

**OGK-2 GROUP
CONSOLIDATED FINANCIAL STATEMENTS
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)
FOR THE YEAR ENDED 31 DECEMBER 2010**



ZAO KPMG
10 Presnenskaya Naberezhnaya
Moscow, Russia 123317

Telephone +7 (495) 937 4477
Fax +7 (495) 937 4400/99
Internet www.kpmg.ru

Independent Auditors' Report

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

We have audited the accompanying consolidated financial statements of OJSC "OGK-2" (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matter

The consolidated financial statements of the Group as at and for the year ended 31 December 2009 were audited by other auditors whose report dated 19 April 2010 expressed an unmodified opinion on those statements.

ZAO KPMG

ZAO KPMG

15 April 2011

OGK-2 Group
Consolidated Statement of Financial Position as at 31 December 2010
(in thousands of Russian Roubles)

	Notes	31 December 2010	31 December 2009
ASSETS			
Non-current assets			
Property, plant and equipment	6	36,677,606	34,845,586
Intangible assets	7	1,475,327	1,509,771
Other non-current assets	8	2,608,089	6,028,463
Total non-current assets		40,761,022	42,383,820
Current assets			
Cash and cash equivalents	9	3,023,466	1,553,428
Trade and other receivables	10	6,012,009	4,601,861
Inventories	11	2,293,939	2,246,001
Current income tax prepayments		28,035	130,898
Other current assets	12	-	3,200,000
Total current assets		11,357,449	11,732,188
TOTAL ASSETS		52,118,471	54,116,008
EQUITY AND LIABILITIES			
Equity			
Share capital	13		
Ordinary shares		11,872,828	11,872,828
Treasury shares		(12,037)	(5,579)
Share premium		23,916,508	23,916,508
Retained earnings		4,590,133	1,664,694
Total equity		40,367,432	37,448,451
Non-current liabilities			
Deferred income tax liabilities	14	1,995,773	2,120,813
Non-current debt	15	5,000,000	68
Retirement benefit obligations	19	632,397	554,566
Restoration provision	20	518,038	355,582
Other long-term liabilities		59,747	15,369
Total non-current liabilities		8,205,955	3,046,398
Current liabilities			
Current debt and current portion of non-current debt	16	-	9,576,509
Trade and other payables	17	3,144,644	3,343,687
Other taxes payable	18	351,700	666,509
Restoration provision	20	48,740	34,454
Total current liabilities		3,545,084	13,621,159
Total liabilities		11,751,039	16,667,557
TOTAL EQUITY AND LIABILITIES		52,118,471	54,116,008

Deputy General Director on economics and finance

N.V. Vaytulenis

Chief Accountant

L.V. Klisch



15 April 2011

OGK-2 Group**Consolidated Income Statement for the year ended 31 December 2010**

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

	Notes	Year ended 31 December 2010	Year ended 31 December 2009
Revenues	21	47,863,630	39,004,413
Operating expenses	22	(44,002,333)	(37,080,128)
Other operating items		(261,523)	(26,185)
Operating profit		3,599,774	1,898,100
Finance income	23	506,364	470,164
Finance costs	24	(889,784)	(966,106)
Profit before income tax		3,216,354	1,402,158
Income tax charge	14	(1,025,189)	(308,034)
Profit for the year		2,191,165	1,094,124
Attributable to:			
Shareholders of OJSC OGK-2		2,191,165	1,094,124
Earning per ordinary share for profit attributable to the shareholders of OJSC OGK-2 – basic and diluted (in Russian Roubles)	25	0.07	0.03

The consolidated income statement is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 43

OGK-2 Group**Consolidated Statement of Comprehensive Income for the year ended 31 December 2010**

(in thousands of Russian Roubles)

	Notes	Year ended 31 December 2010	Year ended 31 December 2009
Profit for the year		2,191,165	1,094,124
Net change in fair value of available-for-sale investments (net of income tax)	13	22,794	24,152
Total comprehensive income for the year		2,213,959	1,118,276
Attributable to:			
Shareholders of OJSC OGK-2		2,213,959	1,118,276

The consolidated statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 43

OGK-2 Group
Consolidated Statement of Cash Flows for the year ended 31 December 2010

(in thousands of Russian Roubles)

	Notes	Year ended 31 December 2010	Year ended 31 December 2009
CASH FLOW FROM OPERATING ACTIVITIES:			
Profit before income tax		3,216,354	1,402,158
Adjustments to reconcile profit before income tax to net cash provided by operations:			
Depreciation of property, plant and equipment	6	1,239,046	1,282,491
Reversal of property, plant and equipment impairment	6	(4,615)	(33,277)
Impairment of intangible assets	7	-	391,841
Amortisation of intangible assets	7	52,312	51,769
Charge of provision for impairment of trade and other receivables	22	1,199,047	597,077
(Reversal) / charge of provision for inventory obsolescence	22	(13,208)	19,701
Finance income	23	(506,364)	(470,164)
Finance costs	24	889,784	966,106
Increase in retirement benefit obligations	19,22	124,940	100,668
Employee share option plan	13	1,792	10,259
Loss on disposal of assets	22	55,572	128,172
Other non-cash items		(13,818)	9,014
Operating cash flows before working capital changes and income tax paid		6,240,842	4,455,815
Working capital changes:			
Decrease / (increase) in trade and other receivables		1,732,542	(2,737,822)
Payments in respect of retirement benefit obligations		(66,263)	(10,428)
(Increase) / decrease in inventories		(89,146)	251,196
Decrease in other current assets		-	660
Decrease in trade and other payables		(785,513)	(323,948)
Decrease in other non-current liabilities		(61,726)	(96,038)
(Decrease)/ increase in taxes payable, other than income tax		(302,504)	209,806
Income tax (paid) / received in cash		(1,045,981)	59,645
Net cash generated from operating activities		5,622,251	1,808,886
CASH FLOW FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(2,395,997)	(1,515,249)
Proceeds from sale of property, plant and equipment		15,876	2,391
Purchase of intangible assets		(17,868)	(16,483)
Increase in deposits		-	(4,100,000)
Proceeds from deposits		2,400,000	665,500
Interest received		285,734	295,993
Net cash generated from/ (used in) investing activities		287,745	(4,667,848)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from short-term borrowings		18,500,000	7,250,000
Proceeds from long-term borrowings		5,000,000	-
Repayment of short-term borrowings		(23,100,000)	(5,150,000)
Repayment of long-term borrowings (bonds)		(5,000,000)	-
Interest paid		(541,625)	(826,795)
Payments under finance lease		(1,563)	(22,232)
Purchase of treasury shares	13	(6,458)	-
Refund of premium paid to secure settlement of share-based payments	13	709,688	-
Net cash (used in) / generated from financing activities		(4,439,958)	1,250,973
Net increase / (decrease) in cash and cash equivalents		1,470,038	(1,607,989)
Cash and cash equivalents at the beginning of the year	9	1,553,428	3,161,417
Cash and cash equivalents at the end of the year	9	3,023,466	1,553,428

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 43

OGK-2 Group**Consolidated Statement of Changes in Equity for the year ended 31 December 2010**

(in thousands of Russian Roubles)

	Share capital	Treasury shares	Share premium	Retained earnings	Total
At 1 January 2009	11,872,828	(5,579)	23,916,508	536,159	36,319,916
Profit for the year	-	-	-	1,094,124	1,094,124
Available-for-sale investments (Note 13)	-	-	-	24,152	24,152
Total comprehensive income for the year	-	-	-	1,118,276	1,118,276
Employee share option plan (Note 13)	-	-	-	10,259	10,259
At 31 December 2009	11,872,828	(5,579)	23,916,508	1,664,694	37,448,451
At 1 January 2010	11,872,828	(5,579)	23,916,508	1,664,694	37,448,451
Profit for the year	-	-	-	2,191,165	2,191,165
Available-for-sale investments (Note 13)	-	-	-	22,794	22,794
Total comprehensive income for the year	-	-	-	2,213,959	2,213,959
Purchase of treasure shares (Note 13)	-	(6,458)	-	-	(6,458)
Employee share option plan (Note 13)	-	-	-	711,480	711,480
At 31 December 2010	11,872,828	(12,037)	23,916,508	4,590,133	40,367,432

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 43

Note 1. The Group and its operations

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

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

	% owned	
	31 December 2010	31 December 2009
OJSC "Chaika"	100%	100%
OJSC "OGK-2 Finans"	100%	100%

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

In September 2010 new operating branch was set up for the purpose of operation of Adlerskaya TES, which is currently being constructed by Gazprom group.

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

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

Operating environment of the Group. The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation. The global crisis had a significant influence on the Russian economy. In 2010 a moderate economic growth indicated its improvement. The recovery was accompanied by a growth of income of population, interest rates reduction, stabilization of exchange value of rouble against the world currencies and also growth of the market liquidity. At the moment management of the Company is unable to assess the effect of a possible recession in economic recovery, including foreign exchange market and capital market.

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes. Furthermore, the need for further developments in the bankruptcy laws, the absence of formalised procedures for the registration and enforcement of collateral, and other legal and fiscal impediments contribute to the challenges faced by legal entities currently operating in the Russian Federation. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

Management is unable to predict all developments which could have an impact on the utilities sector and the wider economy and consequently what effect, if any, they could have on the financial position of the Group. Management takes all possible measures to maintain the financial position and further development of the Company.

Relations with the state and current regulation. As at 31 December 2010 the Company is controlled by Gazprom, the largest Russian gas production company.

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

Gazprom Group, in its turn, is controlled by the Russian Federation; therefore, the Russian Government is the ultimate controlling party of the Group as at 31 December 2010 and 31 December 2009.

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

A significant part of the Group's revenue (32% of electricity, capacity and heat revenue) is based on regulated tariffs. The state directly affects the Group's operations through regulation by the Federal Service for Tariffs ("FST") with respect to its wholesale energy (capacity) sales under the terms of Regulated Contracts, and by the Tariffs regulation Executive authorities with respect of its heat sales. Operations of all generation facilities are centrally coordinated by OJSC "System operator of the Unified

energy system" ("SO UPS") in order to meet system requirements in an efficient manner. SO UPS is controlled by the Russian Federation.

Tariffs which the Group may charge for sales of electric energy, supplied under Regulated bilateral Contracts, and heat are governed by regulations specific to the electricity and heat industry. The tariffs for Regulated Contracts are set using an "indexation" method, meaning the tariffs are based on the previous period regulated cost, adjusted according to a fuel and other costs rising index set by the Government, plus a margin, where costs are determined under the Regulations on Accounting and Reporting of the Russian Federation ("RAR"), a basis of accounting which significantly differs from International Financial Reporting Standards ("IFRS").

As described in Note 28, the government's economic, social and other policies could have material effects on the operations of the Group.

Changes in the industry. In 2010 Russia's electric power industry approached the completion of reforms aimed at creating a competitive electricity and capacity market and an environment in which the successors to RAO UES (including the Company) will be able to attract the resources required to maintain and expand their production facilities.

Russian Government Resolution 238 "Pricing strategy of capacity trading on the wholesale electricity (capacity) market during the transition period" of 13 April, 2010, determines the pricing parameters for the long-term capacity market (LCM), and, taken together with Russian Government Resolution 89, "On certain issues regarding the organization of the long-term competitive capacity takeoff in the wholesale electricity (or capacity) market" of 24 February, 2010, determines the rules of operation for the long-term capacity market.

The long-term market is based on annual competitive capacity takeoff held four years in advance (i.e., for the year starting four full years after the competitive takeoff). The competitive capacity takeoff process is run by SO UPS. To determine what capacity the energy system will need in four years' time, SO UPS determines (taking account of applications from major consumers) the consumption forecast and structure, plus the amount of capacity reserve required, and produces the demand curve. To take part in a competitive capacity takeoff, suppliers have to submit price bids for the sale of capacity, creating a supply curve.

Since 1 January, 2011, a competitive wholesale market has been in operation, where electricity and capacity are sold at free, unregulated prices, except for volumes of electricity and capacity sold to the public and categories of consumers of an equivalent status, for whom government tariff regulation still applies.

Note 2. Financial condition

As at 31 December 2010, the Group's current assets exceeded its current liabilities by RR 7,812,365 thousand (as at 31 December 2009 the Group's current liabilities exceeded its current assets by RR 1,888,971 thousand).

Note 3. Basis of preparation

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

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

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

Changes in accounting policies. With effect from 1 January 2010, the Group changed its accounting policies in relation to accounting for lease of land.

The amendment to IAS 17 Leases regarding the lease of land became effective from 1 January 2010. The amendment removed the earlier exemption which allowed leases of land to be classified as operating

leases regardless of the length of the lease term. The amended guidance requires all existing leases of land to be reassessed and reclassified if necessary as finance leases if the finance lease classification criteria are met. At 1 January 2010, the Group reassessed all existing land lease contracts and concluded that existing land lease contracts do not qualify as finance lease contracts and therefore, the classification was not changed (see Note 6).

New accounting developments. The following new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2010, and have not been applied in preparing these consolidated financial statements. The Group plans to adopt these pronouncements when they become effective.

Revised IAS 24 *Related Party Disclosures (2010)* introduces an exemption from the basic disclosure requirements in relation to related party disclosures and outstanding balances, including commitments, for government-related 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 has not yet determined the potential effect of the amendment.

Amendment to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* clarifies that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount are classified as equity instruments even if the fixed amount is determined in foreign currency. A fixed amount can be determined in any currency provided that entity offers these instruments pro rata to all of the existing owners of the same class of its own non-derivative equity instruments. The amendment is applicable for annual periods beginning on or after 1 February 2010. The amendment is expected to have no impact on the Group's consolidated financial statements.

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

IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during the first half of 2011. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Group does not intend to adopt this standard early.

Amendment to IAS 12 *Income taxes – Deferred Tax: Recovery of Underlying Assets*. The amendment introduces an exception to the current measurement principles for deferred tax assets and liabilities arising from investment property measured using the fair value model in accordance with IAS 40 *Investment Property*. The exception also applies to investment property acquired in a business combination accounted for in accordance with IFRS 3 *Business Combinations* provided the acquirer subsequently measures the assets using the fair value model. In these specified circumstances the measurement of deferred tax liabilities and deferred tax assets should reflect a rebuttable presumption that the carrying amount of the underlying asset will be recovered entirely by sale unless the asset is depreciated or the business model is to consume substantially all the asset. The amendment is effective for periods beginning on or after 1 January 2012 and is applied retrospectively.

Amendments to IFRIC 14: *IAS 19 – The limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* clarifies the accounting treatment for prepayments made when there also is a minimum funding requirement. The amendment becomes effective for annual periods beginning on or after 1 January 2011 and is applied retrospectively.

IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* provides guidance on accounting for debt for equity swaps by the debtor. The interpretation clarifies that an entity's equity instruments qualify as "consideration paid" in accordance with paragraph 41 of International Financial Reporting Standards IAS 39 *Financial Instruments: Recognition and Measurement*. Additionally, the interpretation clarifies how

to account for the initial measurement of own equity instruments issued to extinguish a financial liability and how to account for the difference between the carrying amount of the financial liability extinguished and the initial measurement amount of the equity instruments issued. IFRIC 19 is applicable for annual periods beginning on or after 1 July 2010.

Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2011. Management of the Group currently assesses the potential effect of the amendment.

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

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

Provision for impairment of trade and other receivables

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

Provision for impairment of property, plant and equipment

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the difference is recognised as an expense (impairment loss) in the income statement in the period in which the reduction is identified. If conditions change and management determines that the value of property, plant and equipment and assets under construction has increased, the impairment provision will be fully or partially reversed. See effect of these critical accounting estimates and assumptions in Note 6. As described in Notes 1 and 28, the Government's economic, social and other policies could have material effects on the operations of the Group.

Useful lives of property, plant and equipment

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

Equity

Change in presentation. Effective 1 January 2010 the Group started to present merger reserve as part of retained earnings. The comparative information has been reclassified to conform with the current presentation. The effects of this reclassification are disclosed below:

OGK-2 Group**Notes to Consolidated Financial Statements for the year ended 31 December 2010**

(in thousands of Russian Roubles)

	At 1 January 2010		
	As previously reported	Change in presentation	As adjusted
Merger reserve	(377,383)	377,383	-
Retained earnings	2,042,077	(377,383)	1,664,694

Tax contingencies

Russian tax legislation is subject to varying interpretations and changes, which can occur frequently. Where the Group management believes it is probable that their interpretation of the relevant legislation and the Group's tax positions cannot be sustained, an appropriate amount is accrued for in these financial statements. See effect of these critical accounting estimates and assumptions in Note 28.

Revenues

Electricity purchases entered into to support a delivery of non-regulated bilateral contracts are presented net within revenue. Management applies judgement in determining which electricity purchases are entered into in order to support a delivery of non-regulated bilateral contracts. See effect of these critical accounting estimates and assumptions in Note 21.

Change in presentation. Effective 1 January 2010 the Group started to present electricity purchases entered into to support a delivery of non-regulated bilateral contracts net within revenue. The comparative information has been reclassified to conform with the current presentation. The effects of this reclassification are disclosed below:

	For the year ended 31 December 2009		
	As previously reported	Change in presentation	As adjusted
Revenues	40,769,958	(1,765,545)	39,004,413
Operating expenses	(38,845,673)	1,765,545	(37,080,128)

The management of the Group believes that the revised presentation provides more relevant and meaningful information about the changes in the financial performance of the Group.

Note 4. Summary of significant accounting policies

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

Control is presumed to exist when the Company controls, directly or indirectly through subsidiaries, more than half of the voting power of an entity unless or it can be clearly demonstrated that such ownership does not constitute control. Control also exists when the parent owns half or less of the voting power when there is:

- (a) power over more than half of the voting rights by virtue of an agreement, with other investors;
- (b) power to govern the financial and operating policies of the entity under a statute or an agreement;
- (c) power to appoint or remove the majority of the members of the board of directors or equivalent governing body and control of the entity is by that board or body; or
- (d) power to cast the majority of votes at meeting of the boards of directors or equivalent governing body and control over the entity is by that board or body.

A) Subsidiaries

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

B) Transactions eliminated on consolidation

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

Transfers of businesses from parties under common control. The Group was formed by the combination of a number of businesses under common control. Contributions to share capital of shares in subsidiaries (businesses) from parties under common control are accounted for using predecessor basis of accounting. The assets and liabilities of the subsidiaries transferred under common control are accounted for at the predecessor entity's carrying amounts. Because of the consequent use of the predecessor basis of accounting, the principal component of the net equity recognised for the Group is based on the historic carrying value of the net assets of the businesses contributed as recorded in the IFRS financial records of the predecessor enterprises, rather than the fair values of those net assets. To account for mergers of the subsidiaries transferred under common control the equity statement reflects additions to share capital in the amount equal to the statutory nominal value of the shares issued and share premium which is based on the fair value of the net assets of the businesses contributed. In accordance with the predecessor basis of accounting any difference between the carrying amount of net assets and the nominal value of share capital contributed and share premium is accounted for in these financial statements as retained earnings.

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

The official Russian Rouble to US dollar exchange rates as determined by the Central Bank of the Russian Federation were 30.4769 and 30.2442 as at 31 December 2010 and 31 December 2009, respectively. The official RR to EURO exchange rates as determined by the Central Bank of the Russian Federation were 40.3331 and 43.3883 as at 31 December 2010 and 31 December 2009, respectively.

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

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

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

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

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

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

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

As at 1 January 2010 management of the Company has re-assessed the remaining useful lives of the property, plant and equipment.

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

Classes of property, plant and equipment	At 31 December 2009	At 31 December 2010
Production buildings	29-39	29-35
Constructions	3-24	3-25
Energy machinery and equipment	5-23	7-23
Other machinery and equipment	2-13	3-13
Other	3-15	3-14

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

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

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

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

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

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

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

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

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

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

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

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

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

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of available-for-sale investments. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is reclassified from other comprehensive income to finance costs in profit or loss for the year. Impairment losses on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through current period's profit or loss.

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

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

through the use of an impairment provision account, and the amount of the loss is recognised in the income statement within operating expenses. When a receivable is uncollectible, it is written off against the impairment provision account for receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in the income statement.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Financial guarantees. Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This

amount is amortised on a straight line basis over the life of the guarantee. At the end of each reporting period, the guarantees are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the obligation at the end of the reporting period.

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

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

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

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

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

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

Benefit plans define the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognised in the statement of financial position in respect of defined benefit pension plans operated by the Group is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses. The defined benefit obligations are calculated using the projected unit credit method. The present value of the defined benefit obligations are determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid associated with the operation of the plans, and that have terms to maturity approximating the terms of the related retirement benefit obligations.

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

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

Share-based payment transactions. The share option plan allows Company's employees to acquire shares of the Company. The fair value of the options is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options is measured based on the Black-Scholes formula, taking into account the terms and conditions upon which the instruments were granted.

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

Segment reporting. Operating segments are operations that generate revenue and incur expenses that are covered by separate financial information regularly submitted to the decision-making body which is represented by the Company's Management Board. The Management Board of the Company controls and allocates economic resources of the Group between segments and evaluates segment's operating efficiency. The Group identifies six primary reporting segments: Surgutskaya GRES-1, Troitskaya GRES, Stavropolskaya GRES, Serovskaya GRES, Pskovskaya GRES and Adlerskaya TES.

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

Note 5. Related Parties

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

Transactions with Gazprom Group

Transactions with Gazprom Group were as follows:

	Year ended 31 December 2010	Year ended 31 December 2009
<i>Sales:</i>		
Sales of electricity and capacity	11,064,659	632,111
Sales of heat	382	330
<i>Purchases:</i>		
Purchases of gas	18,142,759	12,356,659
Other purchases	42,294	33,565
Other expenses	54,053	19,110

Balances with Gazprom Group were as follows:

	31 December 2010	31 December 2009
Trade and other receivables	96,041	749,247
Trade and other payables	417,460	11,954

Deposits held in banks related to Gazprom Group were as follows (including interest receivable):

	31 December 2010	31 December 2009
CJSB "Gazenergoprombank"	-	900,000

Interest income on bank deposits accrued for the year ended 31 December 2010 was RR 59,742 thousand (for the year ended 31 December 2009: RR 70,858 thousand).

Transactions with state-controlled entities

In the normal course of business the Group enters into transactions with other entities under Government control (in addition to transactions with Gazprom Group).

OGK-2 Group
Notes to Consolidated Financial Statements for the year ended 31 December 2010

(in thousands of Russian Roubles)

Significant transactions with state-controlled entities were as follows:

	Year ended 31 December 2010	Year ended 31 December 2009
<i>Sales:</i>		
Sales of electricity, capacity, heat and other services	3,041,539	2,632,086
Other sales	9,174	8,560
<i>Purchases:</i>		
Dispatcher's fees	674,677	701,335
Other purchases	427,129	551,870
Other expenses	63,881	36,574
Reversal of provision for impairment of trade and other receivables	(1,102)	(158)
Charge of provision for impairment of trade and other receivables	-	1,588

Significant balances with state-controlled entities were as follows:

	31 December 2010	31 December 2009
Trade and other receivables, gross	95,177	86,165
Provision for impairment of trade and other receivables	(60,738)	(61,840)
Available-for-sale investments	74,128	51,334
Trade and other payables	132,324	256,839
Current debt to OJSC "Sberbank"	-	2,605,602
Cash balance in OJSC "Sberbank"	126,217	355,899

Interest expense accrued in respect of debt owed to state-controlled banks for the year ended 31 December 2010 was RR 132,270 thousand (for the year ended 31 December 2009: RR 371,650 thousand). The Group had no deposits held in state-controlled banks as at 31 December 2010 and as at 31 December 2009. For the year ended 31 December 2010 interest income on bank deposits equals zero (for the year ended 31 December 2009: RR 47,368 thousand).

Transactions with key management

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

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

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

	Year ended 31 December 2010		Year ended 31 December 2009	
	Expenses	Accrued liabilities	Expenses	Accrued liabilities
Remuneration	70,530	773	53,627	4,766
Social funds contribution	1,187	-	1,138	229
Medical insurance	481	-	723	-
Share option plan	(1,415)	-	5,412	-

In accordance with the Resolution of the Board of Directors the Company decided to terminate the labour agreement with its previous General Director, effective 31 March 2010.

OGK-2 Group
Notes to Consolidated Financial Statements for the year ended 31 December 2010

(in thousands of Russian Roubles)

Note 6. Property, plant and equipment

Cost	Production buildings	Constructions	Energy machinery and equipment	Other machinery and equipment	Other	Construction in progress	Total
Opening balance as at 1 January 2010	10,705,604	4,438,920	11,200,449	2,723,124	497,748	20,018,233	49,584,078
Additions	5,884	187,142	2,412	23,786	33,904	2,874,878	3,128,006
Transfer	88,554	86,305	664,757	557,973	4,376	(1,401,965)	-
Disposals	(26,935)	(106,772)	(4,308)	(19,109)	(20,168)	(113,534)	(290,826)
Closing balance as at 31 December 2010	10,773,107	4,605,595	11,863,310	3,285,774	515,860	21,377,612	52,421,258
Accumulated depreciation (including impairment)							
Opening balance as at 1 January 2010	(3,474,646)	(2,479,487)	(6,669,996)	(1,357,443)	(314,516)	(442,404)	(14,738,492)
Charge for the period	(251,159)	(236,285)	(494,086)	(216,787)	(40,729)	-	(1,239,046)
Reversal of impairment	-	-	-	-	-	4,615	4,615
Disposals	16,705	67,688	2,404	17,258	16,003	109,213	229,271
Closing balance as at 31 December 2010	(3,709,100)	(2,648,084)	(7,161,678)	(1,556,972)	(339,242)	(328,576)	(15,743,652)
Net book value as at 31 December 2010	7,064,007	1,957,511	4,701,632	1,728,802	176,618	21,049,036	36,677,606
Net book value as at 31 December 2009	7,230,958	1,959,433	4,530,453	1,365,681	183,232	19,575,829	34,845,586
Cost							
Opening balance as at 1 January 2009	10,713,056	4,452,932	11,132,577	2,598,243	462,175	19,049,174	48,408,157
Additions	12,023	19,563	30	23,721	20,645	1,423,759	1,499,741
Transfer	64,475	13,474	110,305	125,429	27,842	(341,525)	-
Disposals	(83,950)	(47,049)	(42,463)	(24,269)	(12,914)	(113,175)	(323,820)
Closing balance as at 31 December 2009	10,705,604	4,438,920	11,200,449	2,723,124	497,748	20,018,233	49,584,078
Accumulated depreciation (including impairment)							
Opening balance as at 1 January 2009	(3,257,218)	(2,230,270)	(6,158,336)	(1,158,703)	(267,115)	(551,378)	(13,623,020)
Charge for the period	(231,412)	(249,632)	(530,714)	(214,098)	(56,635)	-	(1,282,491)
Reversal of impairment	-	-	-	-	-	33,277	33,277
Disposals	13,984	415	19,054	15,358	9,234	75,697	133,742
Closing balance as at 31 December 2009	(3,474,646)	(2,479,487)	(6,669,996)	(1,357,443)	(314,516)	(442,404)	(14,738,492)
Net book value as at 31 December 2009	7,230,958	1,959,433	4,530,453	1,365,681	183,232	19,575,829	34,845,586
Net book value as at 31 December 2008	7,455,838	2,222,662	4,974,241	1,439,540	195,060	18,497,796	34,785,137

Construction in progress as at 31 December 2010 and 31 December 2009 includes prepayments for property, plant and equipment in the amount of RR 17,151,323 thousand and RR 17,786,599 thousand respectively.

The Group capitalized borrowing costs that attributable to the acquisition, construction or production of an asset in the amount of RR 12,065 thousand and nil during 2010 and 2009 respectively.

The assets received by the Group as a result of the merger with its predecessors did not include the land on which the Group's buildings and facilities are situated. The Group has the right for rent of this land. In accordance with Russian legislation this right should be formalized either into purchase of this land upon application to the state registration body, or into lease of this land prior to 1 January 2012 (in 2009 the date was extended from 1 January 2010 to 1 January 2012).

As at 31 December 2010 the Group owns land (included in the group "Other") with the carrying amount of RR 19,401 thousand (as at 31 December 2009: RR 18,033 thousand).

OGK-2 Group
Notes to Consolidated Financial Statements for the year ended 31 December 2010
(in thousands of Russian Roubles)

Capitalization of ash dump restoration costs is recognised within the group "Constructions" (see Note 20).

As at 31 December 2010 the advances given to major contractors: OJSC "E4 Group" to build a power unit on site of Serovskaya GRES amounted to RR 7,217,993 thousand (net of VAT) and CJSC "QUARTZ-Novie Technologii" to build a power unit on site of Troitskaya GRES amounted to RR 9,859,636 thousand (net of VAT) (as at 31 December 2009: RR 7,494,364 thousand (net of VAT) OJSC "E4 Group" and RR 9,930,155 thousand (net of VAT) CJSC "QUARTZ-Novie Technologii"). The respective input VAT is recognised within other non-current assets balance (see Note 8).

The return of the advance payments made to CJSC "QUARTZ-Novie Technologii" to secure the contractor's obligations under the general construction contract with the Group as at 31 December 2010 in the amount of RR 220,568 thousand was guaranteed to the Group by OJSC "Alfa-bank" (as at 31 December 2009: RR 220,568 thousand by OJSC "Alfa-bank" and RR 370,000 thousand by CSC "Vneshprombank").

The return of the advance payments made to OJSC "E4 Group" to secure the contractor's obligations under the general construction contract with the Group as at 31 December 2010 in the amount of RR 4,122,056 thousand was guaranteed by the contract of pledge of property rights by OJSC "E4 Group" (as at 31 December 2009: nil).

Impairment

The impairment provision balance included in accumulated depreciation as at 31 December 2010 in the amount of RR 328,576 thousand (as at 31 December 2009 – RR 442,404 thousand) relates to the assets under construction that have been indefinitely suspended for further construction and are not included in the Group's investment program (see Note 26).

Management has concluded that at 31 December 2010 there were no indicators of impairment losses for items of property, plant and equipment owned by the Group therefore an impairment test for property, plant and equipment was not performed.

Finance lease

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

	31 December 2010	31 December 2009
Energy machinery and equipment	55,499	59,425
Other machinery and equipment	42,147	51,350
Other	4,524	12,625
Total	102,170	123,400

The leased equipment secures lease obligations.

Operating lease

The Group leases a number of land plots owned by local governments and real estate under operating leases. Lease payments are determined by lease agreements. Lease agreements are concluded for the different periods. Part of the lease contracts is concluded for a year with right of future prolongation, maximum lease period is 49 years.

Operating lease rentals are payable as follows:

	31 December 2010	31 December 2009
Not later than one year	194,375	399,942
Later than one year and not later than five years	203,097	275,840
Later than five years and not later than ten years	162,310	210,102
Later than ten years	920,139	537,710
Total	1,479,921	1,423,594

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

OGK-2 Group
Notes to Consolidated Financial Statements for the year ended 31 December 2010

(in thousands of Russian Roubles)

Note 7. Intangible assets

	SAP R-3 software	System NSI software	Other intangibles	Total intangible assets
Cost				
Balance as at 1 January 2010	1,168,060	619,050	203,718	1,990,828
Additions	4,896	-	12,972	17,868
Balance as at 31 December 2010	1,172,956	619,050	216,690	2,008,696
Balance as at 1 January 2009	1,173,670	619,050	186,057	1,978,777
Additions	7,137	-	17,661	24,798
Disposals	(12,747)	-	-	(12,747)
Balance as at 31 December 2009	1,168,060	619,050	203,718	1,990,828
Amortisation (including impairment)				
Balance as at 1 January 2010	(407,014)	-	(74,043)	(481,057)
Charge for the period	(11,566)	-	(40,746)	(52,312)
Balance as at 31 December 2010	(418,580)	-	(114,789)	(533,369)
Balance as at 1 January 2009	(9,870)	-	(27,577)	(37,447)
Charge for the period	(5,303)	-	(46,466)	(51,769)
Impairment loss	(391,841)	-	-	(391,841)
Balance as at 31 December 2009	(407,014)	-	(74,043)	(481,057)
Net book value as at 31 December 2010	754,376	619,050	101,901	1,475,327
Net book value as at 31 December 2009	761,046	619,050	129,675	1,509,771

The amount of intangible assets includes advances paid to contractors in the amount of RR 384,119 thousand (net of VAT) as at 31 December 2010 (as at 31 December 2009: RR 538,774 thousand (net of VAT)).

The impairment provision for intangible assets included in accumulated amortisation balance as at 31 December 2010 of RR 391,841 thousand (as at 31 December 2009: RR 391,841 thousand) relates to the three modules of SAP R-3 software, the development of which is suspended for indefinite period.

Note 8. Other non-current assets

	31 December 2010	31 December 2009
Long-term input VAT from advances paid	2,102,955	2,765,000
Prepayments / Deposits for pensions	225,839	206,684
Long-term promissory notes (nominal value of promissory notes is RR 474,770 thousand as at 31 December 2010 and RR 2,190,524 thousand as at 31 December 2009)	185,732	1,964,355
Long-term restructured trade and other receivables (net of provision for impairment of trade and other receivables of RR 9,585 thousand as at 31 December 2010 and RR 221,120 thousand as at 31 December 2009)	6,359	727,818
Long-term bank deposits	-	300,000
Other	87,204	64,606
Total	2,608,089	6,028,463

Credit quality of bank deposits is presented below:

Long-term bank deposits	Interest rate	Credit rating*	31 December 2010	31 December 2009
CJSC "Gazenergoprombank"	12.25%	Ba3	-	300,000

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

Other non-current assets mainly include an investment in 45,227,455 ordinary shares of JSC "RusHydro" (available-for-sale investments) with par value of RR 0.001 thousand amounted to RR 74,128 thousand as at 31 December 2010 (as at 31 December 2009: RR 51,334 thousand) (see also Note 13).

Note 9. Cash and cash equivalents

	Currency	31 December 2010	31 December 2009
Current bank accounts	RR	3,023,465	1,540,916
Current bank accounts	USD, EURO, GBP, KZT	1	12
Bank deposits with maturity of 3 months or less	RR	-	12,500
Total		3,023,466	1,553,428

The Group has current bank accounts in the following banks:

Cash in bank	Credit rating on 31 December 2010*	31 December 2010	Credit rating on 31 December 2009*	31 December 2009
OJSC "BANK "ROSSIYA", CENTRAL BRANCH (successor of CJSC "Gazenergoprombank")	E+/Stable	2,591,239	E+/Stable	402,362
OJSC "Evrofinance Mosnarbank"	E+/Stable	281,332	E+/Stable	354,706
OJSC "Sberbank"	D+/Stable	126,217	D+/Stable	355,899
OJSC "Alfa-bank"	D/ Stable	20,295	D/Negative	103,109
CJSC "Mezhdunarodny promyshlenny bank"	-	4,272	E+/Negative	324,835
OJSC "BANK ROSSIYA"	E+/Stable	64	-	-
OJSC "NOMOS-bank"	D-/ Stable	35	D-/Negative	9
OJSC "Transcreditbank"	D-/ Stable	10	D-/Negative	8
OJSC "URALSIB"	E+/Stable	2	-	-
Total cash in bank		3,023,466		1,540,928

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

OGK-2 Group**Notes to Consolidated Financial Statements for the year ended 31 December 2010**

(in thousands of Russian Roubles)

Note 10. Trade and other receivables

	31 December 2010	31 December 2009
Promissory notes	2,794,690	1,964,355
(nominal value of promissory notes is RR 3,148,994 thousand as at 31 December 2010 and RR 2,190,524 thousand as at 31 December 2009)		
Trade receivables	2,018,965	3,484,778
(net of provision for impairment of trade receivables of RR 827,467 thousand as at 31 December 2010 and RR 862,025 thousand as at 31 December 2009)		
Interest receivable on deposits	-	41,960
Other receivables	53,401	118,097
(net of provision for impairment of other receivables of RR 1,219,601 thousand as at 31 December 2010 and RR 89,737 thousand as at 31 December 2009)		
Financial assets	4,867,056	5,609,190
Input VAT	3,198,619	3,429,356
Advances to suppliers	225,272	1,005,322
(net of provision for impairment of advances to suppliers of RR 105,544 thousand as at 31 December 2010 and RR 13,757 thousand as at 31 December 2009)		
Prepaid other tax and social funds contribution	11,564	10,948
Prepayments	4,544	4,218
Total	8,307,055	10,059,034
Less: Long-term input VAT from advances paid	(2,102,955)	(2,765,000)
Long-term promissory notes	(185,732)	(1,964,355)
(nominal value of promissory notes is RR 474,770 thousand as at 31 December 2010 and RR 2,190,524 thousand as at 31 December 2009)		
Long-term restructured trade and other receivables	(6,359)	(727,818)
(net of provision for impairment of trade and other receivables of RR 9,585 thousand as at 31 December 2010 and RR 221,120 thousand as at 31 December 2009)		
Total	6,012,009	4,601,861

Note 11. Inventories

	31 December 2010	31 December 2009
Fuel supplies	1,003,227	1,056,493
Materials and supplies	416,064	392,662
Spare parts	872,379	796,846
Finished goods	2,269	-
Total	2,293,939	2,246,001

The above inventory balances are recorded net of the obsolescence provision of RR 32,016 thousand and RR 45,224 thousand as at 31 December 2010 and 31 December 2009, respectively.

There is no inventory pledged as collateral at 31 December 2010 and at 31 December 2009.

Note 12. Other current assets

	31 December 2010	31 December 2009
Short-term deposits	-	3,200,000
Total	-	3,200,000

Credit quality of bank deposits is presented below:

Bank deposits with maturity more than 3 months but within one year	Interest rate	Credit rating		31 December 2009
		on 31 December 2010*	on 31 December 2010	
CJSC "Mezhdunarodny promyshlenny bank"	12.4%-13.1%	-	-	1,100,000
CSC "Vneshprombank"	13.1%	-	-	1,500,000
OJSC "BANK "ROSSIYA", CENTRAL BRANCH (successor of CJSC "Gazenergoprombank")	10.8%	-	-	600,000
Total bank deposits with maturity more than 3 months but within one year			-	3,200,000

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

Note 13. Equity

The share capital is RR 11,872,828 thousand and consists of ordinary shares with nominal value RR 0.3627 each.

Share capital	Number of ordinary shares	
	31 December 2010	31 December 2009
Issued shares	32,734,568,382	32,734,568,382
Treasury shares	(7,970,300)	(1,100,000)
Total outstanding shares	32,726,598,082	32,733,468,382

As at 31 December 2010 the total number of authorised ordinary shares is 44,757,822,542 thousand shares (as at 31 December 2009: 44,757,822,542 thousand shares) with a par value of RR 0.3627 per share (as at 31 December 2009: RR 0.3627 per share). All issued ordinary shares are fully paid. Each ordinary share carries one vote.

Treasury shares

During the year the Group has repurchased 6,870,300 own shares at RR 0.94 per share in the amount of RR 6,458 thousand.

Dividends

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

There were no dividends proposed or declared before the financial statements were authorized.

Employee share option plan

In December 2006, the Board of Directors has approved the policy for OJSC "OGK-2" management and employees remuneration – stock option program (hereinafter the "Program"). The Program provided stock options to management and employees of OJSC "OGK-2" (hereinafter the "Participants").

The options were granted to the Participants for their work at OJSC "OGK-2" during 3 – 3.5 years starting from 1 November 2007.

In March 2007, the Board of Directors of OJSC "OGK-2" has approved the number of shares, which are subject to distribution as part of the Program. The approved number equaled to 529,617,916 ordinary shares, which equaled 1.6% of total quantity of issued ordinary shares of OJSC "OGK-2" as at 31 December 2007.

The stock option exercise price was identified at the date of decision for participation in the Program and is calculated as weighted average price of ordinary shares for the period of 365 days before date of such decision, based on RTS quotations.

The quantity of shares, which could be acquired by the Participants who resigned from the Group, shall be calculated proportionally to quantity of days, during which the Participant was working for OJSC "OGK-2". However, at the discretion of the General Director the number of shares to be purchased by the Participant can remain unchanged. In case of breach of certain requirements of labour agreement resulted in labour relations ceased by the Company, such Participants lose their rights for purchase of shares.

The fair value of services received in return for share options granted to employees is measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on the Black-Scholes model.

Options, granted as at 1 November 2007

Share price (in Russian Roubles)	3.28
Exercise price (in Russian Roubles)	3.94
Expected volatility	30%
Option life (years)	3.5
Risk-free interest rate	5.83%

Fair value at measurement date (in Russian Roubles)**0.71**

The measure of volatility used in the option pricing model is the annualized standard deviation of the continuously compounded rates of return on the share over a period of time. Volatility has been determined on the basis of the historical volatility of the share price over the most recent period.

The number of weighted average exercise prices of share options is as follows:

	Weighted average exercise price 2010	Number of options 2010	Weighted average exercise price 2009	Number of options 2009
Outstanding at 1 January	3.94	219,665,262	3.94	239,639,479
Forfeited during the year	3.94	(2,784,688)	3.94	(19,974,217)
Exercised during the year	-	-	-	-
Granted during the year	-	-	-	-
Outstanding at 31 December	3.94	216,880,574	3.94	219,665,262

As at 31 December 2010 a number of the Participants, including key management personnel terminated their employment contracts. The number of share options allocated to these Participants was assessed on the pro rata basis of the days they have worked for the Group. The service cost in respect of those options was assessed as if they became vested at the date of the termination. As the result of this, the number of active options under the program has decreased to 216,880,574. During the year the Group recognized a service cost in the amount of RR 1,792 thousand with corresponding increase in retained earnings (2009: RR 10,259 thousand).

OGK-2 Group**Notes to Consolidated Financial Statements for the year ended 31 December 2010**

(in thousands of Russian Roubles)

As part of realization of the approved stock option program the Company has entered into a service agreement with OJSC "NOMOS-Bank". Under this agreement the Group has transferred all liabilities for conclusion and fulfilment of share purchase agreements with Company's employees for the total amount of 529,617,916 shares at a fixed price of RR 3.94 per share and maturity of 3 years.

In accordance with the agreement with OJSC "NOMOS-Bank" in 2007 the Company paid to OJSC "NOMOS-Bank" a premium of RR 709,688 thousand to secure the delivery of shares to employees in the settlement of share-based payment arrangement. The premium was accounted for as equity transaction by debiting the retained earnings for the amount of RR 709,688 thousand.

In 2009 the Company started a litigation in order to cancel the service agreement with OJSC "NOMOS-BANK" and claim back funds transferred to the bank in 2007 in the amount of RR 709,688 thousand. According to the decision of the Supreme Arbitration Court of the Russian Federation in January 2010 the agreement with OJSC "NOMOS-Bank" was cancelled and cash transferred in 2007 was received by the Company in full in March 2010.

Fair value revaluation reserve

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

As at 31 December 2008	(61,982)
Net change in fair value of available-for-sale investments for the period	24,152
As at 31 December 2009	(37,830)
Net change in fair value of available-for-sale investments for the period	22,794
As at 31 December 2010	(15,036)

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

	Year ended 31 December 2010	Year ended 31 December 2009
Current income tax charge	1,146,763	652,341
Adjustment for prior years	3,466	-
Reversal of provision for current income tax	-	(53,332)
Deferred income tax benefit	(125,040)	(290,975)
Total income tax charge	1,025,189	308,034

During the year ended 31 December 2010 the Group was subject to a 20% income tax rate on taxable profits (for the year ended 31 December 2009: 20%).

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

	Year ended 31 December 2010	Year ended 31 December 2009
Profit before tax	3,216,354	1,402,158
Theoretical tax charge at the statutory tax rate of 20%	(643,271)	(280,432)
Non-deductible expenses:		
Provision for impairment of other receivables	(244,330)	8
Social payments	(19,829)	(17,985)
Termination benefits	(5,529)	(1,653)
Share option plan	(358)	(2,052)
Other	(111,872)	(5,920)
Total income tax charge	(1,025,189)	(308,034)

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

Deferred income tax liabilities

	31 December 2009	Movement for the period recognized in profit and loss	31 December 2010
Property, plant and equipment	(2,227,046)	83,764	(2,143,282)
Intangible assets	(64,881)	992	(63,889)
Prepayments / deposits	(41,337)	(3,831)	(45,168)
Provision for impairment of trade receivables	(6,551)	(14,641)	(21,192)
Other	(456)	456	-
Total	(2,340,271)	66,740	(2,273,531)

Deferred income tax assets

	31 December 2009	Movement for the period recognized in profit and loss	31 December 2010
Restoration provision	78,007	35,349	113,356
Retirement benefit obligations	48,347	6,785	55,132
Other non-current assets	45,234	25,626	70,860
Trade and other payables	26,696	1,759	28,455
Inventory	8,246	(1,843)	6,403
Unused tax losses	1,401	(10)	1,391
Finance lease liabilities	240	(240)	-
Other	11,287	(9,126)	2,161
Total	219,458	58,300	277,758

	31 December 2009	Movement for the period recognized in profit and loss	31 December 2010
Total deferred income tax liabilities	(2,340,271)	66,740	(2,273,531)
Total deferred income tax assets	219,458	58,300	277,758
Deferred income tax liabilities, net	(2,120,813)	125,040	(1,995,773)

Deferred income tax liabilities

	31 December 2008	Movement for the period recognized in profit and loss	31 December 2009
Property, plant and equipment	(2,553,030)	325,984	(2,227,046)
Intangible assets	(85,788)	20,907	(64,881)
Prepayments / deposits	(48,877)	7,540	(41,337)
Provision for impairment of trade receivables	(31,222)	24,671	(6,551)
Other	(1,358)	902	(456)
Total	(2,720,275)	380,004	(2,340,271)

OGK-2 Group
Notes to Consolidated Financial Statements for the year ended 31 December 2010

(in thousands of Russian Roubles)

Deferred income tax assets

	31 December 2008	Movement for the period recognized in profit and loss	31 December 2009
Restoration provision	93,548	(15,541)	78,007
Other non-current assets	74,005	(28,771)	45,234
Unused tax losses	57,942	(56,541)	1,401
Retirement benefit obligations	40,050	8,297	48,347
Trade and other payables	24,512	2,184	26,696
Inventory	4,285	3,961	8,246
Finance lease liabilities	3,645	(3,405)	240
Other	10,500	787	11,287
Total	308,487	(89,029)	219,458

	31 December 2008	Movement for the period recognized in profit and loss	31 December 2009
Total deferred income tax liabilities	(2,720,275)	380,004	(2,340,271)
Total deferred income tax assets	308,487	(89,029)	219,458
Deferred income tax liabilities, net	(2,411,788)	290,975	(2,120,813)

Note 15. Non-current debt

	Currency	Effective interest rate	Due	31 December 2010	31 December 2009
Loan	RR	8.4%	2015	5,000,000	-
Finance lease liability	RR	21.3%-27.3%	2011-2012	-	68
Total				5,000,000	68

Maturity table

	31 December 2010	31 December 2009
Due for repayment		
Between one and two years	-	65
Between two and three years	-	3
Between three and four years	-	-
Between four and five years	5,000,000	-
Total	5,000,000	68

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

Finance lease liabilities – minimum lease payments

	31 December 2010	31 December 2009
Due for repayment		
Less than one year	-	1,297
Between one year and five years	-	80
Future finance charges on finance lease	-	(178)
Present value of lease liabilities	-	1,199

OGK-2 Group**Notes to Consolidated Financial Statements for the year ended 31 December 2010**

(in thousands of Russian Roubles)

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

Note 16. Current debt and current portion of non-current debt

	Currency	Effective interest rate	31 December 2010	31 December 2009
OJSC "Evrofinance Mosnarbank"	RR	11.5%	-	1,500,000
OJSC "Sberbank "	RR	12.8%-14.8%	-	2,600,000
CJSC "Mezhdunarodny promyshlenny bank"	RR	13.9%-17%	-	500,000
Bonds	RR	7.7%-10.65%	-	4,968,721
Current portion of finance lease liability	RR	21.3% - 27.3%	-	1,131
Interest payable		7.7%-17%	-	6,657
Total			-	9,576,509

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

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

Note 17. Trade and other payables

	31 December 2010	31 December 2009
Trade payables	2,557,095	2,622,575
Accrued liabilities and other payables	269,455	459,058
Financial liabilities	2,826,550	3,081,633
Salaries and wages payable	268,204	243,163
Advances from customers	49,890	18,891
Total	3,144,644	3,343,687

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

Note 18. Other taxes payable

	31 December 2010	31 December 2009
Water usage tax	182,803	143,187
Environment pollution payments	62,441	48,510
Property tax	44,373	46,685
Social funds contribution	30,054	34,547
Personal income tax	24,539	22,974
Value added tax	5,712	369,521
Other taxes	1,778	1,085
Total	351,700	666,509

Note 19. Retirement benefit obligations

The post employment and post retirement program of the Company consists of the occupational pension plan and various post employment, long-term and jubilee benefits. This is a defined benefit plan, under which the participants accrue pension entitlements on the basis of a formula or defined rule. The occupational pension program comprises the main part of the program. According to the pension formula, the pension benefit is dependent on the past service of participants and their final salary. Employees born before 1967 are entitled to the occupational pension benefits.

OGK-2 Group**Notes to Consolidated Financial Statements for the year ended 31 December 2010**

(in thousands of Russian Roubles)

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

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

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

As at 31 December 2010, there were 4,571 active employees eligible to participate in the post retirement defined benefit program of the Company and 2,663 recipients of the financial support benefits (31 December 2009: 4,777 and 2,689 respectively).

The last independent actuarial valuation of pension and other post employment and long-term benefits in accordance with the provisions of IAS 19 was performed as at 31 December 2010 using individual members' census data as at the valuation date.

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

	31 December 2010	31 December 2009
Present value of defined benefit obligations (DBO)	826,450	650,419
Fair value of plan assets	-	-
Present value of unfunded obligations	826,450	650,419
Unrecognised actuarial loss	(148,194)	(10,831)
Unrecognised past service cost	(45,859)	(85,022)
Net liability at the end of year	632,397	554,566
Employees' average remaining working life (years)	10	10

Amounts recognised in the income statement are as follows:

	Year ended 31 December 2010	Year ended 31 December 2009
Current service cost	42,386	31,478
Interest cost	60,233	53,195
Net actuarial losses recognised during the year	12,773	6,447
Amortisation of past service cost	9,548	9,548
Net expense recognised in the income statement	124,940	100,668

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

	31 December 2010	31 December 2009
Net liability at the beginning of the year	554,566	502,026
Net expense recognised in the income statement	124,940	100,668
Benefits paid	(47,109)	(48,128)
Net liability at the end of year	632,397	554,566

OGK-2 Group**Notes to Consolidated Financial Statements for the year ended 31 December 2010**

(in thousands of Russian Roubles)

The key actuarial assumptions used were as follows:

	31 December 2010	31 December 2009
Discount rate	8.00%	9.00%
Future salary increases	9.72%	9.72%
Future pension increases	n/a	n/a
Future financial support benefits increases	5.50%	5.50%
Staff turnover	5.00%	5.00%
Mortality	Russia 1998	Russia 1998

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

	31 December 2010	31 December 2009
Present value of DBO at the beginning of year	650,419	583,642
Current service cost	42,386	31,478
Interest cost	60,233	53,195
Actuarial loss	150,137	30,232
Past service cost	(29,616)	-
Benefits paid	(47,109)	(48,128)
Present value of defined benefit obligations (DBO) at the end of year	826,450	650,419

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

	31 December 2010	31 December 2009
Present value of DBO	826,450	650,419
Deficit in plan	826,450	650,419
(Losses) / gains arising of experience adjustments on plan liabilities	(92,388)	11,203

Historical information at the end of each year:

	2010	2009	2008	2007	2006
Present value of DBO	826,450	650,419	583,642	444,040	579,145
Deficit in the plan	826,450	650,419	583,642	444,040	579,145
(Losses) / gains arising of experience adjustments on plan liabilities	(92,388)	11,203	(47,804)	(47,235)	(71,970)

Note 20. Restoration provision

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

- Average inflation per annum – 4.4% (2009: 6.2%);
- Pre-tax discount rate – 13.88%;
- Projected restoration period – 13 years (2009: 10 years).

OGK-2 Group
Notes to Consolidated Financial Statements for the year ended 31 December 2010

(in thousands of Russian Roubles)

	Notes	31 December 2010	31 December 2009
Total carrying amount at the beginning of year		390,036	467,740
Less current portion		34,454	57,254
Non-current portion at the beginning of year		355,582	410,486
Unwinding of the present value discount	24	51,367	64,929
Changes in estimates adjusted against property, plant and equipment		187,101	(46,595)
Utilisation		(61,726)	(96,038)
Total carrying amount at the end of year		566,778	390,036
Less current portion		48,740	34,454
Non-current portion at the end of year		518,038	355,582

Note 21. Revenues

	Year ended 31 December 2010	Year ended 31 December 2009
Electricity and capacity	46,839,862	38,116,181
Heating	868,872	758,778
Other	154,896	129,454
Total	47,863,630	39,004,413

Note 22. Operating expenses

	Notes	Year ended 31 December 2010	Year ended 31 December 2009
Fuel		29,907,457	24,304,686
Purchased electricity, capacity and heat		2,492,619	1,603,560
Employee benefits		2,942,671	2,799,290
Repairs and maintenance		1,437,985	1,942,620
Depreciation and amortisation of property, plant, equipment and intangible assets	6,7	1,291,358	1,334,260
Provision for impairment of trade and other receivables		1,199,047	597,077
Raw materials and supplies		1,067,901	739,607
Taxes other than income tax		894,887	859,896
Dispatcher's fees		674,677	701,335
Ecological payments		371,198	252,898
Rent		192,919	193,898
Consulting, legal and audit services		79,144	112,179
Transport		71,570	54,143
Loss on disposal of assets		55,572	128,172
Insurance		38,762	40,851
(Reversal) / charge of provision for inventory obsolescence	11	(13,208)	19,701
Reversal of property, plant and equipment impairment	6	(4,615)	(33,277)
Impairment of intangible assets	7	-	391,841
Other expenses		1,302,389	1,037,391
Total operating expenses		44,002,333	37,080,128

OGK-2 Group**Notes to Consolidated Financial Statements for the year ended 31 December 2010**

(in thousands of Russian Roubles)

Employee benefits expenses comprise the following:

	Year ended 31 December 2010	Year ended 31 December 2009
Salaries and wages	2,295,010	2,153,700
Social funds contribution	405,729	377,571
Non-state pensions and other long-term benefits (Note 19)	124,940	100,668
Financial aid to employees and pensioners	115,200	157,092
Employee share option plan expenses (Note 13)	1,792	10,259
Employee benefits	2,942,671	2,799,290
Number of personnel at the end of the period	4,607	4,794

Included in social funds contribution are statutory pension contributions of RR 313,821 thousand (2009: RR 294,315 thousand).

Note 23. Finance income

	Year ended 31 December 2010	Year ended 31 December 2009
Interest income on bank deposits and current bank account balances	336,198	323,478
Release of discounting effect of long-term promissory notes received	155,941	143,855
Foreign exchange differences	12,305	-
Other finance income	1,920	2,831
Total finance income	506,364	470,164

Note 24. Finance costs

	Year ended 31 December 2010	Year ended 31 December 2009
Interest expense on debt	(554,182)	(890,838)
Effect of discounting of long-term promissory notes received	(284,076)	-
Unwinding of the present value discount for provision for ash dump (Note 20)	(51,367)	(64,929)
Foreign exchange differences	-	(7,926)
Interest expense under finance lease agreements	(159)	(2,413)
Total finance costs	(889,784)	(966,106)

Note 25. Earnings per share

	Year ended 31 December 2010	Year ended 31 December 2009
Weighted average number of ordinary shares issued	32,731,447,664	32,733,468,382
Profit attributable to the shareholders of OJSC "OGK-2" (thousands of RR)	2,191,165	1,094,124
Earning per ordinary share attributable to the shareholders of OJSC "OGK-2" – basic and diluted (in RR)	0.07	0.03

The dilutive effect of share options (Note 13) is not significant.

Note 26. Capital commitments

In accordance with the Russian Federation Government Resolution №89 dated 24 February 2010 "On certain issues regarding the organization of the long-term competitive capacity takeoff in the wholesale electricity (or capacity) market", Russian Federation Government Resolution №238 dated 13 April 2010

"Pricing strategy of capacity trading on the wholesale electricity (capacity) market during the transition period" and Russian Federation Government Direction №1334-r dated 11 August 2010 "The approved list of generating units, which will be used to supply capacity under contracts on capacity provision", Non-profit Partnership Council Market (hereinafter NP Council Market) in cooperation with electricity wholesales market participants developed a contractual basis for the sales of capacity of new generating units, which are being constructed in accordance with investment programs of suppliers, approved by the Government of Russian Federation within Investment Program of RAO UPS.

In accordance with new rules suppliers will sign agency agreement with CJSC "Center for Finance Settlements" (hereinafter CFS), OJSC "ATS", NP Council Market and SO UPS for sales of investment capacity. In accordance with this agreement CFS for and on behalf of the supplier will sign contracts on capacity provision with all wholesale electricity (capacity) market customers.

On 1 November 2010 the Company had signed an agency agreement with CFS, OJSC "ATS", NP Council Market and SO UES, under which CFS was to sign on behalf of the OJSC "OGK-2" contracts on capacity provision. On 5 December 2010 CFS on behalf of the OJSC "OGK-2" signed the contracts on provision of capacity from estimated generating units with total capacity of 1 860 MWth.

As at 31 December 2010 in the framework of the investment program implementation the Group has capital commitments (including VAT) of RR 43,068,198 thousand (31 December 2009: RR 66,716,054 thousand).

As at 31 December 2010 the Group has commitments of RR 227,932 thousand in respect of software implementation costs (as at 31 December 2009 - RR 233,710 thousand).

Note 27 Guarantees

The Group provided guarantees to OJSC "Bank of Moscow" for OJSC "E4 Group" fulfilling its obligations under the letter of credit agreement between the bank and OJSC "E4 Group" in the framework of the general construction contract with the Group. As at 31 December 2010 the guarantees amounted to EURO 35,942 thousand or RR 1,449,644 thousand (as at 31 December 2009: EURO 85,942 thousand or RR 3,728,869 thousand). OJSC "E4 Group" has concluded the letter of credit agreement for payments to the supplier for delivering to Serovskaya GRES the power plant with supporting equipment. In turn, in order to secure the guarantee issued to OJSC "Bank of Moscow" the Group in 2010 entered into a pledge agreement with OJSC "E4 Group" for a property right of equipment for Serovskaya GRES in the amount of RR 4,122,056 thousand as at 31 December 2010 (as at 31 December 2009 amount of guarantees received to secure guarantees given equalled to RR 9,814,917 thousand).

Note 28. Contingencies

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

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

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

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

As at 31 December 2010 management believes that its interpretation of the relevant legislation is appropriate and the Group's tax and currency positions will be sustained. Where management believes it is probable that a position cannot be sustained, an appropriate amount has been accrued for in these financial statements.

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

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

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

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

Note 29. Financial instruments and financial risks factors

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

Bank covenants. In 2009 and 2010 credit facilities with OJSC "Sberbank", OJSC "Evrofinance Mosnarbank" (the Lender) (see Note 16) were restricted by covenants (transfer of revenue proceeds to current account). In case of breach of covenants the Lender had the option to call these loans earlier. In respect of these loans the Group has complied with all covenants. **Credit risk.** The Group's financial assets, which are exposed to credit risk, are as follows:

	31 December 2010	31 December 2009
Cash and cash equivalents (see Note 9)	3,023,466	1,553,428
Promissory notes (see Note 10)	2,794,690	1,964,355
Trade receivables (see Note 10)	2,018,965	3,484,778
Other receivables (see Note 10)	53,401	118,097
Interest receivable on bank deposits (see Note 10)	-	41,960
Long-term bank deposits (see Note 8)	-	300,000
Other current assets (see Note 12)	-	3,200,000
Total financial assets	7,890,522	10,662,618

Guarantees are disclosed in Note 27.

The Group's exposure to credit risk mainly depends on each particular counterparty characteristics. Due to absence of independent credit ratings for wholesale electricity market and other buyers, the Group assesses their solvency based on financial condition, reputation, past experience and existence of past due. As part of the evaluation of credit risk, buyers are grouped into the following classes: A – buyers with stable solvency; B – buyers with low solvency. Also each class includes the following subclasses:

A1 – buyers with exceptional solvency, who always fulfil their obligations on time, there were no cases of delays in fulfilment of obligations, risk of full or partial non-fulfilment of obligations is minimal;

A2 – buyers with excellent solvency, who regularly fulfil their obligations, cases with delay in fulfilment of obligations are short-term, risk of full or partial non-fulfilment of obligations is low;

A3 – buyers with adequate solvency, who fulfil their financial obligations, in case of delay in fulfilment of the obligation, additional agreements are signed, risk of full or partial non-fulfilment of obligations is acceptable;

B1 – buyers with low solvency, who breach fulfilment of their financial obligations, the risk of full or partial non-fulfilment of obligations is moderate;

B2 – buyers with doubtful solvency, who do not fulfilment their financial obligations, the risk of full or partial non-fulfilment of obligations is high.

OGK-2 Group
Notes to Consolidated Financial Statements for the year ended 31 December 2010

(in thousands of Russian Roubles)

31 December 2010	Nominal value	Not due, not impaired	Due, not impaired	Impaired			Carrying amount
				Gross book value	Provision	Net book value	
Class A	2,100,600	1,282,175	249,762	568,663	(185,619)	383,044	1,914,981
A1	139,214	139,214	-	-	-	-	139,214
A2	1,253,872	1,040,607	56,586	156,679	(156,679)	-	1,097,193
A3	707,514	102,354	193,176	411,984	(28,940)	383,044	678,574
Class B	1,999,932	73,607	74,808	1,851,517	(1,851,517)	-	148,415
B1	262,483	45,329	58,235	158,919	(158,919)	-	103,564
B2	1,737,449	28,278	16,573	1,692,598	(1,692,598)	-	44,851
Non-interest bearing promissory notes	3,148,994	-	-	3,148,994	(354,304)	2,794,690	2,794,690
Loans issued to employees	18,902	-	-	18,902	(9,932)	8,970	8,970
Total	7,268,428	1,355,782	324,570	5,588,076	(2,401,372)	3,186,704	4,867,056

31 December 2009	Nominal value	Not due, not impaired	Due, not impaired	Impaired			Carrying amount
				Gross book value	Provision	Net book value	
Class A	4,225,716	1,915,866	208,401	2,101,449	(740,786)	1,360,663	3,484,930
A1	190,733	190,733	-	-	-	-	190,733
A2	2,199,869	1,527,653	123,517	548,699	(187,217)	361,482	2,012,652
A3	1,835,114	197,480	84,884	1,552,750	(553,569)	999,181	1,281,545
Class B	312,161	41,690	66,405	204,066	(204,066)	-	108,095
B1	22,863	4,230	18,423	210	(210)	-	22,653
B2	289,298	37,460	47,982	203,856	(203,856)	-	85,442
Non-interest bearing promissory notes	2,190,524	-	-	2,190,524	(226,169)	1,964,355	1,964,355
Interest receivable on deposits	41,960	41,960	-	-	-	-	41,960
Loans issued to employees	16,760	-	-	16,760	(6,910)	9,850	9,850
Total	6,787,121	1,999,516	274,806	4,512,799	(1,177,931)	3,334,868	5,609,190

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

As at 31 December 2010 and 2009 no trade or other receivables were secured by guarantees. Credit risks related to trade and other receivables are systematically reviewed for necessity of creation of impairment provision against trade and other receivables. Trade and other receivables balance netted with trade and other receivables impairment provision represents maximum exposure to credit risks, relating to receivables. Despite the fact that cash collection is subject to influence of different economic factors, management of the Group believes that there is no significant risk of losses exceeding recognized trade and other receivables impairment provision.

The amount of trade and other receivables impairment provision is assessed by management based on the analysis of particular counterparty's solvency, credit history and cash collection, and analysis of future cash flows. As at 31 December 2010 identification of present value of future cash flows was done utilizing discount rates of 13.33% p.a. – 15.23% p.a. (as at 31 December 2009: 12.67% p.a. – 28.0% p.a.), calculated based on the original effective interest rate. Discounting effect is recognized as part of trade and other receivables impairment provision expenses. The Group estimates that discounted amount of trade and other receivables less recognized impairment provision can be collected in cash or settled against trade and other payables.

OGK-2 Group**Notes to Consolidated Financial Statements for the year ended 31 December 2010**

(in thousands of Russian Roubles)

The main part of the provision is created for CJSC "Mezhdunarodny promyshlenny bank" receivable (related to deposits repayment in the amount of RR 1,192,425 thousand). The bank was declared bankrupt by a Moscow arbitration court decision.

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

Impairment provision as at 31 December 2009	951,762
Accrual of impairment provision	1,693,186
Write-off of doubtful trade and other receivables	(11,954)
Reversal of impairment provision	(585,926)
Impairment provision as at 31 December 2010	2,047,068

Movements in trade and other receivables impairment provision during 2009 were as follows:

Impairment provision as at 31 December 2008	385,221
Accrual of impairment provision	669,666
Write-off of doubtful trade and other receivables	(15,093)
Reversal of impairment provision	(88,032)
Impairment provision as at 31 December 2009	951,762

As at 31 December 2010 total amount of overdue trade and other receivables which were not provided for impairment was RR 324,570 thousand (31 December 2009 – RR 274,806 thousand). The reason impairment provision was not created is the absence of non-payment of respective counterparties in the past. Further, these amounts were collectively assessed for impairment within groups of financial assets with similar credit risk. Collective assessment did not change individual assessment.

Analysis of overdue but not impaired trade and other receivables is as follows:

	31 December 2010	31 December 2009
Overdue trade and other receivables		
Less than 1 month	17,014	22,263
From 1 to 3 months	179,057	175,834
From 3 months to 1 year	127,019	70,038
From 1 year to 5 years	746	6,129
More than 5 years	734	542
Total	324,570	274,806

Cash is placed in Russian financial institutions which are considered at the time of deposit to have minimal or low risk of default. The Board of Directors of the Company has approved a list of the banks, at which deposits could be placed and rules for such placements. Also the Group continuously considers financial condition, independent agencies ratings, past experience and other factors. The list of the banks with balances and ratings, at which the Group has open current bank accounts and deposits at the reporting date, is presented in Notes 8, 9 and 12.

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

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

OGK-2 Group
Notes to Consolidated Financial Statements for the year ended 31 December 2010

(in thousands of Russian Roubles)

31 December 2010	Less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Total
Loans including future principal and interest payments	-	105,000	315,000	6,680,000	7,100,000
Trade payables	2,412,295	142,795	2,005	53,805	2,610,900
Other payables (except for advances received and liabilities for employee compensations)	242,239	25,185	2,031	5,942	275,397
Total future payments	2,654,534	272,980	319,036	6,739,747	9,986,297
31 December 2009					
Bonds including future principal and interest payments	-	-	5,196,200	-	5,196,200
Bank loans including future principal and interest payments	49,838	4,158,142	539,353	-	4,747,333
Finance leasing liability	236	588	473	80	1,377
Trade payables	1,854,635	759,969	7,971	7,663	2,630,238
Other payables (except for advances received and liabilities for employee compensations)	292,009	161,884	5,165	7,706	466,764
Total future payments	2,196,718	5,080,583	5,749,162	15,449	13,041,912

Guarantees are disclosed in Note 27.

The Group has the following unutilized bank credit lines:

	31 December 2010	31 December 2009
Fixed interest rate facility:		
- expiring within 1 year from the reporting date	6,000,000*	-
Total	6,000,000	-

*fixed rate is agreed for every tranche withdrawal.

Interest rate risk. Profit and cash flows from operating activities of the Group are mainly independent from changes in market interest rates. The Group is exposed to changes in interest rates risk only in respect of changes in market value of interest bearing loans and borrowings and interest bearing deposits. Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity. Significant interest bearing assets of the Group are disclosed in Notes 8, 9 and 12. These assets have fixed interest rate and therefore are exposed to risk of difference between fixed interest rate and market interest rate.

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

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

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

As at 31 December 2010, the Group has been in compliance with the above share capital requirements.

OGK-2 Group**Notes to Consolidated Financial Statements for the year ended 31 December 2010**

(in thousands of Russian Roubles)

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

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

The gearing ratios, calculated on the basis of statutory financial statements, prepared in accordance with Russian accounting standards at 31 December 2010 and 31 December 2009 were as follows:

	31 December 2010	31 December 2009
Total liabilities	8,407,398	13,486,413
Equity	38,165,281	34,979,519
Gearing ratio, %	0.22	0.39

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

Note 30. Segment information

The Management Board of the Company controls and allocates economic resources of the Group between segments and evaluates segments' operating efficiency. Primary activity of the Group is production of electric and heat power and capacity which covers 99,7% of the Group revenue. The technology of electricity and heat production does not allow segregation of electricity and heat segments. Due to significant decentralization and distances between Company branches, the Group identifies six primary reporting segments: Surgutskaya GRES-1, Troitskaya GRES, Stavropolskaya GRES, Serovskaya GRES, Pskovskaya GRES and Adlerskaya TES. All reporting segments are located on the territory of Russian Federation. In the process of evaluation of segments, results and allocation of economic resources of the Group the Management Board uses financial information provided below prepared in accordance with RAR. The differences between the above-mentioned financial indicators analyzed by the Management Board and IFRS financial information are caused by different approaches applied in IFRS and RAR. The main difference is the estimation of the value of property, plant and equipment. The Group does not have inter-segment revenue.

Year ended 31 December 2010	Surgutskaya GRES-1	Stavropol- skaya GRES	Troitskaya GRES	Serovskaya GRES	Pskovskaya GRES	Adler- skaya TES	Total operating segments
Revenue	20,734,671	13,017,643	8,321,759	3,133,408	2,654,069	2,080	47,863,630
Depreciation of property, plant, equipment	(172,358)	(89,341)	(127,041)	(65,397)	(214,924)	-	(669,061)
Segment operating profit/ (loss) before income tax	5,544,207	1,010,821	(69,491)	(150,410)	33,220	(219)	6,368,128
Year ended 31 December 2009	Surgutskaya GRES-1	Stavropol- skaya GRES	Troitskaya GRES	Serovskaya GRES	Pskovskaya GRES	Adler- skaya TES	Total operating segments
Revenue	16,684,071	10,347,814	7,038,875	2,884,915	2,048,738	-	39,004,413
Depreciation of property, plant, equipment	(191,730)	(91,078)	(121,563)	(55,215)	(212,318)	-	(671,904)
Segment operating profit/ (loss) before income tax	3,424,657	1,102,937	(19,798)	20,365	41,472	-	4,569,633

OGK-2 Group
Notes to Consolidated Financial Statements for the year ended 31 December 2010

(in thousands of Russian Roubles)

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

	Year ended 31 December 2010	Year ended 31 December 2009
Segment operating profit	6,368,128	4,569,633
Adjustments, arising from different accounting policy:		
Provision for impairment of trade and other receivables	121,278	(103,428)
Reversal of property, plant and equipment impairment	4,615	33,277
Depreciation adjustment	(622,297)	(662,356)
Impairment of intangible assets	-	(391,841)
Other adjustments	286,256	109,938
Unallocated expenses:		
Provision for impairment of trade and other receivables	(1,173,857)	(432,701)
Employee benefit	(386,529)	(368,864)
Rent	(145,287)	(168,503)
Other corporate expenses	(802,151)	(594,749)
Consulting, legal and audit services	(50,382)	(92,306)
Operating profit (IFRS)	3,599,774	1,898,100

Segment's assets are disclosed below:

	Surgut- skaya GRES-1	Stavropol- skaya GRES	Troitskaya GRES	Serov- skaya GRES	Pskovskaya GRES	Adlerskaya TES	Total assets
31 December 2010	4,039,167	2,502,992	17,977,793	9,896,458	2,390,110	2,441	36,808,961
31 December 2009	3,804,656	2,383,932	13,825,012	8,262,852	2,587,570	-	30,864,022

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

	Year ended 31 December 2010	Year ended 31 December 2009
Total assets for reportable segment	36,808,961	30,864,022
Adjustments, arising from different accounting policy:		
Property, plant and equipment adjustment	6,055,379	6,198,707
Prepayments / deposits for pensions	225,839	206,684
Discounting of promissory notes	(354,304)	(226,169)
Impairment of trade and other receivables	(144,416)	(265,694)
Provision for inventory obsolescence	(32,016)	(45,224)
Impairment of intangible assets	-	(391,841)
Other adjustments	(630,769)	(315,629)
Unallocated assets	10,189,797	18,091,152
Total assets (IFRS)	52,118,471	54,116,008

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

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