	1,297,359
Net book value as at 31 December 2010 (Restated)	754,376	619,050	204,631	1,578,057

The amount of intangible assets includes advances paid to contractors in the amount of RR 41,772 thousand (net of VAT) as at 31 December 2011 (as at 31 December 2010: RR 384,119 thousand (net of VAT)).

The impairment provision for intangible assets included in accumulated amortisation balance as at 31 December 2011 of RR 61,716 thousand (as at 31 December 2010: RR 391,841 thousand) relates to the SAP R-3 software, the development of which is suspended for indefinite period.

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Note 8. Other non-current assets

	31 December 2011	31 December 2010 (Restated)
Long-term input VAT from advances paid	2,200,226	2,365,855
Long-term promissory notes (nominal value of promissory notes is RR 998,642 thousand as at 31 December 2011 and RR 784,476 thousand as at 31 December 2010)	610,518	378,962
Prepayments / Deposits for pensions	263,663	225,839
Long-term restructured trade and other receivables (net of provision for impairment of trade and other receivables of RR 13,752 thousand as at 31 December 2011 and RR 28,379 thousand as at 31 December 2010)	19,956	44,118
Other	116,795	196,571
Total	3,211,158	3,211,345

Other non-current assets mainly include an investment in 90,454,910 ordinary shares of OJSC "RusHydro" (available-for-sale investments) with par value of RR 0.001 thousand amounted to RR 87,280 thousand as at 31 December 2011 (as at 31 December 2010: RR 148,256 thousand) (see also Note 13).

Note 9. Cash and cash equivalents

	Currency	31 December 2011	31 December 2010 (Restated)
Current bank accounts	RR	337,816	3,701,720
Current bank accounts	KZT	-	1
Bank deposits with maturity of 3 months or less	RR	20,000	1,659,750
Other cash equivalents	RR	1,300	907
Total		359,116	5,362,378

The Group has current bank accounts in the following banks:

	Credit rating on 31 December 2011*	31 December 2011	Credit rating on 31 December 2010*	31 December 2010 (Restated)
Cash in bank				
OJSC "BANK "ROSSIYA"	E+/Stable	148,749	E+/Stable	2,725,994
OJSC "Alfa-bank"	D/Stable	90,549	D/Stable	491,942
OJSC "Eurofinance Mosnarbank"	E+/Ratings Under Review	71,112	E+/Stable	281,332
OJSC "Sberbank"	D+/Stable	21,074	D+/Stable	128,543
CJSC "Mezhdunarodny promyshleny bank"	-	4,271	-	4,272
CJSC "VTB 24"	D-/Negative	926	D-/Stable	69,569
OJSC "Gazprombank"	E+/Stable	823	E+/Stable	6
OJSC "Transcreditbank"	D-/Stable	199	D-/Stable	10
OJSC "Nomos-bank"	D-/Stable	70	D-/Stable	35
OJSC "Promsvyazbank" (PSB)	D/Stable	41	D/Stable	4
OJSC "URALSIB"	D-/Stable	2	E+/Stable	2
CJSC "UniCredit Bank"	-	-	C-/Ratings Under Review	7
ZAO "Raiffeisenbank"	-	-	D+/Stable	3
OJSC JSCB "ROSBANK"	-	-	D/Ratings Under Review	2
Total cash in bank		337,816		3,701,721

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* The bank financial strength rating / the outlook on all of the bank's ratings, determined by Moody's Investor Service.

Credit quality of bank deposits is presented below:

Bank deposits with maturity of 3 months or less	Interest rate	Credit rating on 31 December 2011*	31 December 2011	Interest rate	Credit rating on 31 December 2010*	31 December 2010 (Restated)
OJSC "Sberbank"	5.84%	Not-Prime	8,000	-	-	-
OJSC "Alfa-bank"	-	-	-	2.95%-3.5%	Not-Prime	1,529,750
OJSC "BANK "ROSSIYA"	5.75%	Not-Prime	12,000	2.4%-3.25%	Not-Prime	130,000
Total bank deposits with maturity of 3 months or less			20,000			1,659,750

* Short-term rating of foreign currency deposits, determined by Moody's Investors Service.

Note 10. Trade and other receivables

	31 December 2011	31 December 2010 (Restated)
Trade receivables (net of provision for impairment of trade receivables of RR 2,603,520 thousand as at 31 December 2011 and RR 1,316,993 thousand as at 31 December 2010)	6,578,502	4,025,927
Other receivables (net of provision for impairment of other receivables of RR 1,268,972 thousand as at 31 December 2011 and RR 1,278,088 thousand as at 31 December 2010)	4,297,505	138,572
Promissory notes (nominal value of promissory notes is RR 1,063,749 thousand as at 31 December 2011 and RR 3,652,974 thousand as at 31 December 2010)	671,326	3,182,196
Financial assets	11,547,333	7,346,695
Input VAT	3,895,759	4,241,760
Advances to suppliers (net of provision for impairment of advances to suppliers of RR 16,637 thousand as at 31 December 2011 and RR 105,700 thousand as at 31 December 2010)	418,799	475,645
Prepaid other tax and social funds contribution	554,208	77,012
Prepayments	-	44,507
Total	16,416,099	12,185,619
Less: Long-term input VAT from advances paid	(2,200,226)	(2,365,855)
Long-term promissory notes (nominal value of promissory notes is RR 998,642 thousand as at 31 December 2011 and RR 784,476 thousand as at 31 December 2010)	(610,518)	(378,962)
Long-term restructured trade and other receivables (net of provision for impairment of trade and other receivables of RR 13,752 thousand as at 31 December 2011 and RR 28,379 thousand as at 31 December 2010)	(19,956)	(44,118)
Total	13,585,399	9,396,684

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Note 11. Inventories

	31 December 2011	31 December 2010 (Restated)
Fuel supplies	3,942,509	3,910,729
Materials and supplies	846,441	767,242
Spare parts	1,293,468	1,250,707
Other inventories	75,584	4,141
Total	6,158,002	5,932,819

The above inventory balances are recorded net of obsolescence provision of RR 53,350 thousand and RR 57,494 thousand as at 31 December 2011 and 31 December 2010, respectively.

There is no inventory pledged as collateral at 31 December 2011 and at 31 December 2010.

Note 12. Other current assets

	31 December 2011	31 December 2010 (Restated)
Short-term deposits	-	24,670
Other current assets	-	9,531
Total	-	34,201

Credit quality of bank deposits is presented below:

Bank deposits with maturity more than 3 months but within one year	Inter- rest rate	Credit rating on 31 December 2011*	31 December 2011	Credit rating on 31 December 2010*	31 December 2010 (Restated)
OJSC "BANK "ROSSIYA	12.5%	-	-	Not-Prime	24,670
Total bank deposits with maturity more than 3 months but within one year			-		24,670

* Short-term rating of foreign currency deposits, determined by Moody's Investors Service.

Note 13. Equity**Reorganisation**

On 21 June 2011 the General Shareholders Meeting of OJSC "OGK-2" made a decision to merge OJSC "OGK-2" with OJSC "OGK-6". On 1 November 2011 the merger has been completed. In accordance with the merger agreement the share capital of OJSC "OGK-2" was increased by RR 9,645,411 thousand as a result of an additional ordinary shares issue of 26,593,358,578 ordinary shares with nominal value RR 0.3627 each. Thus as at 31 December 2011 the share capital of the Group amounted to RR 21,518,239 thousand (as at 31 December 2010: RR 11,872,828 thousand).

<i>Share capital</i>	Number of ordinary shares 31 December 2011	Number of ordinary shares 31 December 2010 (Restated)
Issued shares	59,327,926,960	32,734,568,382
Treasury shares	(2,360,884,527)	(7,970,300)
Total outstanding shares	56,967,042,433	32,726,598,082

As a result of merger the carrying amount of acquired net assets of OJSC "OGK-6" was recognized in retained earnings as at 1 January 2010.

As at 31 December 2011 the total number of authorised ordinary shares is 59,328,280,734 shares (as at 31 December 2010: 44,757,822,542 shares). All issued ordinary shares are fully paid. Each ordinary share carries one vote.

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Treasury shares

Shareholders who voted against the merger or didn't participate in voting in August 2011 made claims to repurchase their shares. The Group repurchased 2,351,934,227 shares at RR 1.72 per share totalling to RR 4,045,327 thousand in August-September 2011.

Besides LLC "OGK-2 Finance", the Group's subsidiary, purchased on MICEX for further sale 980,000 shares of OJSC "OGK-2" in the total amount of RR 874 thousand.

Dividends

The Group's annual statutory accounts form the basis for the annual profit distribution and other appropriations. The specific Russian legislation identifies the basis of distribution as the net profit. However, this legislation and other statutory laws and regulations dealing with the distribution rights are open to legal interpretation and, accordingly, management believes at present it would not be appropriate to disclose an amount of the distributable reserves in these financial statements.

In June 2011 OJSC "OGK-2" and OJSC "OGK-6" declared final dividends for the year ended 31 December 2010 of RR 0.0048759 per share for RR 159,577 thousand and RR 0.00439874 per share for RR 142,022 thousand respectively. These dividends were recognized as liability and deducted from equity at 31 December 2011.

Employee share option plan

In December 2006, the Board of Directors has approved the policy for OJSC "OGK-2" management and employees remuneration – stock option program (hereinafter the "Program"). The Program provided stock options to management and employees of OJSC "OGK-2" (hereinafter the "Participants"). The Program has been functioning during 3.5 years starting from 1 November 2007. The approved number equaled to 529,617,916 ordinary shares, which equaled 1.6% of total quantity of issued ordinary shares of OJSC "OGK-2" as at 31 December 2007. The stock option exercise price was identified at the date of decision for participation in the Program and is calculated as weighted average price of ordinary shares for the period of 365 days before date of such decision, based on RTS quotations.

As at 31 December 2010 a number of Participants, including key management personnel terminated their employment contracts. The number of share options allocated to these Participants was assessed on the pro rata basis of the days they have worked for the Group. The service cost in respect of those options was assessed as if they became vested at the date of the termination. As the result of this, the number of active options under the program has decreased to 216,880,574. During the year ended 31 December 2010 the Group recognized service cost in the amount of RR 1,792 thousand with corresponding increase in retained earnings.

As part of realization of the approved stock option program the Company has entered into a service agreement with OJSC "NOMOS-Bank". Under this agreement the Group has transferred all liabilities for conclusion and fulfilment of share purchase agreements with Company's employees for the total amount of 529,617,916 shares at a fixed price of RR 3.94 per share and maturity of 3 years. In accordance with the agreement with OJSC "NOMOS-Bank" in 2007 the Company paid to OJSC "NOMOS-Bank" a premium of RR 709,688 thousand to secure the delivery of shares to employees in the settlement of share-based payment arrangement. According to the decision of the Supreme Arbitration Court of the Russian Federation in January 2010 the agreement with OJSC "NOMOS-Bank" was cancelled and cash transferred in 2007 was received by the Company in full in March 2010.

1 May 2011 was the end date of the employee share option plan. There were no exercised stock options under this program.

Fair value revaluation reserve

The movements in fair value of available-for-sale investments (see also Note 8), which is recognized as part of other comprehensive income are presented below:

As at 31 December 2009 (Restated)	(75,660)
Change in fair value of available-for-sale investments for the period	45,589
As at 31 December 2010 (Restated)	(30,071)
Change in fair value of available-for-sale investments for the period	(60,976)
As at 31 December 2011	(91,047)

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Note 14. Income tax**Income tax charge**

	Year ended 31 December 2011	Year ended 31 December 2010 (Restated)
Current income tax charge	(1,037,249)	(1,874,964)
Adjustment for prior years	1,962,441	130,701
Deferred tax expenses		
Deferred income tax charge	590,665	1,990
Change in tax base of PPE	(1,928,070)	-
Total	(1,337,405)	1,990
Total income tax charge	(412,213)	(1,742,273)

During the year ended 31 December 2011 the Group was subject to a 20% income tax rate on taxable profits (for the year ended 31 December 2010: 20%).

In 2011 the Group recalculated income tax for prior periods (2007-2010) related to the deductibility for tax purposes of certain operating expenses which were previously capitalized in the tax value of property, plant and equipment and accelerated depreciation of property, plant and equipment operated in an aggressive environment.

As a result, income tax overprovided in prior periods, in accordance with the adjusted tax declarations submitted to the tax authorities, amounted to RR 1,962,441 thousand. Also the Group corrected the tax value of property, plant and equipment which resulted in an increase of deferred tax liabilities of the Group in the amount of RR 1,928,070 thousand.

Reconciliation between the expected and the actual taxation charge is provided below:

	Year ended 31 December 2011	Year ended 31 December 2010 (Restated)
Profit before tax	422,363	6,412,463
Theoretical tax charge at the statutory tax rate of 20%	(84,473)	(1,282,493)
Overprovided in prior years	1,962,441	130,701
Change in tax base of PPE	(1,928,070)	
Non-deductible expenses:		
Provision for impairment of other receivables	19,636	(244,330)
Social payments	(109,539)	(96,863)
Other	(272,208)	(249,288)
Total income tax charge	(412,213)	(1,742,273)

Deferred income tax. Differences between IFRS and Russian statutory taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and their tax bases. Deferred income tax assets and liabilities are measured at 20%, the rate applicable when the temporary differences will reverse.

Deferred income tax liabilities

	31 December 2010 (Restated)	Movement for the period recognized in profit and loss	Movement for the period recognized in other comprehensive income	31 December 2011
Property, plant and equipment	(5,258,362)	(1,330,645)	-	(6,589,007)
Intangible assets	(63,889)	49,000	-	(14,889)
Prepayments / deposits	(45,168)	(7,565)	-	(52,733)
Provision for impairment of trade receivables	(45,201)	(55,352)	-	(100,553)
Total	(5,412,620)	(1,344,562)	-	(6,757,182)

Deferred income tax assets

	31 December 2010 (Restated)	Movement for the period recognized in profit and loss	Movement for the period recognized in other comprehensive income	31 December 2011
Retirement benefit obligations	234,733	(54,786)	-	179,947
Restoration provision	113,356	1,012	-	114,368
Other non-current assets	103,283	(24,798)	-	78,485
Trade and other payables	29,336	39,696	-	69,032
Inventory	10,400	270	-	10,670
Unused tax losses	1,391	1,638	-	3,029
Finance lease liabilities	-	52,550	-	52,550
Other	11,137	(8,425)	12,195	14,907
Total	503,636	7,157	12,195	522,988

	31 December 2010 (Restated)	Movement for the period recognized in profit and loss	Movement for the period recognized in other comprehensive income	31 December 2011
Total deferred income tax liabilities	(5,412,620)	(1,344,562)	-	(6,757,182)
Total deferred income tax assets	503,636	7,157	12,195	522,988
Deferred income tax liabilities, net	(4,908,984)	(1,337,405)	12,195	(6,234,194)

Deferred income tax liabilities

	31 December 2009 (Restated)	Movement for the period recognized in profit and loss	Movement for the period recognized in other comprehensive income	31 December 2010 (Restated)
Property, plant and equipment	(5,221,935)	(36,427)	-	(5,258,362)
Intangible assets	(64,881)	992	-	(63,889)
Prepayments / deposits	(41,337)	(3,831)	-	(45,168)
Provision for impairment of trade receivables	(28,283)	(16,918)	-	(45,201)

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Other	(456)	456	-	-
Total	(5,356,892)	(55,728)	-	(5,412,620)

Deferred income tax assets

	31 December 2009 (Restated)	Movement for the period recognized in profit and loss	Movement for the period recognized in other comprehensive income	31 December 2010 (Restated)
Retirement benefit obligations	213,288	21,445	-	234,733
Restoration provision	78,007	35,349	-	113,356
Trade and other payables	51,602	(22,266)	-	29,336
Other non-current assets	36,021	67,262	-	103,283
Inventory	21,122	(10,722)	-	10,400
Unused tax losses	1,401	(10)	-	1,391
Finance lease liabilities	240	(240)	-	-
Other	48,796	(33,100)	(4,559)	11,137
Total	450,477	57,718	(4,559)	503,636
	31 December 2009 (Restated)	Movement for the period recognized in profit and loss	Movement for the period recognized in other comprehensive income	31 December 2010 (Restated)
Total deferred income tax liabilities	(5,356,892)	(55,728)	-	(5,412,620)
Total deferred income tax assets	450,477	57,718	(4,559)	503,636
Deferred income tax liabilities, net	(4,906,415)	1,990	(4,559)	(4,908,984)

Note 15. Non-current debt

	Currency	Effective interest rate	Due	31 December 2011	31 December 2010 (Restated)
Loans	RR	7.25%-8.40%	2015-2021	27,001,877	13,600,000
Bonds	RR	7.25%	2012	-	1,532,550
Finance lease liability	RR	14.00%-23.30%	2013-2016	166,363	1,977
Total				27,168,240	15,134,527

All of the above bank debt is obtained at fixed interest rates.

Maturity table

	31 December 2011	31 December 2010 (Restated)
Due for repayment		
Between one and two years	56,826	1,534,527
Between two and three years	42,357	-
Between three and four years	13,647,363	-
Between four and five years	6,519,817	13,600,000
More than five years	6,901,877	-
Total	27,168,240	15,134,527

OGK-2 Group**Notes to Consolidated Financial Statements for the year ended 31 December 2011**

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The lease liabilities are effectively secured as the rights for the leased asset revert to the lessor in the event of default.

Finance lease liabilities – minimum lease payments	31 December 2011	31 December 2010 (Restated)
Due for repayment		
Less than one year	111,088	10,993
Between one year and five years	219,883	2,081
Future finance charges on finance lease	(95,450)	(807)
Present value of lease liabilities	235,521	12,267

Management believes that the total current value of non-current debt approximates its fair value since actual interest rates approximate current market interest rates available to the Group for similar financial instruments.

Note 16. Other long-term liabilities

	31 December 2011	31 December 2010 (Restated)
Trade payables	230,885	590,207
Accrued liabilities and other payables	10,376	12,718
Total finance liabilities	241,261	602,925

Note 17. Current debt and current portion of non-current debt

	Currency	Effective interest rate	31 December 2011	31 December 2010 (Restated)
OJSC "BANK "ROSSIYA"	RR	5.80%	4,000,000	-
Bonds	RR	7.25%	1,532,550	-
Current portion of finance lease liability	RR	14.00%-23.30%	69,158	10,290
Total			5,601,708	10,290

All of the above bank debt is obtained at fixed interest rates.

The effective interest rate is the market interest rate applicable to the loan at the date of origination for fixed rate loans.

Note 18. Trade and other payables

	31 December 2011	31 December 2010 (Restated)
Trade payables	5,972,946	5,921,198
Accrued liabilities and other payables	728,692	471,645
Interest payable	21,917	21,613
Dividend payable	3,726	1,127
Financial liabilities	6,727,281	6,415,583
Salaries and wages payable	671,985	428,681
Advances from customers	32,244	114,730
Total	7,431,510	6,958,994

Trade payables, accrued liabilities and other payables are classified as financial liabilities. The Group's management believes that the majority of suppliers, whose balances are included in trade and other payables balance, relate to the same class of reliable suppliers with similar characteristics.

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Note 19. Other taxes payable

	31 December 2011	31 December 2010 (Restated)
Social tax	252,625	66,398
Water usage tax	129,108	255,423
Property tax	97,475	127,942
Personal income tax	54,991	40,951
Environment pollution payment	46,215	62,441
Value added tax	-	5,712
Other taxes	17,064	24,793
Total	597,478	583,660

Note 20. Retirement benefit obligations

The post employment and post retirement program of the Company consists of the occupational pension plan and various post employment, long-term and jubilee benefits. This is a defined benefit plan, under which the participants accrue pension entitlements on the basis of a formula or defined rule. The occupational pension program comprises the main part of the program. According to the pension formula, the pension benefit is dependent on the past service of participants and their final salary. Employees older than 25 are entitled to the occupational pension benefits.

The defined benefit pension plan provides old age retirement pension and disability pension. The plan's old age retirement pension is conditional on the member qualifying for the State old age pension.

The company also provides various long-term and post employment benefits including death in service and death in occupational pension benefit, lump sum payments upon retirement and jubilee benefits to active employees.

Additionally the Company provides financial support payments of a defined benefit nature to its former employees, who have reached the retirement age. Such benefits are paid either to those who qualify for the occupational pension plan and those who do not. The Company also provides jubilee benefits to its retired former employees.

As at 31 December 2011, there were 10,146 active employees eligible to participate in the post retirement defined benefit program of the Company and 6,762 recipients of the financial support benefits (31 December 2010: 10,020 and 6,830 respectively).

The last independent actuarial valuation of pension and other post employment and long-term benefits in accordance with the provisions of IAS 19 was performed as at 31 December 2011 using individual members' census data as at the valuation date.

Amounts recognised in the statement of financial position are as follows:

	31 December 2011	31 December 2010 (Restated)
Present value of defined benefit obligations (DBO)	2,354,037	1,933,907
Present value of unfunded obligations	2,354,037	1,933,907
Unrecognised actuarial loss	(686,553)	(320,785)
Unrecognised past service cost	14,738	(82,723)
Net liability at the end of year	1,682,222	1,530,399
Employees' average remaining working life (years)	10	10

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Amounts recognised in the income statement are as follows:

	Year ended 31 December 2011	Year ended 31 December 2010 (Restated)
Current service cost	101,576	82,371
Interest cost	156,821	151,446
Net actuarial losses recognised during the year	124,210	27,821
Amortisation of past service cost	22,655	24,470
Immediate recognition of vested past service cost	(102,995)	-
Net expense recognised in the income statement	302,267	286,108

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

	31 December 2011	31 December 2010 (Restated)
Net liability at the beginning of the year	1,530,399	1,379,269
Net expense recognised in the income statement	302,267	286,108
Benefits paid	(150,444)	(134,978)
Net liability at the end of year	1,682,222	1,530,399

The key actuarial assumptions used were as follows:

	31 December 2011	31 December 2010 (Restated)
Discount rate	8,50%	8,00%
Future salary increases	9,72%	8,61%
Future pension increases	n/a	n/a
Future financial support benefits increases	5,50%	5,75%
Staff turnover	4,00%	5,00%
Mortality	Russia 1998	Russia 1998

Reconciliation of opening and closing balances of the present value of the defined benefit obligation (DBO):

	31 December 2011	31 December 2010 (Restated)
Present value of DBO at the beginning of year	1,933,907	1 630,142
Current service cost	101,576	82,371
Interest cost	156,821	151,446
Actuarial loss	489,979	223,073
Past service cost	(177,802)	(18,147)
Benefits paid	(150,444)	(134,978)
Present value of defined benefit obligations (DBO) at the end of year	2,354,037	1,933,907

Funded status of the pension and other post employment and long-term obligations as well as gains/losses arising from experience adjustments is as follows:

	2011	2010	2009	2008	2007
		(Restated)	(Restated)	(Restated)	(Restated)
Present value of DBO	2,354,037	1,933,907	1,630,142	1,569,536	1,402,988
(Losses) / gains arising from experience adjustments on plan liabilities	(403,680)	(86,795)	(8,365)	5,635	54,563

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Note 21. Restoration provision

The Group owns an ash dump on the territory of the Republic of Kazakhstan, and an obligation to restore the surface of this ash dump when it is full. The main assumptions used in the calculation of the provision are as following:

- Average inflation per annum – 4.5% (2010: 4.4%);
- Pre-tax discount rate – 13.88% (2010: 13.88%);
- Projected restoration period – 12 years (2010: 13 years).

	Notes	31 December 2011	31 December 2010 (Restated)
Total carrying amount at the beginning of year		566,778	390,036
Less current portion		48,740	34,454
Non-current portion at the beginning of year		518,038	355,582
Unwinding of the present value discount	25	65,240	51,367
Changes in estimates adjusted against property, plant and equipment		(16,841)	187,101
Utilisation		(43,339)	(61,726)
Total carrying amount at the end of year		571,838	566,778
Less current portion		50,168	48,740
Non-current portion at the end of year		521,670	518,038

Note 22. Revenues

	Year ended 31 December 2011	Year ended 31 December 2010 (Restated)
Electricity and capacity	100,721,505	91,222,519
Heating	3,221,972	3,243,754
Other	952,162	1,996,535
Total	104,895,639	96,462,808

Note 23. Operating expenses

	Notes	Year ended 31 December 2011	Year ended 31 December 2010 (Restated)
Fuel		63,398,434	57,497,644
Purchased electricity, capacity and heat		8,751,713	6,406,704
Employee benefits		7,748,374	6,234,589
Repairs and maintenance		4,219,791	3,560,650
Depreciation and amortisation of property, plant, equipment and intangible assets	6,7	3,682,538	3,184,753
Raw materials and supplies		3,094,075	2,593,224
Taxes other than income tax		2,261,570	2,140,271
Dispatcher's fees		1,618,527	1,381,221
Provision for impairment of trade and other receivables		1,206,926	1,127,852
Transport		906,744	484,802
Rent		496,303	474,711
Loss on disposal of other assets		402,770	34,044

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Ecological payments		389,910	467,479
Consulting, legal and audit services		362,994	191,829
Insurance		194,800	142,515
Loss on disposal of property, plant, equipment		113,750	2,798
Charge / (reversal) of property, plant and equipment impairment	6	7,208	(4,615)
Reversal of provision for inventory obsolescence	11	(4,144)	(56,670)
Other expenses		3,514,100	3,273,034
Total operating expenses		102,366,383	89,136,835

Employee benefits expenses comprise the following:

	Year ended 31 December 2011	Year ended 31 December 2010 (Restated)
Salaries and wages	5,616,577	4,846,818
Social funds contribution	1,406,730	820,905
Financial aid to employees and pensioners	579,621	430,412
Non-state pensions and other long-term benefits (Note 20)	145,446	134,662
Employee share option plan expenses	-	1,792
Employee benefits	7,748,374	6,234,589
Number of personnel at the end of the period	10,093	10,061

Included in social funds contribution are statutory pension contributions of RR 1,085,794 thousand (for the year ended 31 December 2010: RR 691,405 thousand).

Note 24. Finance income

	Year ended 31 December 2011	Year ended 31 December 2010 (Restated)
Release of discounting effect of long-term promissory notes received	92,228	155,941
Interest income on bank deposits and current bank account balances	45,941	443,922
Foreign exchange differences	-	55,228
Other finance income	680	1,988
Total finance income	138,849	657,079

Note 25. Finance costs

	Year ended 31 December 2011	Year ended 31 December 2010 (Restated)
Interest expense on debt	(1,649,323)	(996,112)
Interest on employee benefit obligations (Note 20)	(156,821)	(151,446)
Unwinding of the present value discount - provision for ash dump (Note 21)	(65,240)	(51,367)
Interest expense under finance lease agreements	(33,618)	(4,232)
Foreign exchange differences	(15,523)	-
Effect of discounting of long-term promissory notes received	(13,873)	(400,551)
Total finance costs	(1,934,398)	(1,603,708)

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Note 26. Earnings per share

	Year ended 31 December 2011	Year ended 31 December 2010 (Restated)
Weighted average number of ordinary shares issued	58,253,818,751	59,324,806,242
Profit attributable to the shareholders of OJSC "OGK-2" (thousand of RR)	10,150	4,670,190
Earning per ordinary share attributable to the shareholders of OJSC "OGK-2" – basic and diluted (in RR)	0.0002	0.0787

Note 27. Capital commitments

On 1 November 2010 the Company had signed an agency agreement with CFS, OJSC "ATS", NP Council Market and SO UPS, under which CFS was to sign on behalf of the OJSC "OGK-2" contracts on capacity provision. In December 2010 CFS on behalf of the OJSC "OGK-2" signed the contracts on provision of capacity from estimated generating units with total capacity of 3 680 MWth. In accordance with agency agreement conditions in case of non-compliance with deadlines of putting into operation of generating units, or in case of incomplete delivery, the Company pays the forfeit. Amount of forfeit depends on terms of expiration of generating unit entry date, volume of incomplete delivered capacity and price for this capacity according to long-term capacity supply contract. Management of the Company does not expect non-fulfillment or partial fulfillment of obligations under long-term capacity supply contract, that can result in significant forfeits.

As at 31 December 2011 in the framework of the investment program implementation the Group has capital commitments (including VAT) of RR 66,616,100 thousand (as at 31 December 2010: RR 69,996,787 thousand).

As at 31 December 2011 the Group has commitments of RR 76,685 thousand in respect of software implementation costs (as at 31 December 2010 - RR 227,932 thousand).

Note 28. Guarantees

The Group provided guarantees to OJSC "Bank of Moscow" for OJSC "E4 Group" fulfilling its obligations under the letter of credit agreement between the bank and OJSC "E4 Group" in the framework of the general construction contract with the Group. As at 31 December 2011 the guarantees amounted to EURO 35,942 thousand or RR 1,497,745 thousand (as at 31 December 2010: EURO 35,942 thousand or RR 1,449,644 thousand). OJSC "E4 Group" has concluded the letter of credit agreement for payments to the supplier for delivering to Serovskaya GRES the power plant with supporting equipment. In turn, in order to secure the guarantee issued to OJSC "Bank of Moscow" the Group in 2010 entered into a pledge agreement with OJSC "E4 Group" for a property right of equipment for Serovskaya GRES in the amount of RR 4,122,056 thousand (2010: RR 4,122,056 thousand) (see Note 6).

Note 29. Contingencies

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

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

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

Tax contingency. Russian tax and currency legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities, in particular, the way of accounting of water tax, deductibility of certain expenses.

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As at 31 December 2011 management believes that its interpretation of the relevant legislation is appropriate and the Group's tax and currency positions will be sustained. Where management believes it is probable that a position cannot be sustained, an appropriate amount has been accrued for in these financial statements.

In addition, tax and other legislation do not address specifically all the aspects of the Group's reorganization related to reforming of the electric utilities industry. As such there may be tax and legal challenges to the various interpretations, transactions and resolutions that were a part of the reorganization and reform process.

Environmental matters. The Group and its predecessor entities have operated in the electric power industry in the Russian Federation for many years. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement position of government authorities is continually being reconsidered. The Group periodically evaluates their obligations under environmental regulations.

The Group owns an ash dump on the territory of the Republic of Kazakhstan, and is subject to the environmental regulations in this country in respect of the usage of the ash dump. As such, the Group periodically evaluates its obligations under Kazakhstan environmental regulations and accrues the respective provision.

Potential liabilities might arise as a result of changes in legislation and regulation or civil litigation. The impact of these potential changes cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental remediation in excess of those amounts for which the provision has been recognised by the Group in these consolidated financial statements.

Note 30. Financial instruments and financial risks factors

Financial risk factors. The Group's activities expose it to a variety of financial risks, including the effects of changes in foreign currency exchange rates, changes in interest rates, and the collectability of receivables. The Group does not have a risk policy to hedge its financial exposures.

Bank covenants. In 2010 and 2011 credit facilities with OJSC "Sberbank", OJSC "Evrofinance Mosnarbank", OJSC "BANK "ROSSIYA" (the Lender) (see Note 17) were restricted by covenants (transfer of revenue proceeds to current account). In case of breach of covenants the Lender had the option to call these loans earlier. In respect of these loans the Group has complied with all covenants.

Credit risk. The Group's financial assets, which are exposed to credit risk, are as follows:

	31 December 2011	31 December 2010 (Restated)
Trade receivables (see Note 10)	6,578,502	4,025,927
Other receivables (see Note 10)	4,297,505	138,572
Promissory notes (see Note 10)	671,326	3,182,196
Cash and cash equivalents (see Note 9)	359,116	5,362,378
Available-for-sale investments (see Note 8)	87,280	148,256
Short-term bank deposits (see Note 12)	-	24,670
Total financial assets	11,993,729	12,881,999

Guarantees are disclosed in Note 6.

The Group's exposure to credit risk mainly depends on each particular counterparty characteristics. Due to absence of independent credit ratings for wholesale electricity market and other buyers, the Group assesses their solvency based on financial condition, reputation, past experience and existence of past due. The existing receivables are monitored and collection measures are taken regularly. Management believes that the majority of customers whose balances are included in trade receivables comprise a single class, as they bear the same characteristics. Those customers belong to the same wholesale electric power market (NOREM), which is regulated by OJSC "Administrator of Trade System" (OJSC "ATS").

Management does not believe that the Group is dependent on any particular customer.

As at 31 December 2011 and 2010 no trade or other receivables were secured by guarantees. Credit risks related to trade and other receivables are systematically reviewed for necessity of creation of impairment provision against trade and other receivables. Trade and other receivables balance netted

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with trade and other receivables impairment provision represents maximum exposure to credit risks, relating to receivables. Despite the fact that cash collection is subject to influence of different economic factors, management of the Group believes that there is no significant risk of losses exceeding recognized trade and other receivables impairment provision.

The amount of trade and other receivables impairment provision is assessed by management based on the analysis of particular counterparty's solvency, credit history and cash collection, and analysis of future cash flows. As at 31 December 2011 identification of present value of future cash flows was done utilizing discount rates of 13.27% p.a. – 15.23% p.a. (as at 31 December 2010: 13.33% p.a. – 15.23% p.a), calculated based on the original effective interest rate. Discounting effect is recognized as part of trade and other receivables impairment provision expenses. The Group estimates that discounted amount of trade and other receivables less recognized impairment provision can be collected in cash or settled against trade and other payables.

The main part of the provision is created for C.JSC "Mezhdunarodny promyshlenny bank" receivable (related to deposits repayment in the amount of RR 1,192,425 thousand). The bank was declared bankrupt by a Moscow arbitration court decision. An additional provision of RR 1,328,536 thousand is created for customers in North Caucasus region of the CIS.

Movements in trade and other receivables impairment provision during 2011 were as follows:

Impairment provision as at 31 December 2010 (Restated)	2,595,081
Accrual of impairment provision	1,568,629
Write-off of doubtful trade and other receivables	(5,947)
Reversal of impairment provision	(285,271)
Impairment provision as at 31 December 2011	3,872,492

Movements in trade and other receivables impairment provision during 2010 were as follows:

Impairment provision as at 31 December 2009 (Restated)	1,573,579
Accrual of impairment provision	1,893,879
Write-off of doubtful trade and other receivables	(14,239)
Reversal of impairment provision	(858,138)
Impairment provision as at 31 December 2010 (Restated)	2,595,081

As at 31 December 2011 total amount of overdue trade and other receivables which were not provided for impairment was RR 1,049,178 thousand (31 December 2010 – RR 843,383 thousand). The reason impairment provision was not created is the absence of non-payment of respective counterparties in the past. Further, these amounts were collectively assessed for impairment within groups of financial assets with similar credit risk. Collective assessment did not change individual assessment.

The analysis of trade and other receivables by accrual periods is presented below:

	31 December 2011		31 December 2010 (Restated)	
	Nominal value	Impairment	Nominal value	Impairment
Not overdue	9,859,515	(32,686)	3,378,782	(57,666)
Overdue less than 1 month	77,477	(15,003)	338,619	(39,459)
Overdue from 1 to 3 months	716,082	(17,421)	284,888	(48,316)
Overdue from 3 months to 1 year	2,503,925	(2,246,149)	2,085,547	(1,779,738)
Overdue from 1 year to 3 years	1,171,757	(1,142,610)	439,256	(438,529)
Overdue more than 3 years	419,743	(418,623)	232,488	(231,373)
Total	14,748,499	(3,872,492)	6,759,580	(2,595,081)

Cash is placed in Russian financial institutions which are considered at the time of deposit to have minimal or low risk of default. The Board of Directors of the Company has approved a list of the banks, at which deposits could be placed and rules for such placements. Also the Group continuously considers financial condition, independent agencies ratings, past experience and other factors. The list of the banks with balances and ratings, at which the Group has open current bank accounts and deposits at the reporting date, is presented in Notes 9 and 12.

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As at the reporting date maximum Group's exposure to credit risk equals to carrying amount of each class of financial assets. The Group does not hold any collateral.

Liquidity risk. Prudent liquidity risk management includes maintaining sufficient cash and the availability of funding from an adequate amount of committed credit facilities. Group mainly has short-term financial liabilities. To manage the liquidity risk the Group applies a policy of holding financial assets for which there is a liquid market and that are readily convertible to meet liquidity needs. The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity dates. The amounts disclosed in the table are the contractual undiscounted cash flows.

31 December 2011	0-6 months	6-12 months	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years	Total
Bonds including future principal and interest payments	1,587,953	-	-	-	-	-	-	1,587,953
Loans including future principal and interest payments	5,136,374	1,081,393	2,162,786	2,162,786	15,594,096	7,337,789	9,268,113	42,743,337
Finance lease liability	57,257	53,831	84,241	59,157	55,781	20,704	-	330,971
Trade payables	5,969,536	3,410	65,087	135,759	29,668	195	176	6,203,831
Other payables (except for advances received and liabilities for employee compensations)	559,922	172,496	13	-	-	-	10,363	742,794
Total future payments	13,311,042	1,311,130	2,312,127	2,357,702	15,679,545	7,358,688	9,278,652	51,608,886
31 December 2010 (Restated)	0-6 months	6-12 months	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years	Total
Bonds including future principal and interest payments	55,403	55,403	1,587,953	-	-	-	-	1,698,759
Loans including future principal and interest payments	568,231	574,169	1,144,379	1,142,400	1,142,400	14,582,087	-	19,153,666
Finance lease liability	8,750	2,243	2,081	-	-	-	-	13,074
Trade payables	5,871,948	49,250	490,296	45,268	-	53,805	838	6,511,405
Other payables (except for advances received and liabilities for employee compensations)	465,527	7,245	7,128	44	-	-	5,546	485,490
Total future payments	6,969,859	688,310	3,231,837	1,187,712	1,142,400	14,635,892	6,384	27,862,394

Guarantees are disclosed in Note 28.

The Group has the following unutilized bank credit lines:

	31 December 2011	31 December 2010 (Restated)
Fixed interest rate facility:		
- expiring within 1 year from the reporting date*	7,744,192	6,000,000
Total	7,744,192	6,000,000

*fixed rate is agreed for every tranche withdrawal.

Interest rate risk. Profit and cash flows from operating activities of the Group are mainly independent from changes in market interest rates. The Group is exposed to changes in interest rates risk only in respect of changes in market value of interest bearing loans and borrowings and interest bearing deposits. 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 favourable to the Group over the expected period until maturity. Significant interest bearing assets of the Group are

disclosed in Notes 9 and 12. These assets have fixed interest rate and therefore are not exposed to risk of difference between fixed interest rate and market interest rate.

Currency risk. The electricity and heat produced by the Group are sold domestically at prices denominated in Russian Roubles, currency of Russian Federation. Due to that fact, the Group has low foreign currency exchange risk exposure. The Group's financial position, liquidity, its sources of financing, financial performance are largely independent of changes in foreign exchange rate because the Group's activity is planned in the way that all its assets and liabilities should be denominated in domestic currency. Due to these facts potential effect of changes in exchange rate of national currency to other currencies is estimated by the Group as insignificant.

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

- Share capital can not be lower than 1,000 minimum salaries on the date of company registration;
- If the share capital of the entity is greater than statutory net assets of the entity, such entity must make a decision on the decrease of its share capital to the value not exceeding its net assets or liquidation value;
- If the minimum allowed share capital is greater than statutory net assets of the entity, such entity is subject to liquidation.

As at 31 December 2011, the Group has been in compliance with the above share capital requirements.

The Group's objectives when managing capital are to safeguard the Group's ability as a going concern in order to provide returns to shareholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated based on the statutory financial statements as total liabilities divided by total equity. According to the Company's internal regulation the Company's total liabilities/equity ratio should not exceed 1. The Company satisfied this ratio.

The gearing ratios, calculated on the basis of statutory financial statements, prepared in accordance with Russian accounting standards at 31 December 2011 and 31 December 2010 were as follows:

	31 December 2011	31 December 2010 (Restated)
Total liabilities	39,926,260	23,724,155
Equity	75,701,776	79,196,172
Gearing ratio, %	0.53	0.30

Fair values. Management believes that the fair value of its financial assets and liabilities approximates their carrying amounts, and determines the appropriate level of the financial assets and liabilities using a three – level hierarchy on the basis of the lowest level input that is significant to the fair value measurements. The available for sale investments (see Note 8) are classified as Level 1.

Note 31. Segment information

The Management Board of the Company controls and allocates economic resources of the Group between segments and evaluates segments' operating efficiency. Primary activity of the Group is production of electric and heat power and capacity which covers 99.1% of the Group revenue. The technology of electricity and heat production does not allow segregation of electricity and heat segments. Due to significant decentralization and distances between Company branches, the Group discloses seven reporting segments: Surgutskaya GRES-1, Troitskaya GRES, Stavropolskaya GRES, Serovskaya GRES, Kirishskaya GRES, Novocherkasskaya GRES, Ryazanskaya GRES. All reporting segments are located on the territory of Russian Federation. In the process of evaluation of segments, results and allocation of economic resources of the Group the Management Board uses financial information provided below prepared in accordance with RAR. The differences between the above-mentioned financial indicators analyzed by the Management Board and IFRS financial information are caused by different approaches applied in IFRS and RAR. The main difference is the estimation of the value of property, plant and equipment. The Group does not have inter-segment revenue.

OGK-2 Group
Notes to Consolidated Financial Statements for the year ended 31 December 2011

(in thousands of Russian Roubles)

Year ended 31 December 2011	Surgutskaya GRES-1	Stavropolskaya GRES	Troitskaya GRES	Serovskaya GRES	Kirishskaya GRES
Revenue	23,906,118	15,806,422	5,987,749	4,356,385	13,060,036
Depreciation of property, plant, equipment	(187,932)	(91,030)	(315,353)	(86,917)	(504,043)
Segment operating profit/ (loss)	6,113,421	1,388,644	(1,759,280)	(80,999)	1,263,032
Year ended 31 December 2011	Novocherkasskaya GRES	Ryazanskaya GRES	Other operating segments	Total operating segments	
Revenue	14,208,587	15,020,927	12,549,415	104,895,639	
Depreciation of property, plant, equipment	(320,203)	(747,362)	(605,030)	(2,857,870)	
Segment operating profit/ (loss)	311,112	715,684	(621,632)	7,329,982	
Year ended 31 December 2010 (Restated)	Surgutskaya GRES-1	Stavropolskaya GRES	Troitskaya GRES	Serovskaya GRES	Kirishskaya GRES
Revenue	20,734,671	13,017,643	8,321,759	3,133,408	14,436,079
Depreciation of property, plant, equipment	(172,358)	(89,341)	(127,041)	(65,397)	(414,807)
Segment operating profit/ (loss) before income tax	5,544,207	1,010,821	(69,491)	(150,410)	2,833,838
Year ended 31 December 2010 (Restated)	Novocherkasskaya GRES	Ryazanskaya GRES	Other operating segments	Total operating segments	
Revenue	12,102,763	12,992,023	11,724,462	96,462,808	
Depreciation of property, plant, equipment	(277,731)	(620,259)	(574,366)	(2,341,300)	
Segment operating profit/ (loss) before income tax	365,484	1,023,388	424,415	10,982,252	

A reconciliation of management financial information prepared in accordance with RAR to IFRS financial information is provided below:

	Year ended 31 December 2011	Year ended 31 December 2010 (Restated)
Segment operating profit	7,329,982	10,982,252
Adjustments, arising from different accounting policy:		
Provision for impairment of trade and other receivables	81,047	(126,737)
Depreciation adjustment	(761,268)	(807,123)
Loss / (gain) on disposal of assets	(103,912)	43,624
Other adjustments	233,197	541,699
Unallocated expenses:	(4,561,134)	(3,274,623)
Provision for impairment of trade and other receivables	(1,055,035)	(833,919)
Employee benefit	(965,734)	(874,817)
Rent	(326,205)	(310,810)
Consulting, legal and audit services	(299,106)	(136,291)
Other corporate expense	(1,915,054)	(1,118,786)
Operating profit (IFRS)	2,217,912	7,359,092

OGK-2 Group**Notes to Consolidated Financial Statements for the year ended 31 December 2011**

(in thousands of Russian Roubles)

Segment's assets are disclosed below:

	Surgutskaya GRES-1	Stavropolskaya GRES	Troitskaya GRES	Serovskaya GRES	Kirishskaya GRES
31 December 2011	4,136,252	2,887,087	25,899,355	9,996,699	21,545,458
31 December 2010 (Restated)	4,039,167	2,502,992	17,977,793	9,896,458	18,080,537

	Novocherkasskaya GRES	Ryazanskaya GRES	Other operating segments	Total assets
31 December 2011	16,107,227	12,554,617	9,032,526	102,159,221
31 December 2010 (Restated)	13,935,491	12,353,772	8,957,705	87,743,915

A reconciliation of management financial information to IFRS financial information is provided below:

	Year ended 31 December 2011	Year ended 31 December 2010 (Restated)
Total assets for reportable segment	102,159,221	87,743,915
Adjustments, arised from different accounting policy:		
Property, plant and equipment adjustment	14,578,216	15,228,609
Prepayments / deposits for pensions	263,663	225,839
Discounting of promissory notes	(392,423)	(470,778)
Impairment of trade and other receivables	(14,599)	(76,852)
Provision for inventory obsolescence	(53,350)	(57,494)
Other adjustments	(154,857)	(822,103)
Unallocated assets	15,616,903	15,882,093
Total assets (IFRS)	132,002,774	117,653,229

The unallocated assets are the assets which can not be directly related to the certain operating segment and are also out of the operating segment control for decision making purposes. These assets include intangible assets, short – term and long - term trade receivables, cash in bank, deposits, inventories and items of property, plant and equipment which are subject to the headquarters control.

Management of the Group does not review the information in respect of operating segment's liabilities in order to make a decision about allocation of resources, because of centralisation of significant part of payment transactions.