

OJSC Territorial Generation Company №11

**Consolidated Financial Statements
for the year ended 31 December 2009**

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Independent Auditors' Report

To the Board of Directors of Open Joint-Stock Company Territorial Generation Company №11 (OJSC TGC-11)

We have audited the accompanying consolidated financial statements of OJSC TGC-11 and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated statements of comprehensive income, changes in equity and 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 consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2009 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to the fact that the corresponding figures presented, excluding the adjustments to the disclosure of transactions with related parties (Note 24), are based on the consolidated financial statements of the Group as at and for the year ended 31 December 2008 which were audited by other auditors whose report dated 28 April 2009 expressed a qualified opinion on those statements, because the other auditors were unable to satisfy themselves as to the completeness of the disclosure of transactions with related parties. We have audited the adjustments made by the Group to correct the prior year incompleteness of the disclosure of transactions with related parties. In our opinion, such adjustments are appropriate.

The other auditors also qualified their opinion as they were unable to satisfy themselves as to the recoverability of the loan given in the amount of RUR 550,436 thousand, including accrued interest, as at 31 December 2008. Refer to Note 13 for the disclosure regarding redemption of that loan.

ZAO KPMG

ZAO KPMG
26 April 2010

OJSC Territorial Generation Company №11
Consolidated Statement of Financial Position as at 31 December 2009
(in '000 RUR)

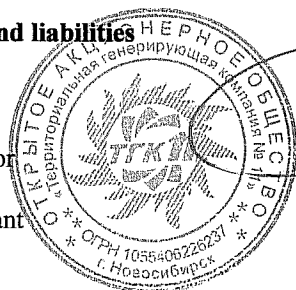
| | Note | 2009 | 2008 |
|---------------------------------|------|-------------------|-------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 9 | 15 127 849 | 13 089 116 |
| Prepayments | 12 | 30 065 | 537 817 |
| Intangible assets | | 149 234 | 146 730 |
| Trade and other receivables | 11 | 61 786 | 110 630 |
| Total non-current assets | | 15 368 934 | 13 884 293 |
| Current assets | | | |
| Inventories | 10 | 969 498 | 700 654 |
| Trade and other receivables | 11 | 2 184 397 | 1 737 059 |
| Prepayments | 12 | 121 478 | 91 945 |
| Current tax assets | | 14 650 | 51 189 |
| VAT recoverable | | 7 534 | 5 050 |
| Loans given | 13 | 250 000 | 550 736 |
| Cash and cash equivalents | 14 | 7 076 | 22 137 |
| Total current assets | | 3 554 633 | 3 158 770 |
| Total assets | | 18 923 567 | 17 043 063 |

OJSC Territorial Generation Company №11
Consolidated Statement of Financial position as at 31 December 2009
(in '000 RUR)

| | Note | 2009 | 2008 |
|--------------------------------------|------|-------------------|-------------------|
| EQUITY | | | |
| Share capital | 15 | 5 128 277 | 5 128 277 |
| Treasury shares | 15 | (20 671) | (20 671) |
| Additional paid-in capital | 15 | 125 590 | 125 590 |
| Retained earnings | | 7 407 147 | 6 558 935 |
| Total equity | | 12 640 343 | 11 792 131 |
| LIABILITIES | | | |
| Non-current liabilities | | | |
| Loans and borrowings | 16 | 1 002 794 | 25 865 |
| Employee benefits | 17 | 279 024 | 261 765 |
| Provisions | 18 | 79 048 | 91 722 |
| Deferred tax liabilities | 8 | 1 096 718 | 1 267 415 |
| Total non-current liabilities | | 2 457 584 | 1 646 767 |
| Current liabilities | | | |
| Loans and borrowings | 16 | 2 121 052 | 1 830 742 |
| Trade and other payables | 19 | 960 184 | 818 422 |
| Income tax payable | | 4 653 | 9 579 |
| Other taxes payable | 20 | 202 006 | 422 401 |
| Advances from customers | | 195 594 | 195 147 |
| Employee payables | | 121 197 | 96 228 |
| Provisions | 18 | 220 954 | 231 646 |
| Total current liabilities | | 3 825 640 | 3 604 165 |
| Total liabilities | | 6 283 224 | 5 250 932 |
| Total equity and liabilities | | 18 923 567 | 17 043 063 |

General Director

Chief Accountant



Kozhemyako S.I.

Chizhenko I.V.

26 April 2010

OJSC Territorial Generation Company №11
Consolidated Statement of Comprehensive Income for the year ended 31 December 2009
(in '000 RUR)

| | Note | 2009 | 2008 |
|--|------|------------------|------------------|
| Revenue | 5 | 17 394 025 | 15 925 822 |
| Other operating income | 5 | 215 674 | 209 293 |
| Operating expenses | 6 | (16 766 194) | (15 301 820) |
| Results from operating activities | | 843 505 | 833 295 |
| Finance income | 7 | 49 730 | 98 065 |
| Finance costs | 7 | (338 519) | (221 016) |
| Net finance costs | | (288 789) | (122 951) |
| Profit before income tax | | 554 716 | 710 344 |
| Income tax | 8 | 403 459 | 65 567 |
| Profit for the year | | 958 175 | 775 911 |
| Total comprehensive income for the year | | 958 175 | 775 911 |
| | | | |
| Earnings per ordinary share: basic and diluted (in RUR per share) | 15 | 0.0019 | 0.0015 |

OJSC Territorial Generation Company №11
Consolidated Statement of Cash Flows for the year ended 31 December 2009
(in '000 RUR)

| | Note | 2009 | 2008 |
|---|------|------------------|------------------|
| OPERATING ACTIVITIES | | | |
| Profit before income tax | | 554 716 | 710 344 |
| <i>Adjustments for:</i> | | | |
| Depreciation | 6 | 1 001 463 | 946 056 |
| Loss on disposal of property, plant and equipment | 6 | 17 597 | 1 589 |
| Assets recorded as a result of stock-take | 5 | (534) | (29 062) |
| Provision for inventory obsolescence | | - | (6 144) |
| Allowance for impairment of accounts receivable | 6 | 505 980 | (101 408) |
| Other provisions | | (8 522) | (9 618) |
| Net finance costs | | 288 789 | 122 951 |
| Adjustments for other non-cash transactions | | 43 240 | (183) |
| Operating profit before changes in working capital, income taxes and interest paid | | 2 402 729 | 1 634 525 |
| <i>Changes in working capital:</i> | | | |
| Increase in trade and other receivables | | (801 858) | (573 224) |
| Increase in inventories | | (268 310) | (87 584) |
| (Increase)/decrease in prepayments | | (36 971) | 26 807 |
| (Increase)/decrease in VAT recoverable | | (2 484) | 10 677 |
| Increase/(decrease) in trade and other payables | | 298 719 | (158 506) |
| (Decrease)/increase in other taxes payable | | (220 395) | 189 678 |
| Increase in employee payables | | 24 969 | 28 550 |
| Decrease in employee benefits | | (2 052) | (39 727) |
| Increase in advances from customers | | 447 | 1 794 |
| Cash flows from operating activities before income taxes and interest paid | | 1 394 794 | 1 032 990 |
| Interest paid | | (386 172) | (201 923) |
| Income tax reimbursed | | 195 680 | 44 960 |
| Net cash flows from operating activities | | 1 204 302 | 876 027 |

OJSC Territorial Generation Company №11
Consolidated Statement of Cash Flows for the year ended 31 December 2009
(in '000 RUR)

| | Note | 2009 | 2008 |
|---|------|--------------------|--------------------|
| INVESTING ACTIVITIES | | | |
| Acquisition of property, plant and equipment | | (2 628 175) | (1 506 291) |
| Proceeds from disposal of property, plant and equipment | | 8 636 | 17 912 |
| Acquisition of intangible assets | | (2 504) | (24 738) |
| Loans repaid/(given) | | 250 000 | (500 000) |
| Other | | 3 168 | 1 334 |
| Net cash flows used in investing activities | | (2 368 875) | (2 011 783) |
| FINANCING ACTIVITIES | | | |
| Proceeds from loans and borrowings | | 11 642 760 | 12 015 428 |
| Repayment of loans and borrowings | | (10 345 748) | (10 792 573) |
| Dividends paid | | (1 389) | (2 411) |
| Repayment of principal finance lease liabilities | | (36 148) | (53 529) |
| Shares transferred to LLC Neft-Aktiv | 15 | (109 963) | - |
| Treasury shares | | - | (20 671) |
| Net cash flows from financing activities | | 1 149 512 | 1 146 244 |
| Net (decrease)/increase in cash and cash equivalents | | (15 061) | 10 488 |
| Cash and cash equivalents at 1 January | | 22 137 | 11 649 |
| Cash and cash equivalents at 31 December | 14 | 7 076 | 22 137 |

Attributable to equity holders of TGC-11

| Note | Share capital | Treasury shares | Additional paid-in capital | Retained earnings | Total equity |
|---|----------------------|------------------------|-----------------------------------|--------------------------|---------------------|
| At 1 January 2008 | 5 128 277 | - | 125 590 | 5 783 024 | 11 036 891 |
| Total comprehensive income for the year | - | - | - | 775 911 | 775 911 |
| Treasury shares | - | (20 671) | - | - | (20 671) |
| At 31 December 2008 | 5 128 277 | (20 671) | 125 590 | 6 558 935 | 11 792 131 |
| Total comprehensive income for the year | - | - | - | 958 175 | 958 175 |
| Shares transferred to LLC Neft-Aktiv | - | - | - | (109 963) | (109 963) |
| 15 | | | | | |
| At 31 December 2009 | 5 128 277 | (20 671) | 125 590 | 7 407 147 | 12 640 343 |

1 Background

(a) The Group and its operations

OJSC Territorial Generation Company №11 (hereinafter – “TGC-11”) was established on 26 August 2005 in the framework of the reform of the Russian power industry. The reorganization of TGC-11 was completed on 1 November 2007 as a result of the merger of OJSC Omsk Electricity Generation Company (hereinafter – “OEGC”) and JSC Tomskenergo (hereinafter – “Tomskenergo”) with TGC-11.

The registered office of TGC-11 is located at 5 Sovetskaya, Novosibirsk, 630007, Russia.

As at 31 December 2009 and 2008 OJSC Territorial Generation Company №11 Group (hereinafter - the “Group”) comprises TGC-11 and its subsidiaries:

| | <u>Ownership, %</u> |
|---|---------------------|
| OJSC Production and Repairs Enterprise Omskenergoremont | 100 |
| OJSC Engineering and Construction Company | 100 |
| OJSC Energoservis | 100 |
| LLC SibEnergoFinance | 100 |

The Group’s main operating activity is electricity and heat generation.

(b) Russian business environment

The Russian Federation has been experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks that typically do not exist in other markets. In addition, the contraction in the capital and credit markets and its impact on the Russian economy have further increased the level of economic uncertainty in the environment. These consolidated financial statements reflect management’s assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management’s assessment.

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

The government affects financial and business activities of the Group by controlling tariffs for electricity and heat energy. The Federal Tariff Agency or 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 power generation expenses. Tariffs are determined based on the expenses calculated in accordance with Russian Accounting Standards.

Produced electricity in excess of volumes sold at regulated tariffs is realized at market prices on 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 – “IFRSs”).

(b) Basis of measurement

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

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian rouble (RUR), which is the Company’s functional currency of all entities of the Group and the currency in which these Financial Statements are presented.

All financial information in these Financial Statements presented in RUR has been rounded to the nearest thousand.

(d) Use of professional judgment, estimates and assumptions

For the purposes of preparing these Financial Statements, the Group management made a number of estimates and judgments in respect of assets, liabilities, income, expenses and contingent assets and liabilities. Estimates and judgments are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The eventual actual amounts could differ from such estimates.

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

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the Financial Statements is included in the following notes:

- Note 22 – allowances for impairment of accounts receivable; and
- Note 21 – lease classification.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included in the following notes:

- Note 17 – employee benefits;
- Note 18 – provisions; and
- Note 23 – contingencies.

(e) Changes in accounting policies and presentation

With effect from 1 January 2009, the Group changed its accounting policies in the following areas:

- determination and presentation of operating segments;
- presentation of financial statements; and

- related party disclosures.

(i) *Determination and presentation of operating segments*

As at 1 January 2009 the Group determines and presents operating segments based on the information that internally is provided to the General Director of TGC-11 (the Group's chief operating decision maker). This change in accounting policy is due to the adoption of IFRS 8 *Operating segments*.

Previously, the Group did not disclose information about operating segments. Comparative segment information has been presented with the requirements of IFRS 8. Since the change in accounting policy only impacts presentation and disclosure aspects, there is no impact on earnings per share.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenue and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the Group's management in order to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Group's chief operating decision maker include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the TGC-11's headquarters), head office expenses, income tax assets and liabilities and income, expenses and assets of TGC-11's subsidiaries.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment and intangible assets.

(ii) *Presentation of financial statements*

The Group applies revised IAS 1 *Presentation of Financial Statements (2007)*, which became effective as at 1 January 2009. As a result, the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. This presentation has been applied in these Financial Statements.

Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

(iii) *Related party disclosures*

Revised IAS 24 *Related Party Disclosures (2009)* introduces an exemption from the basic disclosure requirements in relation to related party disclosures and outstanding balances, including commitments, for state controlled entities. Additionally, the standard has been revised to simplify some of the presentation guidance that was previously non-reciprocal. The revised standard is to be applied retrospectively for annual periods beginning on or after 1 January 2011.

The Group management decided to apply the revised IAS 24 (2009) in relation to exemption from the disclosure of operations with government-related entities starting from these Financial Statements. The relevant adjustments were made in the related parties disclosure in relation to data consistency for the year 2008 (Note 24).

3 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, except as explained in Note 2 (e), which addresses changes in accounting policies.

(a) Basis of consolidation

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

Intra-group balances, transactions and any unrealized income and expenses arising from intra-group transactions, are eliminated on consolidation.

(b) Foreign currency transactions

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into Russian roubles at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising in retranslation are recognised in profit or loss.

(c) Financial instruments

(i) *Non-derivative financial assets*

The Group initially recognises loans and receivables and deposits on the date that they are originated.

The Group derecognises 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 recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount 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 realise the asset and settle the liability simultaneously.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Loans and receivables comprise loans given, trade and other receivables.

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less.

(ii) *Non-derivative financial liabilities*

The Group initially recognizes debt securities issued and subordinated liabilities on the date that they are originated.

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

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

The Group has the following non-derivative financial liabilities: loans and borrowings, bank overdrafts, and trade and other payables.

Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

(d) *Equity*

Ordinary shares

Ordinary shares are classified as equity.

Treasury shares

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

Dividends

Dividends are recognised as a liability and deducted from equity 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 are measured at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment at 1 January 2006, the date of transition to IFRSs, was determined by reference to its fair value at that date.

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 labour, any other costs directly attributable to bringing the asset to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and

capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within “other operating income” or “operating expense” in profit or loss.

(ii) Subsequent costs

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

(iii) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. 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 of property, plant and equipment are determined as follows:

- Electricity and heat generation 25-60 years;
- Heating network 10-30 years;
- Other 10-40 years.

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

(f) Intangible assets

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

Amortisation

Amortisation is recognised 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:

- Informational systems 5-7 years.

(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 recognised on the Group's statement of financial position.

(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, less the estimated costs of completion and selling expenses.

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*

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

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 collective impairment the Group uses 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 amortised 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 recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised 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.

(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 the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised 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 recognised 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, net of depreciation or amortisation, if no impairment loss had been recognised.

(j) Employment benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans, including Russia's State pension fund, are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

(ii) Defined benefit plans

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

benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realisable during the life of the plan, or on settlement of the plan liabilities.

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

The Group recognizes actuarial gains and losses arising as a result of adjustments of actuarial assumptions and exceeding 10% of the higher of the value of pension plan assets or recognised obligations under the pension plan, through recognition in profit or loss over the period of expected average remaining service lives.

(iii) Other long-term employee benefits

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

(iv) Short-term benefits

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

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

(k) Provisions

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

(l) Revenue recognition

Revenue is recognised to the extent that it is 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, excluding discounts, rebates, and other sales taxes or duty.

(i) Rendering of services

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

(ii) Sale of goods

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

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

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the contingency no longer exists and the lease adjustment is known.

(n) Finance income and costs

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

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions and impairment losses recognised on loans given. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Interest income and expenses on financial instruments are recognised in the profit or loss on a straight-line basis over the lifetime of the financial instrument using the effective interest method.

(o) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised 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 recognised 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 recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that it is 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 tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

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

(p) Earnings per share

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

(q) New Standards and interpretations not yet adopted

Other than those adopted early as explained in Note 2 (e), a number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2009, and have not been applied in preparing these Financial Statements. None of these will have material effect on the consolidated financial statements of the Group, except for IFRS 9 *Financial Instruments*, which will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in several phases and is intended to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement* once the project is completed by the end of 2010. The first phase of IFRS 9 was issued in November 2009 and relates to the recognition and measurement of financial assets. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have an impact on Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued.

4 Operating segments

The Group determined the following operating segments:

- Generation (heat and energy production) in Omsk region;
- Generation (heat and energy production) in Tomsk region.

Information of the Group's segments results is presented in the tables below:

For the year ended 31 December 2009:

| | <u>Omsk</u> | <u>Tomsk</u> | <u>Unallocated</u> | <u>Balancing items</u> | <u>Total</u> |
|-----------------------|-------------|--------------|--------------------|------------------------|-------------------|
| External revenue | 12 397 028 | 4 682 777 | 44 542 | 269 678 | 17 394 025 |
| Intersegment revenues | 11 340 | - | 2 365 278 | (2 376 618) | - |
| Depreciation | 605 190 | 412 649 | 29 600 | (45 976) | 1 001 463 |
| Interest income | - | - | 75 446 | (72 278) | 3 168 |
| Segment results | 1 386 240 | 675 453 | (248 522) | 34 965 | 1 848 136 |

For the year ended 31 December 2008:

| | <u>Omsk</u> | <u>Tomsk</u> | <u>Unallocated</u> | <u>Balancing items</u> | <u>Total</u> |
|-----------------------|-------------|--------------|--------------------|------------------------|-------------------|
| External revenue | 11 709 418 | 4 108 194 | 104 321 | 3 889 | 15 925 822 |
| Intersegment revenues | 15 523 | - | 904 937 | (920 460) | - |
| Depreciation | 620 866 | 394 619 | 27 539 | (96 968) | 946 056 |
| Interest income | 90 | - | 51 501 | (734) | 50 857 |
| Segment results | 1 467 805 | 745 503 | (244 166) | (138 934) | 1 830 208 |

Segment results that are reported to the Group's chief operating decision maker are determined based on the income and expenses calculated in accordance with Russian Accounting Standards.

For the Group's internal reporting purposes, segment results are results from operating activities adjusted for depreciation and interest income.

Information of the Group's operating segments assets is presented in the tables below:

As at 31 December 2009:

| | <u>Omsk</u> | <u>Tomsk</u> | <u>Unallocated</u> | <u>Balancing items</u> | <u>Total</u> |
|---------------------|-------------|--------------|--------------------|------------------------|-------------------|
| Assets | 9 707 293 | 8 816 625 | 1 227 651 | (828 002) | 18 923 567 |
| Capital expenditure | 1 423 366 | 1 595 742 | 38 015 | 25 122 | 3 082 245 |

As at 31 December 2008:

| | <u>Omsk</u> | <u>Tomsk</u> | <u>Unallocated</u> | <u>Balancing items</u> | <u>Total</u> |
|---------------------|-------------|--------------|--------------------|------------------------|-------------------|
| Assets | 8 307 224 | 8 277 378 | 1 465 019 | (1 006 558) | 17 043 063 |
| Capital expenditure | 661 614 | 506 587 | 82 937 | 90 364 | 1 341 502 |

Balancing items include elimination of intersegments operations and balances and reclassification and other adjustments added to transfer amounts determined in accordance with Russian accounting standards to IFRS.

The reconciliation of segment results determined in accordance with Russian Accounting Standards and segment results determined based on IFRS amounts is presented in the table below:

| | <u>2009</u> | <u>2008</u> |
|---|------------------|------------------|
| Omsk | 1 386 240 | 1 467 805 |
| Tomsk | 675 453 | 745 503 |
| Unallocated | (248 522) | (244 166) |
| Segment results per Russian Accounting Standards | 1 813 171 | 1 969 142 |
| Change in provisions for unused vacation and bonuses | (14 056) | 13 055 |
| Change in other provisions | (52 625) | (3 478) |
| Other balancing items | 101 646 | (148 511) |
| Segment results per IFRS | 1 848 136 | 1 830 208 |

The reconciliation of total assets determined in accordance with Russian Accounting Standards and total assets determined based on IFRS amounts is presented in the table below:

| | 2009 | 2008 |
|--|-------------------|-------------------|
| Omsk | 9 707 293 | 8 307 224 |
| Tomsk | 8 816 625 | 8 277 378 |
| Unallocated | 1 227 651 | 1 465 019 |
| Total assets per Russian Accounting Standards | 19 751 569 | 18 049 621 |
| Difference in PPE net book value | (415 941) | (486 702) |
| Inter-segment balances | (235 500) | (190 337) |
| Interest income: effect on discounting | (17 124) | (34 216) |
| Allowance for impairment of accounts receivable | (31 501) | - |
| Cost of investments in subsidiaries | (187 434) | (187 434) |
| Other balancing items | 59 498 | (107 869) |
| Total assets per IFRS | 18 923 567 | 17 043 063 |

5 Revenue from operations

| Revenue | 2009 | 2008 |
|-----------------------------------|-------------------|-------------------|
| Heating | 9 510 959 | 7 906 721 |
| Electricity | 7 250 577 | 7 210 739 |
| Water and condensate sales | 407 996 | 327 538 |
| Sales of chemically treated water | 49 359 | 30 541 |
| Repairs | 43 434 | 99 132 |
| Other revenue | 131 700 | 351 151 |
| | 17 394 025 | 15 925 822 |

| Other operating income | 2009 | 2008 |
|---|----------------|----------------|
| Assets recorded as result of stock-take | 534 | 29 062 |
| Fines and penalties under contracts | 131 549 | 98 108 |
| Operating lease income | 40 364 | 35 139 |
| Other operating income | 43 227 | 46 984 |
| | 215 674 | 209 293 |

6 Operating expenses

| | 2009 | 2008 |
|---|-------------------|-------------------|
| Fuel | 7 187 349 | 6 885 285 |
| Employee benefit expenses and payroll taxes | 2 870 289 | 2 431 853 |
| Other materials | 1 485 794 | 607 765 |
| Depreciation | 1 001 463 | 946 056 |
| Electricity and heat distribution | 961 461 | 777 324 |
| Purchased power | 790 816 | 1 026 507 |
| Water usage | 526 504 | 438 854 |
| Allowance for impairment of accounts receivable | 505 980 | (101 408) |
| Repair and maintenance | 471 880 | 537 335 |
| Taxes other than income tax | 334 238 | 426 948 |
| Rent | 259 909 | 298 216 |
| Abonent payment | 163 588 | 138 615 |
| Agent commission fee | 136 368 | 70 796 |
| Security | 116 695 | 118 212 |
| Transportation | 74 758 | 117 330 |
| Loss on disposal of property, plant and equipment | 17 597 | 1 589 |
| Other operating expenses | 655 270 | 681 042 |
| Capitalized expenses | (793 765) | (100 499) |
| | 16 766 194 | 15 301 820 |

7 Finance income and finance costs

| | 2009 | 2008 |
|--|---------------|---------------|
| Finance income | | |
| Interest income on loans | 302 | 50 736 |
| Interest income: effect of discounting | 18 398 | 20 766 |
| Other income | 31 030 | 26 563 |
| | 49 730 | 98 065 |

| Finance costs | 2009 | 2008 |
|--|----------------|----------------|
| Interest expense on borrowings | 240 709 | 150 200 |
| Impairment of loan given | 50 736 | - |
| Interest expense: effect of discounting | 13 319 | 30 551 |
| Interest expense: defined benefit obligation | 19 311 | 22 363 |
| Finance lease charges | 14 444 | 17 902 |
| | 338 519 | 221 016 |

8 Income tax

The Group's applicable tax rate is the income tax rate of 20% for Russian companies (2008: 24%). With effect from 1 January 2009, the income tax rate for Russian companies was reduced to 20%.

| | 2009 | 2008 |
|---|----------------|---------------|
| Current income tax | | |
| Current year | (29 694) | (37 974) |
| Overprovided in prior periods | 262 456 | 57 592 |
| | 232 762 | 19 618 |
| Deferred tax | | |
| Origination and reversal of temporary differences | (157 873) | (77 470) |
| Reduction in tax rate | - | 279 496 |
| Recognition of previously unrecognised tax losses | 263 264 | - |
| Change in PPE tax base | 65 306 | (156 077) |
| | 170 697 | 45 949 |
| Total income tax | 403 459 | 65 567 |

Reconciliation of effective tax rate:

| | 2009 | | 2008 | |
|---|-----------------|-----------|-----------------|----------|
| | '000 RUR | % | '000 RUR | % |
| Profit before income tax | 554 716 | 100 | 710 344 | 100 |
| Income tax at applicable tax rate | (110 943) | (20) | (170 483) | (24) |
| Reduction in tax rate | - | - | 279 496 | 39 |
| Overprovided in prior periods | 262 456 | 47 | 57 592 | 8 |
| Net tax effect of other items which are not deductible /not taxable for taxation purposes | (76 624) | (13) | 55 039 | 8 |
| Recognition of previously unrecognised tax losses | 263 264 | 47 | - | - |
| Change in PPE tax base | 65 306 | 12 | (156 077) | (22) |
| | 403 459 | 73 | 65 567 | 9 |

Income tax overprovided in prior periods in the amount of RUR 262 456 thousand is mainly related to the completion of legal process on income tax in favour of TGC-11 in 2009 (refer to next paragraph).

On 23 March 2009 the Western Siberia Federal District Arbitration Court made a decision in favour of TGC-11 on litigation with tax authorities in relation to deductibility of the amount of the operating expenses taken for tax purposes by OEGC in 2005 and 2006, including accelerated depreciation of property, plant and equipment operated in aggressive environment.

As a result the Group recognized tax losses carry forwards in the amount of RUR 1 316 340 thousand, which resulted in the income tax benefit in the amount of RUR 263 264 thousand. Also the Group corrected the tax value of property, plant and equipment, which resulted in reduction of deferred tax liabilities of the Group in the amount of RUR 65 306 thousand.

Differences between the carrying amounts of assets and liabilities reported in the Financial Statements and their values for taxation purposes give rise to certain temporary differences. The tax effect of those temporary differences is measured at the rate of 20%.

| | 2009 | 2008 |
|---|-------------------------|-------------------------|
| <i>Tax effects of deductible temporary differences</i> | | |
| Provisions | 43 044 | 43 202 |
| Inventory | 5 591 | 5 871 |
| Trade and other receivables | 65 255 | 25 613 |
| Tax losses carry forwards | 224 037 | - |
| Other | 14 376 | 18 862 |
| | <u>352 303</u> | <u>93 548</u> |
| <i>Tax effect of taxable temporary differences</i> | | |
| Property, plant and equipment | 1 409 451 | 1 350 309 |
| Other | 39 570 | 10 654 |
| | <u>1 449 021</u> | <u>1 360 963</u> |
| Net deferred tax liability | <u>1 096 718</u> | <u>1 267 415</u> |

All movements in the temporary differences are recorded in profit and loss.

9 Property, plant and equipment

| | Heat and electricity generation | Heat networks | Other | Construction in progress | Total |
|---|---------------------------------------|------------------|------------------|-----------------------------|--------------------|
| <i>Cost as at 1 January 2008</i> | 9 996 797 | 2 714 696 | 1 116 871 | 417 385 | 14 245 749 |
| Additions | 29 060 | - | 98 268 | 1 220 094 | 1 347 422 |
| Transfers | 280 299 | 341 812 | 225 247 | (847 358) | - |
| Disposals | (9 134) | - | (22 674) | - | (31 808) |
| As at 31 December 2008 | 10 297 022 | 3 056 508 | 1 417 712 | 790 121 | 15 561 363 |
| <i>Accumulated depreciation</i> | | | | | |
| As at 1 January 2008 | (946 657) | (431 214) | (160 686) | - | (1 538 557) |
| Depreciation charge | (587 320) | (229 378) | (129 358) | - | (946 056) |
| Disposals | 6 425 | - | 5 941 | - | 12 366 |
| As at 31 December 2008 | (1 527 552) | (660 592) | (284 103) | - | (2 472 247) |
| <i>Carrying amounts</i> | | | | | |
| As at 1 January 2008 | 9 050 140 | 2 283 482 | 956 185 | 417 385 | 12 707 192 |
| As at 31 December 2008 | 8 769 470 | 2 395 916 | 1 133 609 | 790 121 | 13 089 116 |
| <i>Cost as at 1 January 2009</i> | 10 297 022 | 3 056 508 | 1 417 712 | 790 121 | 15 561 363 |
| Additions | - | - | - | 3 079 741 | 3 079 741 |
| Transfers | 2 733 305 | 154 383 | 305 980 | (3 193 668) | - |
| Disposals | (976) | (13 556) | (18 200) | (21 617) | (54 349) |
| As at 31 December 2009 | 13 029 351 | 3 197 335 | 1 705 492 | 654 577 | 18 586 755 |
| <i>Accumulated Depreciation</i> | | | | | |
| As at 1 January 2009 | (1 527 552) | (660 592) | (284 103) | - | (2 472 247) |
| Depreciation charge | (621 880) | (233 225) | (146 358) | - | (1 001 463) |
| Disposals | 754 | 9 589 | 4 461 | - | 14 804 |
| As at 31 December 2009 | (2 148 678) | (884 228) | (426 000) | - | (3 458 906) |
| <i>Carrying amounts</i> | | | | | |
| As at 1 January 2009 | 8 769 470 | 2 395 916 | 1 133 609 | 790 121 | 13 089 116 |
| As at 31 December 2009 | 10 880 673 | 2 313 107 | 1 279 492 | 654 577 | 15 127 849 |

The carrying value of property, plant and equipment which was pledged under loan agreement as at 31 December 2009 amounted to RUR 415 359 thousand (31 December 2008 – RUR 178 413 thousand).

In 2009 capitalized borrowing costs amounted to RUR 134 360 thousand (2008: RUR 45 446 thousand), weighted average capitalization rate – 15.3% (2008: 11.6%).

Leased machinery and equipment

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

| | <u>2009</u> | <u>2008</u> |
|--------------------------|-----------------------|-----------------------|
| Cost | 175 505 | 198 173 |
| Accumulated depreciation | (34 138) | (32 135) |
| Net book value | <u>141 367</u> | <u>166 038</u> |

10 Inventories

| | <u>2009</u> | <u>2008</u> |
|---------------------------------------|-----------------------|-----------------------|
| Fuel productions stocks | 783 620 | 522 441 |
| Materials and supplies | 186 837 | 180 299 |
| | 970 457 | 702 740 |
| Provision for inventory obsolescence | (959) | (2 086) |
| Carrying amount of inventories | <u>969 498</u> | <u>700 654</u> |

11 Trade and other receivables

| | <u>2009</u> | <u>2008</u> |
|-----------------------------|----------------------|-----------------------|
| <i>Non-current</i> | | |
| Promissory notes receivable | - | 104 395 |
| Other receivables | 61 847 | 6 235 |
| Allowance for impairment | (61) | - |
| | <u>61 786</u> | <u>110 630</u> |

Current

| | | |
|---|------------------|------------------|
| Trade receivables | 2 664 884 | 1 878 725 |
| Allowance for impairment of trade receivables | (786 796) | (441 956) |
| Promissory notes receivable | 1 337 | 63 900 |
| Other receivables | 565 555 | 370 064 |
| Allowance for impairment of other receivables | (260 583) | (133 674) |
| | <u>2 184 397</u> | <u>1 737 059</u> |

The carrying value of non-current receivables as at 31 December 2009 was determined using the discount rate of 15.5% (31 December 2008 – 13.1%).

The average credit period provided by the Group to its customers was 45 days in 2009 (2008 - 31 days).

12 Prepayments

| | <u>2009</u> | <u>2008</u> |
|--|----------------|----------------|
| Non-current | | |
| Advances for capital expenditures | 30 065 | 537 817 |
| | <u>30 065</u> | <u>537 817</u> |
| Current assets | | |
| Advances (net of allowance for impairment: as at 31 December 2009 - RUR 10 012 thousand, as at 31 December 2008 – nil) | 121 478 | 91 945 |
| | <u>121 478</u> | <u>91 945</u> |

13 Loans given

As at 31 December 2008 the Group recorded an unsecured loan in the amount of RUR 500 000 thousand issued in June 2008 with maturity date in September 2009.

The outstanding balance of loan given as at 31 December 2009 was settled in cash in the first quarter 2010.

14 Cash and cash equivalents

| | 2009 | 2008 |
|----------------------|-------|--------|
| Cash on hand in RUR | 154 | 258 |
| Cash at banks in RUR | 2 363 | 10 327 |
| Cash equivalents | 4 559 | 11 552 |
| | 7 076 | 22 137 |

15 Equity

(a) Share capital

As at 31 December 2009 and 2008, the authorized, issued and fully paid share capital comprised 512 827 729 472 ordinary shares with a par value of RUR 0.01.

(b) Treasury shares

In September 2008 the Group repurchased 725 282 150 of its ordinary shares for the total amount of RUR 20 671 thousand. These shares are held by one of the subsidiaries and are carried at the acquisition cost.

(c) Dividends

In accordance with Russian legislation TGC-11's distributable reserves are limited to the balance of retained earnings as recorded in TGC-11's statutory financial statements prepared in accordance with Russian Accounting Principles. As at 31 December 2009 TGC-11 had retained earnings, including the profit for the current year, of RUR 1 112 429 thousand (31 December 2008 – RUR 776 063 thousand).

In 2009, and up to the date of approval of the Financial Statements for the year ended 31 December 2009, the Group declared no dividends. The Group declared and paid no dividends for 2008.

(d) Shares transferred to LLC Neft-Aktiv

In February 2008 TGC-11 received a claim from LLC Neft-Aktiv, a minority shareholder of Tomskenergo, on the validity of the reorganization of Tomskenergo on the form of merging with TGC-11 due to improper notification of LLC Neft-Aktiv about the extraordinary general meeting of Tomskenergo's shareholders on 24 August 2007. On 4 July 2008 the Moscow Arbitration Court took a decision to satisfy the claim of LLC Neft-Aktiv in full. The resolution of the Ninth Arbitration Appellation Court of Moscow on 8 December 2008 left the above decision unchanged. In February 2009 TGC-11 filed cessation appeals to the Moscow Federal District Arbitration Court.

TGC-11 and LLC Neft-Aktiv have reached a mutual agreement on the amicable settlement of the above dispute that was approved by the Moscow District Federal Arbitration Court on 15 July 2009. According to the mutual agreement on the amicable settlement TGC-11 should transfer 7 657 430 027 ordinary shares to LLC Neft-Aktiv. In September 2009, 7 657 430 027 of TGC-11 ordinary shares were transferred to LLC Neft-Aktiv, the cost of that transfer for the Group was RUR 109 963 thousand.

Due to the fact that the mutual agreement represents settlement with LLC Neft-Aktiv in its capacity as the former owner of interest in Tomskenergo as a result of reorganization of TGC-11, transfer of shares was recorded in the consolidated statement of changes in equity as decrease of retained earnings.

(e) Earnings per share

Earnings per share are calculated by dividing profit for the year by the weighted average number of ordinary shares in issue during the reporting year, except for the weighted average number of shares repurchased by the Group and recorded as treasury shares.

| | 2009 | 2008 |
|--|-----------------|-----------------|
| Weighted average number of ordinary shares outstanding | 512 102 447 322 | 512 645 418 112 |
| Profit for the year attributable to shareholders | 958 175 | 775 911 |
| Earnings per share (RUR): basic and diluted | 0.0019 | 0.0015 |

(f) Additional paid-in capital

Additional paid-in capital represents the amount of cash received by the Group in 2007 from the sale of 100% shares of subsidiaries owned by Tomskenergo and OEGC, made before the merger of Tomskenergo and OEGC with TGC-11.

16 Loans and borrowings

The tables below provide summarized financial information about the Group's loans and borrowings.

| | Currency | Effective annual interest rate | Maturity | 31 December 2008 |
|--------------------------------|----------|--------------------------------|----------|------------------|
| <i>Non-current liabilities</i> | | | | |
| Finance lease liabilities | RUR | 11.51-13.1% | 2010 | 25 865 |
| | | | | 25 865 |

| | | | | |
|----------------------------------|-----|------------|------|------------------|
| <i>Current liabilities</i> | | | | |
| Short-term bank loans | RUR | 9.0-16.0% | 2009 | 1 795 532 |
| Current portion of finance lease | RUR | 11.5-13.1% | 2009 | 35 210 |
| | | | | 1 830 742 |

| | Currency | Effective annual interest rate | Maturity | 31 December 2009 |
|--------------------------------|----------|--------------------------------|----------|------------------|
| <i>Non-current liabilities</i> | | | | |
| Long-term bank loan | RUR | 14.2% | 2012 | 1 000 000 |
| Finance lease liabilities | RUR | 12.6% | 2011 | 2 794 |
| | | | | 1 002 794 |

Current liabilities

| | | | | |
|--|-----|-----------|------|------------------|
| Short-term bank loans | RUR | 9.7-24.4% | 2010 | 2 095 885 |
| Current portion of finance lease liabilities | RUR | 12.6% | 2010 | 25 167 |
| | | | | 2 121 052 |

Bank loans

All bank loans bear fixed interest rate.

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

Bank loans are mainly represented by the credit lines obtained for financing of operating activities and have the following securities for loans: property, plant and equipment with the carrying value of RUR 415 359 thousand as at 31 December 2009 (as at 31 December 2008 – RUR 178 413 thousand).

Finance lease obligations

Finance lease agreements are mainly for motor vehicles and heat network. Lease terms correspond to useful lives of the leased asset. The lease agreements provide for the transfer of ownership for the property, plant and equipment at the end of the lease term.

The maturity of finance lease obligations is as follows:

| | 2009 | | 2008 | |
|----------------------------|-------------------------------|--------------|-------------------------------|---------------|
| | Future minimum lease payments | Interest | Future minimum lease payments | Interest |
| Less than one year | 32 240 | 7 073 | 51 131 | 15 921 |
| Between one and five years | 3 430 | 636 | 32 748 | 6 883 |
| | 35 670 | 7 709 | 83 879 | 22 804 |

The finance lease liabilities are secured by leased assets.

17 Employee benefits

The Group provides the following long-term pension and social benefit plans:

- defined contribution pension plan (Non-State Power Industry Pension Fund); and
- defined benefit pension plans regulated by Collective agreements that include one-time benefits paid in case of death, one-time benefits paid upon retirement or invalidity, and financial support to honoured workers and retired employees.

Contributions to the Non - State Power Industry Pension Fund in the amount of RUR 1 286 thousand were recognized as operating expenses (RUR 26 718 thousand - for the year ended 31 December 2008).

Defined benefit obligations have been assessed by an independent professional actuary using the projected unit credit method.

The table below summarizes the amounts of defined benefit obligations recognized in the consolidated statement of financial position.

| | 2009 | 2008 |
|--|----------------|----------------|
| Present value of defined benefit obligations | 189 534 | 222 001 |
| Unrecognized past service cost | (15 222) | (13 871) |
| Unrecognized actuarial losses | 104 712 | 53 635 |
| Net defined benefit obligation | 279 024 | 261 765 |

The change in the current value of obligations under defined benefit plans was the following:

| | 2009 | 2008 |
|--|----------------|----------------|
| Defined benefit obligation at 1 January | 261 765 | 279 129 |
| Current service cost | 8 620 | 21 251 |
| Interest expense | 19 311 | 22 363 |
| Actuarial gain | (3 896) | (9 952) |
| Past service cost | 3 998 | 8 051 |
| Plan reduction | (2 927) | (49 758) |
| Payments to employees | (7 847) | (9 319) |
| Defined benefit obligation at 31 December | 279 024 | 261 765 |

The amount accrued for the year under defined benefit plans was included in the amount of payroll and other employee benefits. Interest expense was included in finance cost.

The table below presents the major actuarial assumptions:

| | 2009 | 2008 |
|--|-------------|-------------|
| Discount rate | 9.5% | 9% |
| Wages and salaries increase | 8% | 8% |
| Employee turnover | 6% | 6% |
| Average retirement age | | |
| Men | 57.5 | 57.5 |
| Women | 54.0 | 53.5 |
| Average life expectancy of members from the date of retirement | | |
| Men | 3.8 | 3.8 |
| Women | 19.4 | 19.4 |

18 Provisions

| | 2009 | 2008 |
|----------------------------|----------------|----------------|
| <i>Non-current</i> | | |
| Site restoration provision | 79 048 | 90 012 |
| Tax provision | - | 1 710 |
| | 79 048 | 91 722 |
| <i>Current</i> | | |
| Bonus provision | 89 848 | 80 537 |
| Unused vacation provision | 44 322 | 39 578 |
| Tax provision | - | 73 492 |
| Site restoration provision | 2 000 | 5 880 |
| Other provisions | 84 784 | 32 159 |
| | 220 954 | 231 646 |

Site restoration provision

The site restoration provision is recognised based on the expected costs and timing of site restoration activities to be taken by the Group on retirement of ash dumps in order to prevent the environment damages.

The site restoration provision was estimated as at 31 December 2009 using the discount rate of 8.41% per annum (as at 31 December 2008 – 13.1% per annum).

The movement in the site restoration provision is as follows:

| | 2009 | 2008 |
|---|---------------|---------------|
| Site restoration provision as at 1 January | 95 892 | 109 707 |
| Unwinding of discount | 13 319 | 12 627 |
| Changes in estimates of existing obligations | (28 163) | (26 442) |
| Site restoration provision as at 31 December | 81 048 | 95 892 |

Bonus provision

Bonus provision comprises of the bonuses and other similar employee benefits that are accrued based on the performance of employees in the reporting period, including unified social tax at the effective rate of 22.3%.

Unused vacation provision

Unused vacation provision is estimated based on an annual average salary, average number of personnel and number of vacation days not used by employees for the year including unified social tax at the effective rate of 22.3%

Tax provision

Based on the agreement between OJSC Omskenergo and OEGC, OJSC Omsk Power Sales Company and OJSC Omsk Magistral Network Company signed on 28 February 2007, companies spun off as a result of the reorganisation of OJSC Omskenergo bear joint responsibility to third parties for the liabilities that related to periods prior to the reorganization of OJSC Omskenergo. The share of TGC-11 in these liabilities is 79.21%.

As at 31 December 2008 the Group management created a provision for joint responsibility for the amounts of OJSC Omskenergo's liabilities based on the results of tax review for 2003 and 2004 in the amount of RUR 75 202 thousand.

In September 2009 TGC-11 filed the claim to Moscow Arbitration Court to cancel the joint responsibility agreement for the amounts of OJSC Omskenergo's liabilities. Up to the date of this Financial Statements the litigation has not finished and the court decision has not issued yet.

Based on the existing arbitration practice the Group management assessed the probability to obtain the court decision in the favour of TGC-11 as high. As a result, as at 31 December 2009 the management of the Group has made a decision on reversal of the tax provision accrued in prior periods.

19 Trade and other payables

| | <u>2009</u> | <u>2008</u> |
|----------------|----------------|----------------|
| Trade payables | 918 082 | 739 653 |
| Other payables | 42 102 | 78 769 |
| | <u>960 184</u> | <u>818 422</u> |

In 2009, the average credit period on purchases was 32 days (2008: 19 days). The Group has financial risk management policies in place, which includes budgeting and analysis of cash flows and payments schedule, to ensure that payables are paid when due.

20 Other taxes payable

| | <u>2009</u> | <u>2008</u> |
|---------------------|----------------|----------------|
| Value added tax | 61 135 | 226 127 |
| Land tax | 60 333 | 64 717 |
| Unified social tax | 33 036 | 23 921 |
| Personal income tax | 26 208 | 35 122 |
| Property tax | 1 236 | 52 205 |
| Other taxes | 20 058 | 20 309 |
| | <u>202 006</u> | <u>422 401</u> |

21 Operating leases

Non-cancellable operating lease rentals are payable as follows:

| | 2009 | 2008 |
|----------------------------|---------|---------|
| Due within one year | 243 139 | 32 509 |
| Due from one to five years | 30 211 | 94 465 |
| Due more than five years | 31 551 | 201 293 |
| | 304 901 | 328 267 |

The most significant portion of lease rentals relate to leases of land, gas pipe lines, heating mains, heating infrastructure.

The leases typically run for an initial period of 1 to 5 years, with an option to renew the lease after that date. Lease payments are reviewed annually to reflect market rentals.

22 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 risk, 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 risk faces by the Group, setting appropriate risk limits and controls, and monitoring risk and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its internal policies, aims to develop a disciplined and constructive 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.

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. Based on the analysis performed, the Group determines individual risk levels for counterparties or a group of counterparties. Risk levels are revised on a regular basis.

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 recognised in the Financial Statements, to be low.

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

| | Carrying amount | |
|-------------------------------|------------------------|------------------|
| | 2009 | 2008 |
| Loans and accounts receivable | 2 496 183 | 2 398 425 |
| Cash and cash equivalents | 7 076 | 22 137 |
| | 2 503 259 | 2 420 562 |

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

| | Carrying amount | |
|----------------|------------------------|------------------|
| | 2009 | 2008 |
| Legal entities | 884 998 | 784 306 |
| Individuals | 993 090 | 652 463 |
| | 1 878 088 | 1 436 769 |

Impairment losses

The aging analysis is presented below:

| | Impairment | | Impairment | |
|-----------------------|-------------------|------------------|-------------------|----------------|
| | Gross 2009 | 2009 | Gross 2008 | 2008 |
| No past due | 2 048 272 | 34 602 | 1 278 566 | - |
| Past due 0-90 days | 139 405 | 11 739 | 154 056 | - |
| Past due 91-180 days | 36 740 | 11 223 | 123 971 | - |
| Past due 181-365 days | 115 810 | 41 444 | 53 602 | 1 078 |
| More than one year | 953 396 | 948 432 | 813 124 | 574 552 |
| | 3 293 623 | 1 047 440 | 2 423 319 | 575 630 |

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:

- For customers – “legal entities”: allowance is recorded when all possible steps to collect the debts have been taken and did not result in full or partial settlement, or guarantees for debt repayment in future periods were not received;
- For customers – “individuals”: allowance is recorded for debts over 365 days provided no payments from the debtor during this period have been received.

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

| | 2009 | 2008 |
|---|------------------|----------------|
| Balance at the beginning of the year | 575 630 | 802 202 |
| Allowance accrued | 522 812 | 126 426 |
| Decrease due to reversal | (26 844) | (227 834) |
| Amounts written off against trade receivables | (24 158) | (125 164) |
| Balance at the end of the year | 1 047 440 | 575 630 |

(c) Liquidity risk

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

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

As at 31 December 2009, the Group had the following credit lines facilities:

- From OJSC Gazprombank with an unused portion of facility to RUR 2 330 000 thousand, valid till December 2010;
- From CJSC UniCredit Bank with an unused portion of facility to RUR 700 000 thousand, valid till December 2010;
- From CJSC Raiffeisenbank with an unused portion of facility to RUR 400 000 thousand, valid till November 2010;
- From CJSC Raiffeisenbank with an unused portion of facility to RUR 500 000 thousand, valid till June 2010;
- From CJSC GLOBEXBANK with an unused portion of facility to RUR 1 000 000 thousand, valid till August 2010.

As at 31 December 2009, the Group had the following overdrafts facilities:

- From OJSC Gazprombank with an unused portion of facility to RUR 170 000 thousand, valid till September 2010.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements. It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts. Contractual cash flows of loans and borrowings are presented net of interest as the credit lines opened by the Group do not have strict repayment schedule.

Non derivative financial liabilities as at 31 December 2009

| | Carrying amount | Contractual cash flows | Less than 1 year | 2-5 years |
|---------------------------|----------------------------|-----------------------------------|-----------------------------|------------------|
| Trade and other payables | 1 081 381 | 1 081 381 | 1 081 381 | - |
| Loans and borrowings | 3 095 885 | 3 095 885 | 2 095 885 | 1 000 000 |
| Finance lease liabilities | 27 961 | 35 670 | 32 240 | 3 430 |
| | 4 205 227 | 4 212 936 | 3 209 506 | 1 003 430 |

Non derivative financial liabilities as at 31 December 2008

| | Carrying amount | Contractual cash flows | Less than 1 year | 2-5 years |
|---------------------------|----------------------------|-----------------------------------|-------------------------|------------------|
| Trade and other payables | 914 650 | 914 650 | 914 650 | - |
| Loans and borrowings | 1 795 532 | 1 795 532 | 1 795 532 | - |
| Finance lease liabilities | 61 075 | 83 879 | 51 131 | 32 748 |
| | 2 771 257 | 2 794 061 | 2 761 313 | 32 748 |

(d) Market risk

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

There is no exposure to currency risk as the Group does not have operations denominated in a currency other than RUR.

Market risk of the Group represented by interest rate risk.

(i) Interest rate risk

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

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss or as available for sale. Therefore a change in interest rate at the reporting date would not affect profit or loss or equity.

Fair values

Management believes that the fair value of the Group's financial assets and liabilities approximates their carrying amounts.

Basis for determining fair value of financial instruments

The following summarises the significant methods and assumptions used in estimating the fair values of financial instruments.

Trade and other receivables

For current trade and other receivables fair value is not materially different from the carrying amount because the effect of the time value of money is not material.

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

Non-derivative financial liabilities

For current trade and other payables fair value is not materially different from the carrying amount because the effect of the time value of money is not material.

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

Interest rates used to determine fair value

The interest rates used to discount estimated cash flows, where applicable, were as follows:

| | 2009 | 2008 |
|-------------------------------------|---------------|---------------|
| Trade and other accounts receivable | 12.6% - 15.5% | 11.5% - 13.1% |
| Loans and borrowings | 9.7% - 24.4% | 9% - 16% |

(e) Capital risk management

The Group's principal objective when managing capital risk is to sustain its creditworthiness and a normal level of capital adequacy for doing business as a going concern, in order to ensure returns for shareholders and benefits to other stakeholders and to maintain an optimal capital structure.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

The companies of the Group are not subject to any externally imposed capital requirements.

23 Contingencies and commitments

(a) Insurance

As at 31 December 2009 the Group had insurance coverage for its production facilities and equipment in the amount of RUR 13 481 534 thousand (as at 31 December 2008 – RUR 11 988 364 thousand) and for liabilities to third parties in respect of damage to the environment and life and health injury arising from accidents on the Group's property in the amount of RUR 185 172 thousand (as at 31 December 2008 – RUR 140 664 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.

(a) Legal proceedings

Group entities are party to certain legal proceedings arising in the ordinary course of business. In the opinion of management, 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.

(b) Taxation contingencies

The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these Financial Statements, if the authorities were successful in enforcing their interpretations, could be significant.

(c) Environmental liabilities

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

(d) Contingencies related to compliance with directions of state authorities for monitoring technical conditions of the production assets

State authorities 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 plant and equipment. Given that the volume, estimates and timing of such works are now under consideration by the Group's management, it is impracticable to estimate the total amount of capital expenditure necessary to fulfill government authorities' requirements as at 31 December 2009.

24 Related-party disclosures

At 1 July 2008 there was a final stage of reorganization of OJSC RAO UES of Russia (hereinafter – "RAO UES"), as result of which the shares owned by RAO UES in its subsidiaries were transferred to shareholders of RAO UES and RAO UES ceased to exist as a separate legal entity. Prior to the reorganization RAO UES owned 50.47% of TGC-11's share capital.

As at 31 December 2009 and 2008 TGC-11 was not controlled by other legal entities and individuals. Several companies had significant influence on TGC-11. Part of TGC-11 shareholders which have significant influence on the Group are controlled by the Government.

The Group's related party transactions were with the shareholders, companies owned or controlled by the same entities as the Group and state controlled entities.

The following tables summarize the Group's transactions with the related parties, except for the transactions with state controlled entities:

| Related parties | Type of operation | Purchases from related parties for the year ended 31 December 2009 | Purchases from related parties for the year ended 31 December 2008 | Other operations for the year ended 31 December 2008 |
|--|--------------------------------|---|---|---|
| | Loans given | - | - | 500 000 |
| | Interest accrued on loan given | - | - | 50 736 |
| Parties controlled by the shareholders of TGC-11 | Coal | 104 027 | 87 983 | - |

| Related parties | Type of operation | Receivables from related parties as at 31 December 2009 | Receivables from related parties as at 31 December 2008 | Liabilities to related parties as at 31 December 2009 | Liabilities to related parties as at 31 December 2008 |
|--|---------------------------|--|--|--|--|
| Parties controlled by the shareholders of TGC-11 | Loans given | - | 550 736 | - | - |
| | Salary and other benefits | - | - | 6 520 | 4 550 |
| Key management personnel | Loans given | - | 3 113 | - | - |

During the year ended 31 December 2009 the structure of TGC-11 shareholders changed. As a result, outstanding amount of loan given to related party in 2008 was recorded as third party liability as at 31 December 2009.

In 2009 and 2008 the Group sold small portion of heat and electric power to state controlled entities. Conditions of these agreements were similar to those to third parties. Order of settlement of tariffs on electricity and heat is disclosed in the Note 1 (c).

In 2009 and 2008 the majority of gas purchases were from state controlled entities based on contractual prices. The accounts payable of the Group to state controlled entities for gas supply as at 31 December 2009 amounted to RUR 172 224 thousand (31 December 2008 – RUR 25 175 thousand).

In 2009 and 2008 the Group obtained loans from the state controlled banks based on market interest rates. The liability of the Group to state controlled banks as at 31 December 2009 amounted to RUR 706 110 thousand (31 December 2008 – RUR 1 259 270 thousand).

Other purchases from state controlled entities in 2009 represented the small portion of total Group other purchases.

Terms and conditions of related-party transactions

Other related party transactions are based on normal market prices. Outstanding balances at the end of reporting periods are unsecured, interest free and settlement occurs mainly in cash.

Management remuneration

| | <u>2009</u> | <u>2008</u> |
|----------------------|----------------|----------------|
| Salaries and bonuses | 74 058 | 101 350 |
| Termination benefits | 48 135 | - |
| | <u>122 193</u> | <u>101 350</u> |

25 Service concession arrangement

The Group uses public heating system facilities for providing services of heat supply to customers. The right to use the infrastructure is received from municipal authorities of Tomsk region (Property Department of Tomsk administration and Tomsk Property Treasury Department local authority, the “Grantor” – hereinafter) under service concession agreement.

In accordance with the arrangement, the contract period starts 1 June 2007 and set for indefinite period. The arrangement can be cancelled upon mutual agreement of the parties or unilaterally with the preliminary notification of a party.

The Group as an operator of the service concession has the obligation for maintenance and repair of the infrastructure as agreed with the Grantor on a regular basis.

For the year ended 31 December 2009 rent payments for uses of public heating system that recorded in operating expenses of the Group amounted to RUR 445 thousand (in 2008 – RUR 37 481 thousand), repair expenses - RUR 119 538 thousand (in 2008 – RUR 66 172 thousand).

In addition under the service concession arrangement the Group has the right to make improvement (upgrades) of the facilities upon approval by the Grantor. The Group does not possess the right of ownership over the infrastructure or upgrades at the end of concession arrangement. During 2007 – 2009 years the Group did not perform any improvements (upgrades) of the facilities and did not have any capital construction commitments for these facilities.