OJSC Territorial'naya generiruyuschaya kompaniya # 11

Consolidated financial statements

for the year ended 31 December 2012
prepared in accordance with
International Financial Reporting Standards (IFRS)

OJSC Territorial'naya generiruyuschaya kompaniya # 11

Consolidated financial statements

for the year ended 31 December 2012

Contents

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Independent auditors' report

To Shareholders of the OJSC Territorial'naya generiruyuschaya kompaniya #11

Report on consolidated financial statements

We have audited the accompanying financial statements of the OJSC Territorial'naya generiruyuschaya kompaniya #11, which comprise the consolidated statement of financial position as at 31 December 2012, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, as well as for maintaining internal control procedures relevant to the preparation of 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 whether the 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 auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLC

28 February 2013

OJSC Territorial'naya generiruyuschaya kompaniya # 11

Consolidated statement of financial position

as at 31 December 2012

(All amounts are in thousands of rubles, unless stated otherwise)

	Note	31 December 2012	31 December 2011
Assets			
Non-current assets			
Property, plant and equipment	5	20,981,951	16,479,356
Intangible assets		34,446	94,136
Prepayments	8	112,443	1,794,551
Other receivables	7	1,396	3,694
Total non-current assets		**21,130,236**	**18,371,737**
Current assets			
Inventories	6	1,065,102	1,069,998
Trade and other receivables	7	2,794,763	2,202,042
Prepayments	8	37,361	77,020
Current income tax		–	14,241
VAT recoverable		18,098	1,275
Cash and cash equivalents	9	90,775	69,266
Total current assets		**4,006,099**	**3,433,842**
Assets classified as held for sale	27	504,649	–
Total assets		**25,640,984**	**21,805,579**
Equity			
Share capital	10	5,128,277	5,128,277
Treasury shares	10	–	(20,671)
Additional paid-in capital	10	125,590	125,590
Retained earnings		7,132,440	7,495,338
Total equity		**12,386,307**	**12,728,534**
Liabilities			
Non-current liabilities			
Loans and borrowings	11	6,070,262	4,825,477
Employee benefits	12	517,527	490,120
Provisions	13	152,605	142,379
Deferred tax liabilities	21	1,242,634	1,284,196
Other non-current liabilities	12	13,570	13,400
Total non-current liabilities		**7,996,598**	**6,755,572**
Current liabilities			
Loans and borrowings	11	2,795,713	523,369
Trade and other payables	14	982,901	921,008
Taxes payable other than income tax	15	147,418	202,730
Prepayments received		484,348	293,921
Payables to employees	16	337,496	338,706
Provisions	13	5,164	41,739
Total current liabilities		**4,753,040**	**2,321,473**
Liabilities directly associated with the assets classified as held for sale	27	505,039	–
Total liabilities		**13,254,677**	**9,077,045**
Total equity and liabilities		**25,640,984**	**21,805,579**

General Director — Kozhemyako S.I.

Chief Accountant — Chizhenko I.V.

28 February 2013

The notes set out on pages from 7 to 43 are an integral part of these consolidated financial statements.

OJSC Territorial'naya generiruyuschaya kompaniya # 11

Consolidated statement of comprehensive income

for the year ended 31 December 2012

(All amounts are in thousands of rubles, unless stated otherwise)

	Note	2012	2011
Revenue	17	24,009,187	21,024,482
Other operating income	18	293,759	285,447
Operating expenses	19	(24,510,556)	(20,803,311)
Operating (loss)/profit		**(207,610)**	**506,618**
Finance income	20	1,891	3,221
Finance expenses	20	(191,151)	(157,354)
Net finance expenses		**(189,260)**	**(154,133)**
(Loss)/profit before tax		**(396,870)**	**352,485**
Income tax	21	43,716	(137,506)
(Loss)/profit for the period		**(353,154)**	**214,979**
Other comprehensive income		–	–
Total comprehensive (loss)/income for the period		**(353,154)**	**214,979**
(Loss)/earnings per ordinary share, basic and diluted (RUR per share)	10	(0.0007)	0.0004

The notes set out on pages from 7 to 43 are an integral part of these consolidated financial statements.

OJSC Territorial'naya generiruyuschaya kompaniya # 11

Consolidated statement of cash flows

for the year ended 31 December 2012

(All amounts are in thousands of rubles, unless stated otherwise)

	Note	2012	2011
Operating activities			
(Loss)/profit before tax		**(396,870)**	**352,485**
Adjustments for:			
Depreciation, amortization and impairment losses	19	1,216,683	1,175,322
Allowance for impairment of accounts receivable	19	376,476	(7,561)
Changes in accruals for bonuses and unused vacations		63,795	54,382
Net finance expenses	20	189,260	154,133
Gain on disposal of property, plant and equipment	18, 19	(55)	(7,402)
Other non-cash transactions		38,363	79,342
Operating cash flow before changes in working capital, income taxes and interest paid		**1,487,652**	**1,800,701**
Changes in working capital:			
Increase in trade and other receivables		(1,054,254)	(305,205)
Increase in inventories		(102,987)	(344,945)
Decrease/(increase) in prepayments		12,896	(26,461)
(Increase)/decrease in VAT recoverable		(16,823)	9,037
Increase in trade and other payables		325,248	163,819
Increase/(decrease) in other taxes payable		49,510	(276,278)
Increase in payables to employees		26,511	5,298
Increase/(decrease) in employee benefits		67,129	(2,053)
Increase in other non-current liabilities		846	13,400
Increase in prepayments received		220,366	81,862
Cash inflows from operating activities		**1,016,094**	**1,119,175**
Interest paid		(582,008)	(321,648)
Income tax paid		(6,920)	(23,755)
Net cash inflows from operating activities		**427,166**	**773,772**
Investing activities			
Purchase of property, plant and equipment		(4,007,649)	(3,566,876)
Proceeds from disposal of property, plant and equipment		2,672	12,312
Purchase of intangible assets		(696)	(21,381)
Other		535	1,374
Net cash flows used in investing activities		**(4,005,138)**	**(3,574,571)**
Financing activities			
Proceeds from loans and borrowings		12,787,471	14,523,267
Repayment of loans and borrowings		(9,192,979)	(11,802,946)
Dividends paid		–	(36)
Proceeds from sale of treasury shares	10	10,927	–
Repayment of principal debt under finance lease		(3,603)	(3,295)
Net cash flows from financing activities		**3,601,816**	**2,716,990**
Net increase/(decrease) in cash and cash equivalents		**23,844**	**(83,809)**
Cash and cash equivalents at the beginning of the period		69,266	153,075
Cash and cash equivalents at the end of the period	**9**	**93,110**	**69,266**

The notes set out on pages from 7 to 43 are an integral part of these consolidated financial statements.

OJSC Territorial'naya generiruyuschaya kompaniya # 11

Consolidated statement of changes in equity

for the year ended 31 December 2012

(All amounts are in thousands of rubles, unless stated otherwise)

	Attributable to equity holders of TGK-11				
	Share capital	**Treasury shares**	**Additional paid-in capital**	**Retained earnings**	**Total equity**
At 1 January 2011	**5,128,277**	**(20,671)**	**125,590**	**7,280,359**	**12,513,555**
Total comprehensive income for the period	–	–	–	214,979	**214,979**
At 31 December 2011	**5,128,277**	**(20,671)**	**125,590**	**7,495,338**	**12,728,534**
At 1 January 2012	**5,128,277**	**(20,671)**	**125,590**	**7,495,338**	**12,728,534**
Total comprehensive income					
Sale of treasury shares (Note 10)	–	20,671	–	(9,744)	**10,927**
Total comprehensive loss for the period	–	–	–	(353,154)	**(353,154)**
At 31 December 2012	**5,128,277**	**–**	**125,590**	**7,132,440**	**12,386,307**

The notes set out on pages from 7 to 43 are an integral part of these consolidated financial statements.

(All amounts are in thousands of rubles, unless stated otherwise)

1 General information

(a) The Group and its operations

Open Joint Stock Company Territorial’naya generiruyuschaya kompaniya # 11 (hereinafter – the "Company" or "TGK-11") was established on 26 August 2005 in the course of reforming the Russian power industry. The reorganization of TGK-11 was completed on 1 November 2007 as a result of the merger of OJSC Omsk Electricity Generation Company (hereinafter – "OEGC") and OJSC Tomskenergo (hereinafter – "Tomskenergo") with TGK-11.

As at 31 December 2012, 100% of the share capital of TGK-11 is owned by INTER RAO UES Group. The head office of TGK-11 is located at 5 Sovetskaya st., Novosibirsk, 630007, Russia.

As at 31 December 2012 and as at 31 December 2011, OJSC Territorial’naya generiruyuschaya kompaniya # 11 Group (hereinafter – the "Group") comprises TGK-11 and its subsidiaries:

	Ownership, %
OJSC Production and Repairs Enterprise Omskenergoremont	100
OJSC Engineering and Construction Company	100
OJSC Energoservis	100
LLC SibEnergoFinance	100

The Group's main activity is electricity, capacity and heat power generation and sale.

(b) Business environment in the Russian Federation

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The global financial crisis has resulted in uncertainty regarding future economic growth, availability of financing and cost of capital, which could negatively affect the Group's future financial position, results of operations and business prospects in a manner not currently determinable. Management believes it is taking appropriate measures to support the sustainability of the Group’s business in the current circumstances.

(c) Government regulation of tariffs for electricity and heat energy

The government affects the Group's activities by controlling tariffs for electricity and heat energy. The Federal Tariff Service and Regional Energy Commissions do not always approve increase of tariffs in line with the increase of the Group's expenses; therefore, certain tariffs may not be sufficient to cover all the Group's energy generation expenses. Tariffs are determined based on the expenses calculated in accordance with the Russian Accounting Standards.

Electricity produced in excess of volumes sold at regulated tariffs is realized at market prices on a non-regulated market.

2 Basis of preparation

(a) Statement of compliance

These consolidated financial statements (hereinafter – "Financial Statements") have been prepared in accordance with International Financial Reporting Standards (hereinafter – "IFRS").

(b) Going concern

The financial statements have been prepared based on the going concern assumption, according to which assets are realized and liabilities are settled in the normal course of business. These financial statements do not include any adjustments that would be necessary if the Group were unable to continue as a going concern.

(c) Basis of measurement

These financial statements are prepared on the historical cost basis except for the property, plant and equipment acquired before 1 January 2006 originally recognized at fair value at the date of transition to IFRS in order to determine their deemed cost.

(d) Functional and presentation currency

The national currency of the Russian Federation is the Russian ruble (RUR), which is the functional currency of the Group's companies and the presentation currency of these financial statements.

All amounts in these financial statements are presented in thousands of rubles.

(e) Use of professional judgments, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

(i) Judgments

In the process of applying the Group's accounting policies, management has made the following judgments which have the most significant effect on the amounts recognized in the financial statements:

Operating leases – Group as a lessee

The Group entered into lease agreements with third parties for various items of property, plant and equipment. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that the lessor retains all significant risks and rewards of ownership of these properties, and so accounts for the agreements as operating leases, except for agreements accounted for as finance leases.

Service concession arrangements – Group as service concession operator

The Group entered into a number of arrangements for the use of public heating system facilities for the purpose of providing services to the public under energy supply agreements (heat supply to customers). The Group's management has determined that such arrangements meet the criteria of service concession arrangements under IFRIC 12.

2 Basis of preparation (continued)

(e) Use of professional judgments, estimates and assumptions (continued)

Disposal group

In 2012 OJSC INTER RAO UES made a decision upon sale of TGK-11’s subsidiaries: OJSC Production and Repairs Enterprise Omskenergoremont, OJSC Engineering and Construction Company and OJSC Energoservis (see Note 27).

Group Management considers these subsidiaries meet all criterion for classification as a disposal group.

(ii) Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. The Group's assumptions and estimates are based on the inputs available at the time of preparing the financial statements. But current circumstances and assumptions concerning the future may change as a result of changes in the market environment or circumstances beyond the Group's control. Such changes are reflected in the assumptions as they occur.

Useful lives of property, plant and equipment

The estimation of the useful life of an item of property, plant and equipment is a matter of management judgment based upon experience with similar assets. 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. Land plots and buildings are regarded as separate assets being separately recognized in the accounting. Land plots have indefinite useful lives and are not depreciated.

Impairment provision for accounts receivable

The impairment provision for accounts receivable is based on the Group's assessment of the collectability of specific customer accounts. 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.

If the Group determines that no objective evidence exists that impairment has occurred for any specific accounts receivable, whether significant or not, it includes the account receivable in a group of accounts receivable with similar credit risk characteristics and collectively assesses them for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of accounts receivable that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

2 Basis of preparation (continued)

(e) Use of professional judgments, estimates and assumptions (continued)

Ash dump restoration provision

The Group measures its ash dump restoration provision using the estimated cost of site restoration work in the period when such work will have to be carried out. Future estimated cost is based on the present cost of such work adjusted for the projected construction price index until the period when the work will be carried out.

Pension benefits

Post-employment benefits generally correspond to plans which are classified and accounted for as defined benefit plans.

The present value of defined post-employment benefit obligations and related current service cost are determined in accordance with actuarial valuation, which rely on demographic and financial assumptions including mortality, both during and after employment, rates of employee turnover, discount rate, future salary and benefit levels.

Due to the complexity of the valuation, the underlying assumptions and its long term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. Further details about the assumptions used are given in Note 3.

3 Summary of significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these Financial Statements and have been applied consistently by Group entities.

(a) Basis of consolidation

Subsidiaries are the entities controlled by the Company. Control exists when the Company has the power to govern financial and operating policies of an entity to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date control commences until the date when it ceases. For consolidation purposes, where necessary, the accounting policies of subsidiaries have been changed to align with the policies adopted by the Company.

Intra-group balances, transactions and any unrealized profit are eliminated.

3 Summary of significant accounting policies (continued)

(b) Financial instruments

(i) Financial assets

Loans and receivables

Loans and receivables are a category of financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest rate method, less any impairment losses. Loans and receivables category comprises the following classes of assets: loans given, trade and other receivables, and cash and cash equivalents.

The Group initially recognizes loans and receivables and deposits on the date that they are originated. Cash and cash equivalents comprise cash balances and call deposits with maturities at initial recognition of three months or less.

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

Financial assets and liabilities are offset and their net amount is presented in the consolidated statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

(ii) Financial liabilities

All financial liabilities are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

The Group has the following financial liabilities: loans and borrowings, and trade and other payables.

Such financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

3 Summary of significant accounting policies (continued)

(c) Disposal group

Disposal group classified as held for sale is measured at the lower of its carrying amount and fair value less costs to sell. The criteria of held for sale classification are regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

(d) Equity

Ordinary shares

Ordinary shares are classified as equity.

Treasury shares

When share capital recognized as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, is recognized as a deduction from equity. When treasury shares are sold or reissued subsequently the amount received is recognized as a change in equity.

Dividends

Dividends are recognized as a liability and deducted from retained earnings at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed in the consolidated financial statements when they are proposed before the reporting date, or proposed or declared after the reporting date but before the consolidated financial statements are authorized for issue.

(e) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment purchased after 1 January 2006 are measured at cost of purchase or construction less accumulated depreciation and impairment losses. For property, plant and equipment purchased before 1 January 2006, the date of transition to IFRS, cost was determined by reference to its fair value determined by an independent appraiser as of 1 January 2006.

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

3 Summary of significant accounting policies (continued)

(e) Property, plant and equipment (continued)

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

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from its disposal with its residual value, and is recognized net within "other operating income" or "operating expenses" in profit or loss for the period.

(ii) Subsequent costs

Subsequently, property, plant and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing part of equipment. When significant parts of property, plant and equipment are required to be replaced at certain intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciation. Likewise, the incurred costs of major inspection, reconstruction and modernization are recognized in the carrying amount of property, plant and equipment as replacement if all recognition criteria are met. All other repair and maintenance costs are recognized in the statement of comprehensive income as incurred. The present value of the expected cost for the decommissioning of the asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

(iii) Depreciation

Depreciation is based on the cost of an asset, less its residual value. Depreciation of property, plant and equipment is recognized on a straight-line basis over the estimated useful lives, since this most closely reflects the expected pattern of consumption of the future economic benefits associated with the asset, and depreciation expense is recognized in profit or loss for the period.

Significant components of an asset are assessed individually and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately over its useful life.

Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

Buildings	4 to 75 years
Hydraulic structures	4 to 80 years
Electric power lines	3 to 30 years
Heating networks	3 to 40 years
Power equipment	3 to 60 years
Other equipment and facilities	3 to 60 years
Other structures	3 to 74 years
Other items of property, plant and equipment	1 to 39 years

Estimated useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

3 Summary of significant accounting policies (continued)

(f) Intangible assets

Useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortization and accumulated impairment losses.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash generating unit level. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life from indefinite to finite is made on a prospective basis.

Research and development costs

Research costs are expensed as incurred. Development expenditures on an individual project are recognized as an intangible asset when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- Its intention to complete and its ability to use or sell the asset;
- How the asset will generate future economic benefits;
- The availability of resources to complete the asset;
- The ability to measure reliably the expenditure associated with the intangible asset during development.

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. Amortization is recorded in cost of sales. During the period of development, the asset is tested for impairment annually.

Amortization

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

- information systems 5-7 years;
- development costs 5 years.

Useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(g) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Other leases are operating leases and the leased assets are not recognized in the Group's consolidated statement of financial position.

3 Summary of significant accounting policies (continued)

(h) Inventories

Inventories are measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business.

The cost of inventories includes all actual acquisition costs, processing costs directly associated with manufacturing products (rendering services, performing work) and other costs incurred to bring inventories to their existing condition and location.

The cost of inventories is determined using the weighted average cost method.

(i) Impairment

(i) Financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The Group considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified.

Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing evidence of impairment, the Group reviews historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss for the period and are reflected on the provision account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

3 Summary of significant accounting policies (continued)

(i) Impairment (continued)

(ii) Non-financial assets

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

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into a smaller group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (group of units) on a pro rata basis.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, less accumulated depreciation or amortization, if no impairment loss had been recognized.

(j) Employee benefits

(i) Current portion of employee benefits

Salaries paid to employees are recognized as expenses for the reporting period. The Company also makes a provision for future vacation payments and a provision for bonuses.

(ii) Post-employment benefit plans

Post-employment benefit plans include defined contribution plans and defined benefit plans.

In case of defined contribution plans, the Company's obligations are limited to the amount payable to the pension fund. Actuarial and investment risks are borne by employees. The Company recognizes contributions under such plan in the period to which they relate.

For defined benefit plans, the Company's obligation with respect to benefits is to ensure that payment to active and former employees is made in the agreed amount. Actuarial and investment risks are borne by the Company. The Company's defined benefits include, in particular, additional financial support provided to retired employees, lump-sum payments to employees upon retirement, death-in-service and death-in-pension benefits. The Company also bears long-term obligations with respect to other defined benefits such as jubilee benefits.

3 Summary of significant accounting policies (continued)

(j) Employee benefits (continued)

The cost of providing benefits under defined benefit plans is determined separately for each plan using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses for each individual plan at the end of the previous reporting period exceeded 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining periods of service of the employees participating in the plan.

The past service cost arises when the Company introduces a defined benefit plan or changes the benefits payable under an existing defined benefit plan. The past service cost is recognized as an expense on a straight line basis over the average period until the benefits become vested. If the benefits are vested immediately following the introduction of, or changes to, a pension plan, past service cost is recognized immediately.

The Company recognizes gains or losses on the curtailment or final settlement under a post-employment defined benefit plan at the time of such curtailment or settlement. The gain or loss on a curtailment or final settlement under a plan comprises any change in the present value of the defined benefit plan obligation, changes in the fair value of the plan assets, related actuarial gains and losses and past service cost that had not previously been recognized.

The defined benefit asset or liability comprises the present value of the defined benefit obligation less past service cost not yet recognized and less the fair value of plan assets out of which the obligations are to be settled directly. The value of any asset is restricted to the sum of any past service cost not yet recognized and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

(k) Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of provisions to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is recognized in profit or loss net of any reimbursement.

Provisions are determined by discounting the expected future cash flows at a risk-free pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

3 Summary of significant accounting policies (continued)

(l) Revenue recognition

Revenue is recognized to the extent that it is highly probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or expected to be received, excluding discounts, rebates, and other sales taxes or duty.

(i) Rendering of services

Revenue on the delivery of electricity, heat and chemically treated water and on dispatch of repairs and repair-construction work is recognized when such delivery and dispatch is effected during the period. The regulated tariffs for electricity and heat are approved by the Federal Tariff Agency or Regional Energy Commissions.

Electricity produced in excess of volumes sold at regulated tariffs is realized at market prices on a non-regulated market.

Electricity purchases entered into to support deliveries under bilateral contracts are presented net within revenue. Management applies judgment in determining which electricity purchases are entered into in order to support deliveries under bilateral contracts.

(ii) Sales of goods

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on dispatch of the goods.

(m) Lease payments

Payments under operational lease agreements are recognized in profit and loss equally during the lease period. The amount of preferences received decreases rent expenses during the lease period.

Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected in the consolidated statement of comprehensive income.

(n) Finance income and costs

Finance income comprises interest income on funds invested and gains on the disposal of financial assets.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions and impairment losses recognized on loans given. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in the consolidated statement of comprehensive income.

Interest income and expenses on financial instruments are recognized on a straight-line basis over the lifetime of financial instruments using the effective interest rate method.

3 Summary of significant accounting policies (continued)

(o) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

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

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries to the extent that it is highly probable that they will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different taxable entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

In accordance with the tax legislation of the Russian Federation, tax losses and current tax assets of a company in the Group may not be set off against taxable profits and current tax liabilities of other Group companies. In addition, the tax base is determined separately for each of the Group's main activities and, therefore, tax losses and taxable profits related to different activities cannot be offset.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is highly probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(p) Earnings per share

The Group presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the net profit or loss attributable to shareholders of TGK-11 by the weighted average number of shares outstanding during the period, adjusted for treasury shares. The Group has not issued any instruments that may potentially dilute EPS.

3 Summary of significant accounting policies (continued)

(q) New and revised standards and interpretations

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's consolidated financial statements for 2011, except for the adoption of new standards and interpretations as of 1 January 2012.

Amendments to standards listed below have no effect on the Group’s accounting policy, financial position and performance.

- IAS 12 *Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets*

The amendment clarified the determination of deferred tax on investment property measured at fair value and introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. It includes the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 should always be measured on a sale basis. The amendment is effective for annual periods beginning on or after 1 January 2012 and has been no effect on the Group’s financial position, performance or its disclosures.

- IFRS 7 *Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements*

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group’s financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about the entity’s continuing involvement in derecognised assets to enable the users to evaluate the nature of, and risks associated with, such involvement. The amendment is effective for annual periods beginning on or after 1 July 2011. The Group does not have any assets with these characteristics so there has been no effect on the presentation of its financial statements.

- IFRS 1 *First-Time Adoption of International Financial Reporting Standards (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters*

The IASB provided guidance on how an entity should resume presenting IFRS financial statements when its functional currency ceases to be subject to hyperinflation. The amendment is effective for annual periods beginning on or after 1 July 2011. The amendment has no effect on the Group’s financial position, performance or its disclosures.

(r) Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group’s financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

3 Summary of significant accounting policies (continued)

(r) Standards issued but not yet effective (continued)

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 *Mandatory Effective Date of IFRS 9* and *Transition Disclosures*, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will not have an impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements

IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12 Consolidation – *Special Purpose Entities*. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. Based on the preliminary analyses performed, IFRS 10 is not expected to have any impact on the currently held investments of the Group. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities — Non-monetary Contributions by Venturers*. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. Preliminary analysis showed that IFRS 11 will not affect financial position and performance of the Group.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required, but has no impact on the Group's financial position or performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance, but based on the preliminary analyses, no material impact is expected. This standard becomes effective for annual periods beginning on or after 1 January 2013.

3 Summary of significant accounting policies (continued)

(r) Standards issued but not yet effective (continued)

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1

The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or ‘recycled’) to profit or loss at a future point in time (for example, net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment affects presentation only and has no impact on the Group’s financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012, and will therefore be applied in the Group’s first annual report after becoming effective.

IAS 19 Employee Benefits (Revised)

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The Group made a voluntary change in accounting policy to recognize actuarial gains and losses in other comprehensive income in the current period. However, the amended standard will impact the net benefit expense as the expected return on plan assets will be calculated using the same interest rate as applied for the purpose of discounting the benefit obligation. The amendment becomes effective for annual periods beginning on or after 1 January 2013. The Group is currently assessing the impact that this standard will have on the financial position and performance.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 *Joint Arrangements*, and IFRS 12 *Disclosure of Interests in Other Entities*, IAS 28 *Investments in Associates*, has been renamed IAS 28 *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The revised standard becomes effective for annual periods beginning on or after 1 January 2013.

IAS 32 Offsetting Financial Assets and Financial Liabilities — Amendments to IAS 32

These amendments clarify the meaning of “currently has a legally enforceable right to set-off”. The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments are not expected to impact the Group’s financial position or performance and become effective for annual periods beginning on or after 1 January 2014.

IFRS 1 Government Loans – Amendments to IFRS 1

These amendments require first-time adopters to apply the requirements of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, prospectively to government loans existing at the date of transition to IFRS. Entities may choose to apply the requirements of IFRS 9 (or IAS 39, as applicable) and IAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for that loan. The exception would give first-time adopters relief from retrospective measurement of government loans with a below-market rate of interest. The amendment is effective for annual periods on or after 1 January 2013. The amendment has no impact on the Group.

3 Summary of significant accounting policies (continued)

(r) Standards issued but not yet effective (continued)

IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Group's financial position or performance and become effective for annual periods beginning on or after 1 January 2013.

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

This interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity. The interpretation is effective for annual periods beginning on or after 1 January 2013. The new interpretation will not have an impact on the Group's financial statement.

Annual Improvements May 2012

These improvements will not have an impact on the Group, but include:

IFRS 1 First-time Adoption of International Financial Reporting Standards

This improvement clarifies that an entity that stopped applying IFRS in the past and chooses, or is required, to apply IFRS, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRS.

IAS 1 Presentation of Financial Statements

This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

IAS 16 Property Plant and Equipment

This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

IAS 32 Financial Instruments, Presentation

This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 *Income Taxes*.

IAS 34 Interim Financial Reporting

The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

These improvements are effective for annual periods beginning on or after 1 January 2013.

4 Changes to presentation

The Group's unwinding of the discount on employee benefits presented in the consolidated financial statements for 2011 was reclassified in order to ensure comparability with similar items presented in the consolidated financial statements for 2012.

	After reclassification	Before reclassification	Difference
Operating expenses	(20,803,311)	(20,764,637)	(38,674)
Operating profit	**506,618**	**545,292**	**(38,674)**
Finance expenses	(157,354)	(196,028)	38,674
Net finance expenses	**(154,133)**	**(192,807)**	**38,674**

5 Property, plant and equipment

	Buildings	Hydraulic structures	Electric power lines	Heating networks	Power equipment	Other equipment and facilities	Other structures	Land	Other	Construction in progress	Total
Cost											
At 1 January 2011	**4,907,847**	**726,721**	**2,028**	**3,406,126**	**4,553,025**	**2,804,077**	**2,466,204**	**87,116**	**148,502**	**1,123,715**	**20,225,361**
Additions	–	–	–	–	–	–	–	–	–	2,197,980	2,197,980
Put in use	27,459	56,937	13,625	270,756	60,164	301,210	318,999	–	43,544	(1,092,694)	–
Disposals	(366)	(10)	(7)	(18,958)	(31,280)	(3,596)	(1,510)	–	(9,020)	(225)	(64,972)
At 31 December 2011	**4,934,940**	**783,648**	**15,646**	**3,657,924**	**4,581,909**	**3,101,691**	**2,783,693**	**87,116**	**183,026**	**2,228,776**	**22,358,369**
Depreciation and impairment											
At 1 January 2011	**(721,001)**	**(90,848)**	**(1,786)**	**(1,127,771)**	**(1,158,337)**	**(918,811)**	**(519,584)**	**–**	**(71,174)**	**(156,732)**	**(4,766,044)**
Depreciation charge	(170,821)	(21,928)	(80)	(241,979)	(300,666)	(262,793)	(139,141)	–	(17,928)	–	(1,155,336)
Impairment loss	–	–	–	–	–	–	–	–	–	(17,695)	(17,695)
Disposals	100	8	7	15,584	31,238	3,351	830	–	8,944	–	60,062
At 31 December 2011	**(891,722)**	**(112,768)**	**(1,859)**	**(1,354,166)**	**(1,427,765)**	**(1,178,253)**	**(657,895)**	**–**	**(80,158)**	**(174,427)**	**(5,879,013)**
Net book value											
At 1 January 2011	**4,186,846**	**635,873**	**242**	**2,278,355**	**3,394,688**	**1,885,266**	**1,946,620**	**87,116**	**77,328**	**966,983**	**15,459,317**
At 31 December 2011	**4,043,218**	**670,880**	**13,787**	**2,303,758**	**3,154,144**	**1,923,438**	**2,125,798**	**87,116**	**102,868**	**2,054,349**	**16,479,356**

	Buildings	Hydraulic structures	Electric power lines	Heating networks	Power equipment	Other equipment and facilities	Other structures	Land	Other	Construction in progress	Total
Cost											
At 1 January 2012	**4,934,940**	**783,648**	**15,646**	**3,657,924**	**4,581,909**	**3,101,691**	**2,783,693**	**87,116**	**183,026**	**2,228,776**	**22,358,369**
Reclassifications	10,075	348,143	–	1	9	12,767	(347,152)	–	(23,843)	–	–
Additions	–	–	–	–	–	–	–	–	–	5,955,192	5,955,192
Put in use	190,017	1,104,478	83,000	261,802	747,288	524,147	634,135	–	6,761	(3,551,628)	–
Disposals	(282)	–	–	–	(1,776)	(4,812)	(1,550)	–	(4,768)	–	(13,188)
Transfer to assets held for sale	(122,679)	–	(16)	(12)	(1,250)	(195,698)	(7,809)	(8,008)	(51,815)	(478)	(387,765)
At 31 December 2012	**5,012,071**	**2,236,269**	**98,630**	**3,919,715**	**5,326,180**	**3,438,095**	**3,061,317**	**79,108**	**109,361**	**4,631,862**	**27,912,608**
Depreciation and impairment											
At 1 January 2012	**(891,722)**	**(112,768)**	**(1,859)**	**(1,354,166)**	**(1,427,765)**	**(1,178,253)**	**(657,895)**	**–**	**(80,158)**	**(174,427)**	**(5,879,013)**
Reclassifications	(283)	(38,679)	–	(1,406)	(195)	793	37,778	–	1,992	–	–
Depreciation charge	(174,658)	(39,082)	(526)	(247,772)	(290,734)	(272,051)	(166,434)	–	(16,801)	–	(1,208,058)
Impairment loss	–	–	–	–	–	–	–	–	–	(2,952)	(2,952)
Disposals	78	–	–	–	1,449	3,958	1,166	–	3,920	–	10,571
Transfer to assets held for sale	19,439	–	16	12	516	97,074	3,411	–	28,327	–	148,795
At 31 December 2012	**(1,047,146)**	**(190,529)**	**(2,369)**	**(1,603,332)**	**(1,716,729)**	**(1,348,479)**	**(781,974)**	**–**	**(62,720)**	**(177,379)**	**(6,930,657)**
Net book value											
At 1 January 2012	**4,043,218**	**670,880**	**13,787**	**2,303,758**	**3,154,144**	**1,923,438**	**2,125,798**	**87,116**	**102,868**	**2,054,349**	**16,479,356**
At 31 December 2012	**3,964,925**	**2,045,740**	**96,261**	**2,316,383**	**3,609,451**	**2,089,616**	**2,279,343**	**79,108**	**46,641**	**4,454,483**	**20,981,951**

5 Property, plant and equipment (continued)

In 2012 the Group changed reclassification of particular objects of property plant and equipment that were incorrectly classified before. This change is presented as reclassifications in a table above.

In 2012, capitalized interest amounted to RUR 402,431 thousand (2011 – RUR 163,082 thousand) at a weighted average capitalization rate of 8.0% (2011 – 7.4%).

In 2012, the Group recognized impairment of construction in progress in the amount of RUR 2,952 thousand (2011 – RUR 17,695 thousand) due to uncertainty as to the completion of the construction or other use.

Leased machinery and equipment

The Group's other property, plant and equipment includes items leased under finance lease agreements. The net book value of leased assets was as follows:

	31 December 2012	31 December 2011
Cost	–	14,599
Accumulated depreciation	–	(575)
Net book value	**–**	**14,024**

6 Inventories

	31 December 2012	31 December 2011
Fuel production stock	856,116	782,122
Other materials and spare parts	209,569	288,525
	1,065,685	**1,070,647**
Allowance for impairment of inventories	(583)	(649)
	1,065,102	**1,069,998**

7 Trade and other receivables

	31 December 2012	31 December 2011
Non-current		
Other receivables	1,759	3,771
Allowance for impairment	(363)	(77)
	1,396	**3,694**
Current		
Trade receivables	3,427,680	2,394,658
Allowance for impairment of trade receivables	(761,250)	(396,232)
Other receivables	146,303	251,179
Allowance for impairment of other receivables	(17,970)	(47,563)
	2,794,763	**2,202,042**

8 Prepayments

	31 December 2012	31 December 2011
Non-current assets		
Advances for the construction and acquisition of property, plant and equipment (net of allowance for impairment at 31 December 2012 in the amount of RUR 671 thousand) (2011: RUR 671 thousand)	112,443	1,794,551
	112,443	**1,794,551**
Current assets		
Advances issued (net of allowance for impairment at 31 December 2012 in the amount of RUR 6,534 thousand) (2011: RUR 11,981 thousand).	37,361	77,020
	37,361	**77,020**

9 Cash and cash equivalents

	31 December 2012	31 December 2011
Cash on hand denominated in RUR	420	306
Balances with banks denominated in RUR	8,458	2,932
Cash in transit	81,897	66,028
Total cash in consolidated statement of financial position	**90,775**	**69,266**
Cash related to assets held for sale (Note 27)	2,335	–
Total cash in consolidated statement of cash flows	**93,110**	**69,266**

10 Equity

(a) Share capital

As at 31 December 2012 and 31 December 2011 the Company has authorized and fully paid share capital of 512,827,729,472 ordinary shares with a par value of RUR 0.01.

(b) Treasury shares

In 2008, the Group purchased 725,282,150 treasury shares for the total amount of RUR 20,671 thousand. Treasury shares were realized in 2012 at RUR 10,927 thousand.

(c) Additional paid-in capital

Additional paid-in capital represents the amount of cash received by the Group in the year 2007 as a result of the sale of 100% of shares of subsidiaries owned by Tomskenergo and OEGC before their merger with TGK-11 under common control. These subsidiaries had not been consolidated in the Group in the retrospective consolidation period.

10 Equity (continued)

(d) Dividends

In 2012 and up to the date of approval of these consolidated financial statements for the year ended 31 December 2012, no dividends were declared or paid by the Company. No dividends were declared by the Company in 2011.

(e) Earnings per share

Earnings/(loss) per share are calculated by dividing the profit/(loss) for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the reporting year.

	2012	2011
Weighted average number of ordinary shares outstanding	512,179,731,486	512,102,447,322
(Loss)/profit for the year attributable to shareholders	(353,154)	214,979
Basic and diluted (loss)/earnings per share, RUR	**(0.0007)**	**0.0004**

11 Loans and borrowings

	Currency	Maturity	31 December 2012
Non-current liabilities			
Long-term bank loans	RUR	2014-2018	6,070,262
			6,070,262
Current liabilities			
Short-term bank loans	RUR	2013	2,795,713
			2,795,713

	Currency	Maturity	31 December 2011
Non-current liabilities			
Long-term bank loans	RUR	2013-2016	4,819,232
Finance lease liabilities	RUR	2013-2016	6,245
			4,825,477
Current liabilities			
Short-term bank loans	RUR	2012	519,766
Finance lease liabilities, current portion	RUR	2012	3,603
			523,369

11 Loans and borrowings (continued)

Finance lease liabilities

Finance lease agreements were mainly concluded for the lease of motor vehicles. Lease terms correspond to useful lives of the leased assets. The lease agreements provide for the transfer of ownership of property, plant and equipment at the end of lease terms. The maturity periods for the finance lease liabilities are as follows:

	31 December 2012		31 December 2011	
	Future minimum lease payments	**Interest**	**Future minimum lease payments**	**Interest**
Less than 1 year	–	–	5,592	1,989
From 1 to 5 years	–	–	8,554	2,309
	–	**–**	**14,146**	**4,298**

The finance lease liabilities are secured by the leased assets.

12 Employee benefits

The Group has a defined benefit pension plan and other long-term defined benefit plans which cover most full-time and retired employees. Long-term defined benefit plans include lump-sum payments to employees upon retirement, financial assistance to retired employees, lump-sum payments upon death and jubilee payments.

Defined benefit pension plan liabilities were assessed by an independent professional actuary using the projected unit credit method.

(a) Movements in the value of the defined benefit obligation

	31 December 2012	31 December 2011
Present value of the defined benefit pension plan obligation	646,421	504,289
Unrecognized past service cost	(98,081)	(96,504)
Unrecognized actuarial (gains)/losses	(30,813)	82,335
Net defined benefit obligation	**517,527**	**490,120**

(b) Expenses recognized in profit or loss for the period

	2012	2011
Current service cost	16,584	16,173
Interest expense	45,914	38,673
Actuarial gains recognized during the year	(3,035)	(5,769)
Past service cost	39,742	(18,569)
Gains from reduction of plan liabilities	(111)	(4,417)
Total expenses on defined benefit plans, net	**99,094**	**26,091**

12 Employee benefits (continued)

(c) Movements in the present value of the defined benefit obligation

	2012	2011
Present value of the obligation at 1 January	504,289	550,307
Current service cost	16,584	16,173
Interest expense	45,914	38,673
Actuarial losses/(gains)	110,604	(16,126)
Past service cost	43,664	(40,596)
Reduction of the plan	(98)	(15,997)
Benefits paid	(31,965)	(28,145)
Benefit obligation of the disposal group	(42,571)	–
Present value of the obligation at 31 January	**646,421**	**504,289**

Past service cost is related to the adoption of a new collective agreement and the increase in payments to current and retired employees.

The accrued defined benefit plan expenses were included in salaries and other employee benefits. Interest expense was included in finance expenses.

Key actuarial assumptions are presented in the table below:

	2012	2011
Discount rate	7.2%	8.5%
Wage and salary increase	7.5%	7.5%
Inflation Rate	6%	6%
Average retirement age		
Men	59.0	59.12
Women	55.5	55.90
Average life expectancy of plan participants from the date of retirement		
Men	3.8	3.8
Women	19.4	19.4

Amounts for the current and previous four periods as at 31 December are as follows:

	2012	2011	2010	2009	2008
Present value of the defined benefit obligation	(646,421)	(504,289)	(550,307)	(189,534)	(222,001)
Plan assets	–	–	–	–	–
Deficit	(646,421)	(504,289)	(550,307)	(189,534)	(222,001)
Experience adjustments on the plan obligation	(8,745)	(19,308)	24,354	46,938	14,108

Payments to employees and retirees in 2013 in terms of defined benefits pension plan are expected to amount RUR 31,150 thousand.

As a result of changes in the legislation on the unified social tax, the Group accrued the amounts of contributions to social funds on long-term employee benefits in the amount of RUR 13,570 thousand (2011 – RUR 13,400 thousand).

13 Provisions

	31 December 2012	31 December 2011
Non-current		
Site restoration provision	152,605	142,231
Other provisions	–	148
	152,605	**142,379**
Current		
Provisions for legal claims	5,164	41,739
	5,164	**41,739**

Site restoration provision

The site restoration provision is calculated based on the expected costs and timing of site restoration activities upon retirement of ash dumps to prevent environmental damage.

The site restoration provision was estimated as at 31 December 2012 using the discount rate of 6.75% to 7.40% per annum for different ash dumps depending on expected date of restoration (31 December 2011: 7.16% to 8.31% per annum).

The movement in the site restoration provision is presented below:

	2012	2011
As at 1 January	142,231	86,165
Unwinding of the discount	7,241	952
Change in estimates of existing obligations	3,133	55,114
Site restoration provision as at 31 December	**152,605**	**142,231**

14 Trade and other payables

	31 December 2012	31 December 2011
Trade payable	933,814	877,920
Other payables	31,794	29,923
Interest payable	17,293	13,165
	982,901	**921,008**

15 Taxes payable other than income tax

	31 December 2012	31 December 2011
Property tax	53,446	1,393
Social funds contributions	44,645	50,552
Personal income tax	22,709	26,388
Land tax	1,882	63,375
Value added tax	23	42,527
Other taxes	24,713	18,495
	147,418	**202,730**

16 Payables to employees

	31 December 2012	31 December 2011
Payables to employees	109,122	122,910
Accrual for bonuses	129,190	106,833
Accrual for unused vacations	99,184	108,963
	337,496	**338,706**

17 Revenue

	2012	2011
Heating	11,634,472	10,792,739
Electricity	7,175,675	5,618,530
Capacity	3,124,478	3,499,132
Repairs and construction	1,265,720	420,377
Chemically treated water	276,035	288,770
Water and condensate	210,279	210,224
Other revenue	322,528	194,710
	24,009,187	**21,024,482**

18 Other operating income

	2012	2011
Fines and penalties under contracts	125,194	106,037
Operating lease income	49,640	51,104
Insurance indemnity income	47,239	5,907
Gain on disposal of other assets	33,092	–
Gain on disposal of inventory	14,440	11,600
Write-off of accounts payable	1,926	13,811
Gain on disposal of property, plant and equipment	1,534	8,899
Interest income for late return of overcharged taxes	–	19,859
Other operating income	20,694	68,230
	293,759	**285,447**

19 Operating expenses

	2012	2011
Fuel	11,675,872	9,695,082
Salaries and other employee benefits, including taxes	3,751,049	3,308,263
Purchased electricity and capacity	1,769,108	1,442,464
Other materials	1,505,951	1,170,925
Depreciation, amortization and impairment losses	1,216,683	1,175,322
Heat distribution	1,118,098	1,150,237
Repairs and maintenance	680,927	305,954
Water supply	531,704	596,495
Allowance for impairment of accounts receivable	376,476	(7,561)
Taxes other than income tax	361,514	453,626
Subscriber's fee	197,946	193,783
Lease	192,863	177,770
Transportation expenses	173,508	122,927
Security	156,320	132,951
Loss on disposal of property, plant and equipment	1,479	1,497
Other operating expenses	801,058	883,576
	24,510,556	**20,803,311**

20 Finance income and finance expenses

	2012	2011
Finance income		
Effect of discounting	1,309	1,801
Other finance income	582	1,420
	1,891	**3,221**
Finance expenses		
Interest expense on loans and borrowings	181,905	154,355
Unwinding of discount on site restoration provision	7,241	952
Interest expense on finance lease obligations	1,989	1,156
Other finance expenses	16	891
	191,151	**157,354**

21 Income tax

Corporate income tax rate in the Russian Federation is 20%.

	2012	2011
Current income tax		
Reporting period	(9,540)	(12,379)
Adjustments in respect to prior years	(337)	825
	(9,877)	**(11,554)**
Deferred income tax		
Origination and reversal of temporary differences	53,593	(125,952)
	53,593	**(125,952)**
Total income tax	**43,716**	**(137,506)**

21 Income tax (continued)

Reconciliation with respect to the effective tax rate:

	2012		2011	
	RUR thousand	%	RUR thousand	%
Profit/(loss) before tax	(396,870)	100	352,485	100
Income tax at the statutory tax rate	79,374	20	(70,497)	(20)
Adjustments in respect to prior years	(337)	0	825	0
Net tax effect of non-deductible expenses and non-taxable income	(35,321)	(9)	(67,834)	(19)
	43,716	**11**	**(137,506)**	**(39)**

Differences between the value of assets and liabilities reported in the financial statements and their tax value result in certain temporary differences. The tax effect of the movement on these temporary differences is recorded at the rate of 20%.

All changes in temporary differences are recorded in profit and loss for the period.

According to Russian laws, a tax payer may carry forward a loss over a period of ten years following the tax period in which the loss was incurred. At 31 December 2012, the Group reported a tax effect of deductible temporary differences in the amount of the loss carried forward (RUR 2,528,463 thousand). The loss may be used over the period through 2016-2019.

	31 December 2012	2012	31 December 2011	2011	31 December 2010
Tax effect of deductible temporary differences					
Provisions and accruals for bonuses and unused vacations	76,316	4,710	71,606	21,868	49,738
Inventories	1,822	142	1,680	(5,881)	7,561
Trade and other receivables	86,754	37,936	48,818	(69,508)	118,326
Tax loss carried forward	505,693	188,859	316,834	220,542	96,292
Other	29,963	3,350	26,613	21,651	4,962
	700,548	**234,997**	**465,551**	**188,672**	**276,879**
Tax effect of taxable temporary differences					
Property, plant and equipment	1,943,182	208,283	1,734,899	311,613	1,423,286
Other	–	(14,848)	14,848	3,011	11,837
	1,943,182	**193,435**	**1,749,747**	**314,624**	**1,435,123**
Total deferred tax liabilities	**1,242,634**	**(41,562)**	**1,284,196**	**125,952**	**1,158,244**
Deferred tax liability related to disposal group	–	(12,031)	–	–	–
Deferred tax in statement of comprehensive income	–	**53,593**	–	**125,952**	–

22 Operating leases

Lease payments under non-cancellable operating lease agreements are payable as follows:

	2012	2011
Less than 1 year	89,215	42,035
From 1 to 5 years	288,463	50,023
More than 5 years	2,895,029	251,273
	3,272,707	**343,331**

The most significant portion of lease payments includes payments related to lease of heating facilities and land.

The term of lease agreements usually ranges from one to five years (the term of lease agreements for land ranges from five to twenty five years) with an option for further renewal. The amount of lease payments is adjusted annually to reflect the existing market conditions.

The lease agreements for land were signed several years ago and provide for the lease of land under property, plant and equipment.

23 Financial instruments and risk management

(a) Overview

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

- credit risk
- liquidity risk
- market risk

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

The Group's risk management policies deal with identifying and analyzing the risks faced by the Group, setting appropriate risk limits and controls, and monitoring risk and compliance with the limits. Risk management systems and policies are reviewed on a regular basis to identify the need to implement changes in connection with changes in market conditions and performance of the Group. The Group, through its internal policies, aims to develop an orderly and effective control environment in which all employees understand their roles and obligations.

(b) Credit risk

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

23 Financial instruments and risk management (continued)

(b) Credit risk (continued)

When monitoring credit risk, the Group classifies counterparties based on their credit history and estimation of their financial stability. The Group's management assesses the creditworthiness of counterparties taking into account their financial position, past business experience and other factors. The assessments made are a basis for defining individual levels of credit risk for each counterparty or group of counterparties. Risk levels are reviewed regularly. The Group sells heat power to certain individuals, some of whom do not pay for the heat supplied. At the same time, for various reasons the Group is unable to discontinue heat supplies to the above consumers. On the basis of statistical data of payments made by individuals, the Group forms an adequate provision in respect of the individuals' accounts receivable for the heat power.

The Group's management believes that the collectability of receivables may be affected by economic factors, especially during the period of Russian and global market vulnerability, however it assesses the risk of incurring losses in excess of the amount of provision for impairment recognized in the Financial Statements, to be low.

Cash and short-term deposits are placed with credit and financial institutions, which are considered to have minimal risk of default at the time of placing a deposit or opening an account. Regardless of the fact that some banks are not assigned an international credit rating, the Group's management considers them to be reliable counterparties with stable positions in the Russian market.

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

	Carrying amount	
	2012	**2011**
Trade and other receivables	2,796,159	2,205,736
Cash and cash equivalents	90,775	69,266
	2,886,934	**2,275,002**

The maximum exposure to credit risk for trade receivables at the reporting date by type of customer was as follows:

	2012	**2011**
Legal entities	1,521,951	1,268,777
Individuals	1,144,479	729,649
	2,666,430	**1,998,426**

23 Financial instruments and risk management (continued)

(b) Credit risk (continued)

Impairment losses

The aging of trade and other accounts receivable at the reporting date was as follows:

RUR thousand	Gross carrying amount 2012	Impairment 2012	Gross carrying amount 2011	Impairment 2011
Not past due	1,885,346	–	1,537,293	3,951
Past due 0 to 90 days	617,681	241,630	354,604	3,265
Past due 91 to 180 days	153,844	18,123	41,534	8,771
Past due 181 to 365 days	324,146	87,038	225,975	83,431
Past due more than one year	594,725	432,792	490,202	344,454
	3,575,742	**779,583**	**2,649,608**	**443,872**

Allowance for impairment is determined by the Group's management based on the assessment of the solvency of individual customers, trends, analysis of payments history and expected future cash flows.

The movement in the allowance for impairment of trade and other receivables is as follows:

	2012	2011
Balance at the beginning of the year	443,872	1,291,622
Increase/(decrease) in allowance for impairment	376,476	(14,578)
Bad debt written off against allowance	(37,783)	(833,172)
Allowance for impairment related to disposal group	(2,982)	–
Balance at the end of the year	**779,583**	**443,872**

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to discharge its financial liabilities as they fall due.

The Group monitors its liquidity risk by planning the current liquidity on a daily basis. Management analyses maturities of financial assets and estimated cash flows from operating and financing activities, and manages current liquidity using open credit lines.

The Group has the following credit limits:

	Contractual period	31 December 2012	31 December 2011
Credit limits with floating interest rates	12 months	–	500,000
Credit limits with fixed interest rates	12 months	3,184,287	425,233
	More than 12 months	4,779,737	6,110,767
Total credit limits		**7,964,024**	**7,036,000**

23 Financial instruments and risk management (continued)

(c) Liquidity risk (continued)

Contractual maturities of financial liabilities, including expected interest payments and excluding netting agreements are presented below. The cash flows included in the maturity analysis are not expected to occur significantly earlier, or in significantly different amounts.

Financial liabilities as at 31 December 2012

	Carrying amount	Contractual cash flows	Less than 1 year	1-5 years
Loans and borrowings	8,865,975	8,865,975	2,795,713	6,070,262
Trade accounts payable	933,814	933,814	933,814	–
Interest payable	17,293	2,303,756	685,146	1,618,610
Other payables	31,794	31,794	31,794	–
	9,848,876	**12,135,339**	**4,446,467**	**7,688,872**

Financial liabilities as at 31 December 2011

	Carrying amount	Contractual cash flows	Less than 1 year	1-5 years
Loans and borrowings	5,338,998	5,338,998	519,766	4,819,232
Trade accounts payable	877,920	877,920	877,920	–
Interest payable	13,165	1,296,394	457,305	839,089
Other payables	29,923	29,923	29,923	–
	6,260,006	**7,543,235**	**1,884,914**	**5,658,321**

(d) Market risk

Market risk is the risk that changes in market prices (such as exchange rates or interest rates) will have a negative impact on the Group's profit or the value of its financial instruments. The purpose of market risk management is to control market risk exposures within acceptable limits, while trying to optimize return on investments.

The Group is not exposed to currency risk since the Group does not perform transactions denominated in currencies other than RUR.

Market risk of the Group is represented by interest rate risk.

The Group's profit and operating cash flows are substantially independent of changes in market interest rates. The Group is exposed to interest rate risk through market value fluctuations of its interest-bearing borrowings. The Group has no significant interest-bearing assets.

Fair value

Management admits that the fair value of the Group's financial assets and liabilities approximates their carrying amounts (except for long-term bank loans). The fair value measured exclusively for disclosure purposes is calculated based on the estimation of the present value of future cash flows related to principle and interest amounts discounted at the market interest rate at the reporting date.

23 Financial instruments and risk management (continued)

(d) Market risk (continued)

As at 31 December 2012, the estimated fair value of long-term bank loans amounted to RUR 5,773,351 thousand (31 December 2011: RUR 4,584,665 thousand), and was estimated by discounting the future contractual cash flows at the current market interest rate (11.1%) for similar financial instruments available to the Group.

(e) Capital management

The Group’s objectives when managing capital are to ensure the Group's ability to continue operations on a going concern basis in order to maximize shareholder value while maintaining optimal gearing ratios.

For these purposes the Group manages its capital at the level of each of the Group's companies based on financial data prepared in accordance with the applicable legislation and Russian accounting principles.

In order to maintain or adjust the capital structure, the Group may adjust the dividend payments to its shareholders, issue new shares or make contributions to the charter capitals, sell assets and repay loans.

24 Contingent liabilities

(a) Insurance

As at 31 December 2012, the Group has insurance coverage for its production facilities and equipment in the amount of up to RUR 103,266,026 thousand (as at 31 December 2011 – RUR 99,181,756 thousand) in relation to property, plant and equipment with a net book value of RUR 21,552,428 thousand (as at 31 December 2011 – RUR 14,140,398 thousand) and for liabilities to third parties in respect of damage to the environment and life and health injury arising from accidents or the Group’s activities in the amount of RUR 875,000 thousand (as at 31 December 2011 – RUR 189,072 thousand) Nevertheless, the Group is exposed to a risk of negative impact on the Group's performance and financial position in case of a loss or damage to assets which have no or partial insurance coverage.

(b) Litigation

The Group's entities are party to a number of legal proceedings arising in the ordinary course of business. The Group's management believes that there are no current legal proceedings or claims outstanding, which, upon final disposition, will have a material adverse effect on the financial position of the Group except those in relation to which the Group accrued legal provisions.

(c) Taxation

The existing Russian tax, currency and customs legislation allows for various interpretations and is subject to frequent changes. Interpretation by the Group’s management of the legislation in place when applicable to the Group 's transactions and activities may be challenged by the appropriate regional or federal authorities. Recent events in the Russian Federation indicate that the tax authorities may take a tougher stance with regard to the interpretation of legislation and review of tax returns. Consequently, tax authorities may challenge transactions and accounting methods that they had never challenged before. As a result, significant additional taxes, penalties and fines may be accrued. It is not possible to determine the amounts of constructive claims or evaluate probability of their negative outcome. Tax audits may cover a period of three calendar years immediately preceding the audited year. Under certain circumstances, the tax authorities may review earlier accounting periods.

24 Contingent liabilities (continued)

(c) Taxation (continued)

According to management, at 31 December 2012 they had properly construed the respective legislation, and the probability that the Group will retain its position with regard to tax, currency and customs legislation is assessed as high.

(d) Environmental liabilities

The Group's entities are subject to extensive environmental control and regulation by federal and regional authorities. The management believes that the Group's production technologies comply with all requirements of environmental regulations of the Russian Federation. However, environmental laws and regulations continue to evolve. The Group is unable to predict the timing or extent of such changes. Such changes, if they occur, may require the Group to modernize its technology in order to comply with stricter regulations.

(e) Contingencies related to compliance with instructions of state authorities for technical supervision

State authorities for technical supervision monitor the technical condition of the Group's production equipment on a regular basis. As a result of such reviews, the Group may be required to perform modernization or repairs of its production equipment. The total amount necessary to fulfill the requirements of state authorities for technical supervision issued to the Group as a result of such reviews as at 31 December 2012 cannot be estimated reliably, given that the volume, estimates and timing of the required measures are now under consideration and approval by the Group's management.

(f) Capital construction obligation

Due to the entry into force of Decree of the Government of the Russian Federation No. 89 dated 24 February 2010, *Concerning certain issues related to organizing long-term capacity takeoff on a competitive basis on the wholesale market for electrical energy (capacity)*, Decree of the Government of the Russian Federation No. 238 dated 13 April 2010, *Concerning the determination of pricing parameters for trading in capacity on the wholesale market for electrical energy (capacity) of the transition period*, and Instruction of the Government of the Russian Federation No. 1334-r dated 11 August 2010, *Concerning the approval of the list of generating facilities to be used for supplying capacity under capacity supply agreements*, NP Market Council, together with wholesale market participants, developed a contractual framework for selling the capacity of new generating facilities which are under construction in accordance with suppliers' investment programs approved by the Government of the Russian Federation under the comprehensive investment program of RAO UES of Russia.

In accordance with the contractual framework, suppliers will enter into an agency agreement with JSC FSC, JSC TSA, NP Market Council and JSC SO UPS to sell investment capacities. In compliance with this agreement JSC FSC will enter into capacity supply agreements with all buyers of electrical energy (capacity) for and on behalf of the supplier.

On 1 November 2010, the Company entered into an Agency Agreement with JSC FSC, JSC TSA, NP Market Council and JSC SO UPS, in accordance with which JSC FSC undertakes to enter into capacity supply agreements in the interests of the Company.

24 Contingent liabilities (continued)

(f) Capital construction obligation (continued)

From December 2010 through February 2011, JSC FSC entered into agreements for the supply of capacity of some generating facilities planned to be commissioned with a total capacity of 282 MW. According to the terms of the Agency Agreement, should the Company fail to meet the dates of commissioning the generating facilities or supply the requisite capacity, it will pay to the Agent a penalty, the amount of which will depend on the period by which the commissioning of the generating facilities is overdue, quantity of the undersupplied capacity and the price of the capacity under the long-term capacity supply agreement. The Company's management does not expect that it will be prevented from performing its obligations under the capacity supply agreements, in whole or in part.

25 Related party disclosures

Below is a summary of the Group's transactions with related parties, except for transactions with state-controlled entities:

Company with a significant influence on the Group		Sales to related parties	Purchases from related parties	Amounts due from related parties	Amounts due to related parties
Parent company OAO INTER RAO UES	2012	61,255	71,635	3,211	4,575
	2011	41,974	445	3,460	–
Companies of the Group OAO INTER RAO UES	2012	909,366	1,600,179	124,985	125,839
	2011	396,812	427,955	397,470	31,961

Related parties	Type of operation	Amounts due from related parties as at 31 December 2012	Amounts due from related parties as at 31 December 2011	Amounts due to related parties as at 31 December 2012	Amounts due to related parties as at 31 December 2011
Key management personnel	Salaries and other benefits	2,103	4,333	2,002	2,096

During the year ended 31 December 2012, the Group sold a portion of heat and electric power to state-controlled non-profit entities in the amount of RUR 4,645,971 thousand (during the year ended 31 December 2011: RUR 4,097,424 thousand). Terms of these agreements were similar to those to third parties. The procedure to establish tariffs for electricity and heat is disclosed in Note 1 (c).

During the year ended 31 December 2012, the Group sold a major portion of heat power in the amount of RUR 1,917,483 thousand to the state-controlled Group Gazprom (during the year ended 31 December 2011: RUR 1,950,737 thousand).

25 Related party disclosures (continued)

During the year ended 31 December 2012, the Group purchased at contractual prices a major portion of gas in the amount of RUR 6,301,321 thousand from a state-controlled entity Gazprom (during the year ended 31 December 2011: RUR 5,261,590 thousand). As at 31 December 2012, the Group's accounts payable to state-controlled entities for gas supply amount to RUR 7,101 thousand (31 December 2011 – RUR 9,157 thousand).

During the year ended 31 December 2012, the Group obtained loans from state-controlled banks at market interest rates. As at 31 December 2012, the Group's liabilities to state-controlled banks amount to RUR 1,001,040 thousand (31 December 2011 – RUR 3,844,387 thousand).

Other purchases from state-controlled entities represented an insignificant portion of the Group's other purchases.

Terms and conditions of transactions with related parties

The sales to and purchases from related parties are made on terms equivalent to those that prevail in arm’s length transactions. At the end of reporting periods outstanding balances are unsecured, interest-free, except for loans, and settled mainly in cash.

Compensation to key management personnel

	2012	**2011**
Salaries and other benefits	100,862	75,687
	100,862	**75,687**

The Group's liabilities to the top management related to employee termination payments were measured in the reporting period. As at 31 December 2012 and 31 December 2011, the liabilities amounted to RUR 4,320 thousand.

26 Service concession arrangement

The Group uses public heating system facilities for providing services under energy supply agreements (heat supply to customers). The right to use the heating infrastructure is granted by municipal authorities under service concession arrangements.

The arrangements can be cancelled upon mutual agreement of the parties or unilaterally with preliminary notification of the other party. According to Group management, the Concessor is unlikely to cancel the contracts, as the Group is the principal heat supplier in the service area.

In accordance with the concession arrangements, the Group pays for using the heating infrastructure facilities. The payments are determined by mutual agreement of the parties and are included in operating expenses. In 2011-2012, the Group did not perform any improvements (upgrades) of heating facilities and did not undertake any obligations to modernize these facilities in the future.

27 Assets and liabilities associated to the disposal group

In the first half of 2013, OJSC TGK-11 expects to sell the following subsidiaries: OJSC Omskenergoremont, OJSC Energoservis and OJSC Engineering and Construction Company.

As at 31 December 2012, major classes of the subsidiaries' assets and liabilities classified as held for sale are shown in the following table:

	31 December 2012
Assets	
Non-current assets	
Property, plant and equipment	238,970
Deferred tax assets	19,557
Total non-current assets	**258,527**
Current assets	
Inventories	107,949
Trade and other receivables	93,415
Prepayments	41,952
Current income tax	471
Cash and cash equivalents	2,335
Total current assets	**246,122**
Total assets	**504,649**
Liabilities	
Non-current liabilities	
Loans and borrowings	3,976
Employee benefits	39,722
Deferred tax liabilities	7,526
Provisions	1,302
Other non-current liabilities	676
Total non-current liabilities	**53,202**
Current liabilities	
Loans and borrowings	69,785
Trade and other payables	153,843
Taxes payable other than income tax	104,822
Income tax	783
Prepayments received	29,939
Payables to employees	91,515
Provisions	1,150
Total current liabilities	**451,837**
Total liabilities	**505,039**

28 Events after the reporting period

In accordance with instruction No. 1724-r issued by MICEX SE CJSC on 28 December 2012, all transactions with ordinary shares of OJSC TGK-11 (issue state registration number: 1-01-12087-F, issued on 31 January 2006) were discontinued effective 9 January 2013 and the respective shares were removed from the Unlisted Securities section of the List of Securities admitted to trading in CJSC MICEX SE.