

**OAO OGK-4 AND SUBSIDIARIES  
CONSOLIDATED FINANCIAL STATEMENTS  
PREPARED IN ACCORDANCE WITH  
INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)  
FOR THE YEAR ENDED 31 DECEMBER 2010**



## INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of directors of Open Joint-Stock Company 'Fourth Power Generating Company on the Wholesale Energy Market' (OAO OGK-4)

1. We have audited the accompanying consolidated financial statements of OAO OGK-4 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 a summary of significant accounting policies and other explanatory notes.

### *Management's responsibility for the consolidated financial statements*

2. 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 necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

### *Auditor's responsibility*

3. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated statements are free from material misstatement.
4. 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.

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

### *Opinion*

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

*ZAO PricewaterhouseCoopers Audit*

23 May 2011  
Moscow, Russian Federation

**OAO OGK-4 and subsidiaries**  
**Consolidated Statement of Financial Position as at 31 December 2010**  
(RUB thousand)

	Note	At 31 December 2010	At 31 December 2009
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	2, 6	79,599,684	64,709,683
Intangible assets	2, 7	427,306	447,679
Long-term financial assets	2, 22	73,856	51,333
Other non-current assets	22	148,216	34,117
<b>Total non-current assets</b>		<b>80,249,062</b>	<b>65,242,812</b>
<b>Current assets</b>			
Cash	2, 22	268,850	483,368
Accounts receivable and prepayments	2, 9	6,981,571	7,528,075
Inventories	2, 8	1,409,476	1,699,351
Current income tax prepayments		6,005	392,758
Short-term financial assets	2,10, 23	14,297,908	17,131,566
<b>Total current assets</b>		<b>22,963,810</b>	<b>27,235,118</b>
<b>TOTAL ASSETS</b>		<b>103,212,872</b>	<b>92,477,930</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital</b>			
Ordinary shares	11	25,219,482	25,219,482
Share premium		40,052,405	40,052,405
Other reserves	11	774,247	1,166,792
Retained earnings		28,089,438	17,840,874
<b>Total equity attributable to shareholders of OAO OGK-4</b>		<b>94,135,572</b>	<b>84,279,553</b>
Non-controlling interest		15,603	13,868
<b>Total equity</b>		<b>94,151,175</b>	<b>84,293,421</b>
<b>Non-current liabilities</b>			
Deferred income tax liabilities	2, 15	2,349,270	2,347,122
Pension liabilities	2, 12	538,407	279,249
<b>Total non-current liabilities</b>		<b>2,887,677</b>	<b>2,626,371</b>
<b>Current liabilities</b>			
Accounts payable and accruals	2,13	5,202,665	4,518,972
Taxes payable other than income tax	14	879,926	1,039,166
Short-term financial liabilities	2, 22	91,429	-
<b>Total current liabilities</b>		<b>6,174,020</b>	<b>5,558,138</b>
<b>Total liabilities</b>		<b>9,061,697</b>	<b>8,184,509</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>103,212,872</b>	<b>92,477,930</b>

General director

*CO*

Y. Sablukov

Financial director

*U. Backmeyer*

U. Backmeyer

23 May 2011

**OAo OGK-4 and subsidiaries**  
**Consolidated Statement of Comprehensive Income**  
**for the year ended 31 December 2010**  
(RUB thousand)

	Note	Year ended 31 December 2010	Year ended 31 December 2009 (restated)
Revenues	2,16	50,321,877	40,749,370
Operating expenses	17	(38,457,704)	(35,019,310)
Other operating income	16	369,725	598,311
<b>Operating profit</b>		<b>12,233,898</b>	<b>6,328,371</b>
Finance income	18	718,065	1,555,820
Finance expense	18	(369,688)	(670,315)
<b>Profit before income tax</b>		<b>12,582,275</b>	<b>7,213,876</b>
Total income tax charge	15	(2,331,720)	(1,698,665)
<b>Profit for the year</b>		<b>10,250,555</b>	<b>5,515,211</b>
<b>Other comprehensive income and expenses</b>			
Fair value gain on available-for-sale financial assets		22,523	24,197
Actuarial (loss) / gain, net of tax		(83,135)	151,070
Cash flow hedges (loss)/ gain, net of tax		(331,933)	1,087,654
<b>Total other comprehensive income/ (loss) for the period</b>		<b>(392,545)</b>	<b>1,262,921</b>
<b>Total comprehensive income for the period</b>		<b>9,858,010</b>	<b>6,778,132</b>
<b>Profit / (loss) attributable to:</b>			
Shareholders of OAO OGK-4		10,248,820	5,515,436
Non-controlling interest		1,735	(225)
<b>Comprehensive income / (expense) attributable to:</b>			
Shareholders of OAO OGK-4		9,856,275	6,778,357
Non-controlling interest		1,735	(225)
<b>Earnings per ordinary share for profit attributable to the shareholders of OAO OGK-4 – basic and diluted (in Russian roubles)</b>	19	<b>0,163</b>	<b>0,087</b>

General director

Financial director

Y. Sablukov

U.Backmeyer

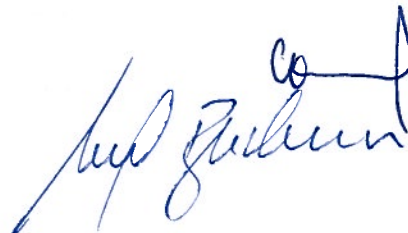
23 May 2011

**OAO OGK-4 and subsidiaries**  
**Consolidated Statement of Changes in Equity**  
**for the year ended 31 December 2010**  
(RUB thousand)

	Attributable to the shareholders of OAO OGK-4						Non-controlling interest	Total equity
	Ordinary share capital	Share premium	Other reserves	Retained earnings	Total			
<b>At 1 January 2009</b>	<b>25,219,482</b>	<b>40,052,405</b>	<b>687,981</b>	<b>11,522,968</b>	<b>77,482,836</b>	<b>14,093</b>	<b>77,496,929</b>	
Profit/(loss) for the year	-	-	-	5,515,436	5,515,436	(225)	5,515,211	
Other comprehensive income and expenses								
Available-for-sale financial assets revaluation	-	-	24,197	-	24,197	-	24,197	
Actuarial gain, net of tax	-	-	151,070	-	151,070	-	151,070	
Cash flow hedges, net of tax	-	-	1,087,654	-	1,087,654	-	1,087,654	
<b>Total comprehensive income (loss) for the period</b>	<b>-</b>	<b>-</b>	<b>1,262,921</b>	<b>5,515,436</b>	<b>6,778,357</b>	<b>(225)</b>	<b>6,778,132</b>	
Employee share option plan	-	-	18,360	-	18,360	-	18,360	
Employee share option plan cancellation	-	-	(802,470)	802,470	-	-	-	
<b>At 31 December 2009</b>	<b>25,219,482</b>	<b>40,052,405</b>	<b>1,166,792</b>	<b>17,840,874</b>	<b>84,279,553</b>	<b>13,868</b>	<b>84,293,421</b>	
<b>At 1 January 2010</b>	<b>25,219,482</b>	<b>40,052,405</b>	<b>1,166,792</b>	<b>17,840,874</b>	<b>84,279,553</b>	<b>13,868</b>	<b>84,293,421</b>	
Profit for the year	-	-	-	10,248,820	10,248,820	1,735	10,250,555	
Other comprehensive income and expenses								
Available-for-sale financial assets revaluation	-	-	22,523	-	22,523	-	22,523	
Actuarial loss, net of tax	-	-	(83,135)	-	(83,135)	-	(83,135)	
Cash flow hedges, net of tax	-	-	(331,933)	-	(331,933)	-	(331,933)	
<b>Total comprehensive income/(loss) for the period</b>	<b>-</b>	<b>-</b>	<b>(392,545)</b>	<b>10,248,820</b>	<b>9,856,275</b>	<b>1,735</b>	<b>9,858,010</b>	
Dividends	-	-	-	-	-	(256)	(256)	
<b>At 31 December 2010</b>	<b>25,219,482</b>	<b>40,052,405</b>	<b>774,247</b>	<b>28,089,694</b>	<b>94,135,828</b>	<b>15,347</b>	<b>94,151,175</b>	

General director

Financial director



Y. Sablukov

U. Backmeyer

23 May 2011

**OA0 OGK-4 and subsidiaries**  
**Consolidated Statement of Cash Flows**  
**for the year ended 31 December 2010**  
(RUB thousand)

	Note	Year ended 31 December 2010	Year ended 31 December 2009
<b>CASH FLOW FROM OPERATING ACTIVITIES:</b>			
Profit before income tax		12,582,275	7,213,876
<b>Adjustments for non-cash items:</b>			
Depreciation and amortisation	6, 7	2,339,759	2,349,189
Impairment of PPE	6	53,745	32,229
Impairment of ITA	7	3,209	178,683
(Reversal of provision) / provision for the impairment of inventories	8	(42,523)	10,148
Provision for impairment of accounts receivable	9	20,812	229,905
Foreign exchange loss / (gain) - net		30,575	(57,521)
Interest income	18	(479,252)	(936,326)
Interest expense and effect of discounting	18	100,300	108,342
(Gain) / loss on disposal of property, plant and equipment		(34,386)	3,054
Employee share option plan		-	18,360
Change in pension liabilities (non-cash)		125,970	-
Other non-cash items		(53,034)	56,910
<b>Operating cash flows before working capital changes and income tax paid</b>		<b>14,647,450</b>	<b>9,206,849</b>
<b>Working capital changes:</b>			
Increase in accounts receivable and prepayments	9	(211,468)	(2,080,158)
Decrease/ (increase) in VAT recoverable	9	660,149	(2,821,090)
Decrease / (increase) in inventories	8	332,398	(30,474)
(Decrease) / increase in accounts payable and accruals	13	(185,967)	1,080,581
Contribution paid to pension fund	12	(36,581)	(102,821)
(Decrease) / increase in taxes payable other than income tax	14	(159,240)	419,134
Income tax paid		(1,838,336)	(3,359,499)
<b>Net cash generated from operating activities</b>		<b>13,208,405</b>	<b>2,312,522</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES:</b>			
Purchase of property, plant and equipment and other non-current assets		(16,956,080)	(17,852,407)
Proceeds from sale of property, plant and equipment and other non-current assets		113,731	7,307
Proceeds from deposits (net)		4,769,135	14,745,981
Loans issued		(1,799,319)	(1,478,408)
Loans returned		-	1,474,956
Interest received		441,822	1,115,499
<b>Net cash used in investing activities</b>		<b>(13,430,711)</b>	<b>(1,987,072)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES:</b>			
Dividends paid to non-controlling interest shareholders		(256)	-
<b>Net cash used in financing activities</b>		<b>(256)</b>	<b>-</b>
Effect of exchange rate changes on cash and cash equivalents		8,044	27,303
<b>Net (decrease) / increase in cash</b>		<b>(214,518)</b>	<b>352,753</b>
Cash at the beginning of the year		483,368	130,615
Cash at the end of the year		268,850	483,368

General director

Y. Sablukov

Financial director

U. Backmeyer

23 May 2011

**OAo OGK-4 and subsidiaries**  
**Notes to Consolidated Financial Statements**  
**for the year ended 31 December 2010**  
(RUB thousand)

**Note 1. The Group and its operations**

Open Joint-Stock Company Fourth Power Generating Company of the Wholesale Energy Market ("OAo OGK-4" or the "Company") was established on 4 March 2005 as part of the Russian electric power industry reform.

The Company's primary activities are generation and sale of electricity and thermal power.

OAo OGK-4 shares are quoted at "Russian Trading System" stock exchange and at The Moscow Interbank Currency Exchange.

The Company is registered by the Surgut District Inspectorate of the Russian Federation Ministry of Taxation, Khanty-Mansiysk Autonomous District (Yugra), Tyumen Region. The Company's office is located at Presnenskaya Naberejnaya 10, Moscow, Russia, 123317.

The Company is operating five power plants as branches. Currently the Company has two subsidiaries. All the references to the "Group" refer to the Company and its branches and subsidiaries.

The structure of the Group, including all consolidated entities, is presented in the table below:

	Principal activity	Ownership, %	
		At 31 December 2010	At 31 December 2009
<b>Subsidiaries of OAo OGK-4</b>			
OOO Teplosbyt	Transactions with securities	100	100
OAo Shaturskaya UK	Municipal services	51	51

**Operating environment**

The recent global financial crisis has had a severe effect on the Russian economy and the financial situation in the Russian financial and corporate sectors significantly deteriorated since mid-2008. In 2010, the Russian economy experienced a moderate recovery of economic growth. The recovery was accompanied by a gradual increase of household incomes, lower refinancing rates, stabilisation of the exchange rate of the Russian Rouble against major foreign currencies, and increased liquidity levels in the banking sector.

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

Management determined impairment provisions by considering the economic situation and outlook at the end of the reporting period. Provisions for trade receivables are determined using the 'incurred loss' model required by the applicable accounting standards. These standards require recognition of impairment losses for receivables that arose from past events and prohibit recognition of impairment losses that could arise from future events, no matter how likely those future events are. Management is unable to predict all developments in the economic environment which could have an impact on the Group's operations and consequently what effect, if any, they could have on the future financial position of the Group. Management believes it is taking all the necessary measures to support the sustainability and development of the Group's business.

**Relations with the state and current regulations**

Russian Open Joint Stock Company for Energy and Electrification Unified Energy System of Russia (hereinafter referred to as the RAO UES of Russia), which established OAo OGK-4 in 2005, completed all formalities related to reorganization on July 1, 2008 and was liquidated as a legal entity. Thereof, "governmental share" as of December 31, 2010 and 2009, makes 0.3% of the voting ordinary shares of OAo OGK-4.

The Group's customer base includes a number of entities controlled by the state. Furthermore, the

state controls a number of the Group's fuel and other suppliers.

The Russian government directly influences the Group's operations through Federal Tariff Service ("FTS") regulation of wholesale electric energy and capacity sales and regional tariff services' regulation of heat sales. In order to meet system requirements efficiently, all generating facilities' operations are coordinated by OAO System Operator of Unified Energy System ("SO UES"). SO UES used to be controlled by RAO UES; now it is controlled by the state.

Tariffs for regulated electric energy, capacity and heat sales are governed by power industry regulations and by regulations for natural monopolies. Historically, such tariffs have been based on cost-plus pricing, meaning the cost of the service plus a margin. Costs are determined under Russian Accounting Rules ("RAR"), a basis of accounting which significantly differs from International Financial Reporting Standards. In practice, tariff decisions are significantly affected by social and political considerations, which can result in delays in tariff determinations as well as in tariff increases that fail to compensate for rising costs.

As described in Note 21, the government's economic, social and other policies could materially affect the Group's operations.

### ***Industry reform***

In accordance with wholesale market rules, the tariffs for electricity and capacity in the regulated market are fixed by the Federal Tariff Service, while in the competitive sector prices are determined by supply and demand.

### ***Electric energy***

From 1 January 2010 the share of regulated contracts was 35% to 40%, and from 1 July 2010 - 15% to 20%. Liberalisation levels were fixed by the government in accordance with Decision No. 205 of 7 April 2007. According to Rules of the wholesale market № 1172 of 27 December 2010 participants on the wholesale market have the right to carry out sales (delivery) of electric energy and (or) capacity in the wholesale market in 2011. Correspondingly, the competitive wholesale market of the electric power by 2011 is completely liberalized; however in accordance with regulation issued in April 2011 sales of electric energy to the population and some other parties which in accordance with the regulation have equal rights as the population remain regulated.

### ***Capacity***

In 2008 Federal Law No. 35-FZ "On Electric Utilities" was amended, tightening the state's control over power suppliers' dominance and manipulation of prices on the free market.

Russian Government Resolution No. 476, effective from 1 July 2008, was issued on 28 June 2008. The resolution provides for the launch of a capacity market, where "free" capacity is traded at transitional auctions for supplies from 2009 to 2011 and at long-term auctions for 10-year supplies. Free capacity is sold in its respective free flow zone. For the first time, wholesale market agents have the option of concluding non-regulated contracts for capacity supplies.

On 24 February 2010 (effective 20 April 2010) and 13 April 2010 the Government has approved Resolution No. 89 and No. 238 which regulate the final capacity market effective from 2011. The approved long-term capacity market rules stipulate rules for committed new build investments as well as for payments in regard of existing generation capacities. Subject to certain benchmark investment costs, the application of coefficients to adjust for regional and climate-related circumstances, a discount to account for expected profits to be generated in the parallel energy market, certain other coefficients and a capital remuneration, these rules provide the remuneration framework for guaranteed new build capacity for the initial 10 years of commercial operation based on a total payback period of 15 years.

On 5 April 2011 the government issued revisions to the capacity rules as determined in 2010. In accordance with the revisions capacity tariffs for existing capacity (prior to industry reform) will not be adjusted for inflation in 2011.



### ***Establishment of the Group***

According to Resolution No. 1254-r of 1 September 2003, which approved the wholesale generating companies' structure, OAO O GK-4 was to consist of the following power stations: OAO Berezovskaya GRES-1, OAO Shaturskaya GRES-5, OAO Yajvinskaya GRES, OAO Smolenskaya GRES and OAO Surgutskaya GRES-2. These entities had been established as a result of the restructuring, when they were spin off from RAO UES subsidiaries. On 1 July 2006 they merged with OAO O GK-4.

After the merger, RAO UES had an 89.6% share in the Group. RAO UES was liquidated on 1 July 2008. OAO O GK-4 Holding was founded as a result of the RAO UES reorganisation. It was the proprietor of OAO O GK-4 ordinary shares and property previously owned by RAO UES. Shares of the Company held by minority shareholders of RAO UES were transferred to OAO O GK-4 Holding. After a spin off from RAO UES on 1 July 2008, OAO O GK-4 Holding merged with OAO O GK-4, and its shares were converted into the shares of OAO O GK-4. The Company's treasury shares were used for this conversion, as well as additionally issued shares. E.ON is currently the majority shareholder of O GK-4 with a stake in the charter capital accounting to approximately 78.3%.

### ***Note 2. Summary of significant accounting policies***

***Basis of preparation.*** These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards.

Each enterprise within the Group individually maintains its own accounting records and prepares statutory financial statements in accordance with RAR. The accompanying financial statements are based on the statutory records and adjusted and reclassified to meet IFRS requirements. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

***Functional and presentation currency.*** The national currency of Russia is the Russian rouble ("RUB"), which is the functional currency of all of the Group's entities and the currency in which these financial statements are presented. All financial information presented in RUB has been rounded to the nearest thousand.

Monetary assets and liabilities are translated into the Group's functional currency at the official exchange rate of the Central Bank of the Russian Federation ("CBRF") at the respective end of the reporting period. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into the Group's functional currency at year-end official exchange rates of the CBRF are recognised in profit or loss as finance income or costs, unless they are assigned as hedging instruments. Translation at year-end rates does not apply to non-monetary items that are measured at historical cost.

***Predecessor accounting.*** In these financial statements, formation of the Group was accounted for as a business combination of entities under common control. Predecessor accounting method was applied. Accordingly, assets and liabilities of the combined entities (OAO Berezovskaya GRES-1, OAO Shaturskaya GRES-5, OAO Yajvinskaya GRES, OAO Smolenskaya GRES and OAO Surgutskaya GRES-2) were recorded at their carrying value as reflected in the IFRS consolidated financial statements of RAO UES.

***Accounting for the effects of hyperinflation.*** Russia experienced relatively high levels of inflation in the past and was considered to be hyperinflationary as defined by IAS 29, Financial Reporting in Hyperinflationary Economies ("IAS 29"). IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. The Russian economy is no longer hyperinflationary, and as of 1 January 2003 the Group has not applied provisions of IAS 29. The restatement requirements of IAS 29 are therefore only applied to assets acquired or revalued and liabilities incurred or assumed prior to that date and affect the property plant & equipment and equity in these financial statements. For these balances, the amounts expressed in the measuring unit current as at 31 December 2002 are treated as the basis for the carrying amounts in these financial statements.

**OAO OGK-4 and subsidiaries**  
**Notes to Consolidated Financial Statements**  
**for the year ended 31 December 2010**  
(RUB thousand)

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**Principles of consolidation.** These financial statements comprise the financial statements of OAO OGK-4 and the financial statements of those entities whose operations are controlled by OAO OGK-4. Control is presumed to exist when OAO OGK-4 owns, directly or indirectly through subsidiaries, more than 50% of voting rights.

**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 interests have been disclosed as part of equity.

**Transactions eliminated on consolidation.** Inter-Group balances and transactions, and any unrealised gains arising from inter-Group transactions, are eliminated in preparing the consolidated financial statements.

**Transfers of subsidiaries between parties under common control.** Transfers of investments between parties under common control are accounted for using the predecessor accounting method. Under this method the financial statements of the combined entity are presented as if the businesses had been combined from the beginning of the earliest period presented. The assets and liabilities of the subsidiary transferred under common control are recognised at the predecessor entity's carrying amounts. Any difference between the carrying amount of net assets and the nominal value of share capital contributed is accounted for in these consolidated financial statements as an adjustment to equity.

**Dividends.** Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared (approved by shareholders) before or on the balance sheet date. Dividends are disclosed if they are declared after the balance sheet date but before the financial statements are authorised for issue.

**Property, plant and equipment.** Property, plant and equipment are stated at cost less accumulated depreciation and provision for impairment where required. Deemed cost was initially determined by a third party valuation as at 31 December 1997 and restated for the impact of inflation for the period until 31 December 2002. Adjustments were 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, this assessment is performed at the level of the cash generating unit (per station). 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 profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine an asset's recoverable amount.

The amounts determined by the third party valuation represent an estimate of depreciated replacement cost. In accordance with paragraph 16 of IAS 29, Financial Reporting in Hyperinflationary Economies, a third party valuation was performed in order to determine a basis for cost because historical accounting records for property, plant and equipment were not readily available. Therefore, this third party valuation was not a recurring feature, since it was intended to determine the initial cost basis of property, plant and equipment and the Group had not adopted a policy of revaluation on subsequent measurement.

Renewals, improvements and major capital maintenance are capitalised and the assets replaced are retired. Regular repair and maintenance costs are expensed as incurred. Gains and losses arising from the retirement of property, plant and equipment are included in profit or loss as incurred.

Depreciation of property, plant and equipment is calculated on a straight-line basis over the estimated useful life of the asset once it is available for use. For the property, plant and equipment which were subject to the third party valuation as at 31 December 1997, the depreciation rate applied is based on the estimated remaining useful lives as at the valuation date. Remaining useful lives are reviewed annually. The useful lives, in years, of assets by type of facility are as follows:

**OAO OGK-4 and subsidiaries**  
**Notes to Consolidated Financial Statements**  
**for the year ended 31 December 2010**  
(RUB thousand)

Type of facility	Acquired before 31 December 1997	Acquired after 31 December 1997
Electricity and heat generation	7-50	15-50
Electricity distribution	6-32	8-25
Heating network	4-20	12-20
Major capital maintenance	-	4-6
Other	2-8	3-10

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

**Intangible assets.** Intangible assets are stated at amortised cost less impairment. Amortization of computer software and licences is calculated on a straight-line basis. The useful lives of computer software are 1- 16 years.

At each reporting date management assesses whether there is any indication of impairment of intangible assets. 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 recognized as an expense (impairment loss) in profit or loss. An impairment loss recognized in prior years is reversed if there has been a change in the estimates used to determine an asset's recoverable amount.

Subsequent expenses on an intangible asset after its purchase or put into use and expenses on computer software support are included in operating expenses, except cases when the following is applicable:

- it is probable that these expenses will allow an asset to create future economic benefits beyond what was originally expected;
- the cost of the asset can be measured reliably.

Amortisation of intangible assets is included into operating expenses. Remaining useful lives are reviewed annually.

**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, have a maturity of three months or less from the date of acquisition, and are subject to insignificant changes in value.

**Trade and other accounts receivable.** Accounts receivable are recorded inclusive of value-added tax. Accounts receivable initially are recognised at fair value and subsequently measured at amortised cost using the effective interest rate method less provision for impairment. A provision for impairment of accounts receivable is created if there is objective evidence that the Group will not be able to collect all amounts due according to the original terms. The amount of the provision is the difference between the carrying amount and the recoverable amount, which is the present value of expected cash flows discounted at the market interest for similar borrowers at the date the debt arose.

**Promissory notes.** Promissory notes are recognized at fair value and subsequently at amortised cost using the effective interest rate method less provision for impairment. A provision for impairment is created if there is objective evidence, based on credit rating of the issuing bank that the Group will not be able to collect all amounts due according to the original terms. The amount of the provision is the difference between the carrying amount and the recoverable amount, which is the present value of expected cash flows discounted at the market interest for similar borrowers at the date the debt arose.

**Prepayments.** Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment 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 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. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying

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value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the year.

**Classification of financial assets.** The Group classifies its financial assets into the following measurement categories: financial assets at fair value through profit or loss, available for sale, held to maturity, and loans and receivables.

Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading.

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term.

The held to maturity category includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at each balance sheet date.

All other financial assets are included in the available-for-sale category.

The Group does not have financial assets at fair value through profit or loss upon initial recognition and held to maturity as of reporting dates.

**Classification of financial liabilities.** Financial liabilities have the following measurement categories: (a) held for trading which also includes financial derivatives and (b) other financial liabilities. Liabilities held for trading are carried at fair value with changes in value recognised in profit or loss for the year (as finance income or finance costs) in the period in which they arise. Other financial liabilities are carried at amortised cost. The Group does not have liabilities held for trading as of reporting dates.

**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. The Group does not have available-for-sale debt securities as of reporting date. Dividends on available-for-sale equity instruments also are recognised in profit or loss for the year as finance income when the Group's right to receive payment is established and it is probable that the dividends will be collected. 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.

**Value-added tax on purchases and sales.** Output value added tax related to sales is payable to the tax authorities on the earlier of (a) collection of payment from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice.

The tax authorities permit VAT settlement on a net basis. VAT on sales and purchases is recognised in the balance sheet 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 debt, including VAT.

**Inventories.** Inventories are valued at the lower of cost and net realisable value. Cost of inventory is determined on the weighted average basis. A provision is created for potential losses on obsolete or slow-moving inventories, taking into account their expected use and future realisable value.

**Income tax.** The income tax expense represents the sum of tax currently payable and deferred income tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in profit or loss because it excludes items of income or expense that are taxable or deductible in other years, as well as items that are never taxable or deductible and any known court or other rulings on such issues. The Group's liability for current tax is calculated using tax rates that were enacted at the balance sheet date.

**Deferred income tax.** Deferred tax is provided using the balance sheet liability method for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts as per the consolidated financial statements. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences upon initial recognition of an asset or a liability in a

transaction other than a business combination if the initial recognition of this asset or liability does not affect either accounting or taxable profit or loss. Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date, which are expected to apply to the period when the temporary differences will reverse or tax loss carry forwards will be utilised. 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 utilised.

Deferred tax movements are recorded in profit and loss unless they are related to items recorded in other comprehensive income or directly in equity. In this case, deferred taxes are recorded as part of other comprehensive income or the shareholders' equity.

**Uncertain tax positions.** The Group's uncertain tax positions are reassessed by management at every balance sheet date. Liabilities are recorded for income tax positions that are determined by management as less likely than not to be sustained if challenged by the tax authorities based on management's interpretation of tax laws that have been enacted or substantively enacted at the balance sheet date. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligation at the balance sheet date.

**Accounts payable.** Accounts payable are stated inclusive of value-added tax. Accounts payable initially are recognised at fair value and subsequently measured at amortised cost using the effective interest rate method.

**Accrued charges.** Accrued charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

**Capitalisation of borrowing cost.** Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use (qualifying assets) are capitalised as part of the costs of those assets, if the commencement date for capitalisation is on or after 1 January 2009.

The commencement date for capitalisation is when (a) the Group incurs expenditures for the qualifying asset; (b) it incurs borrowing costs; and (c) it undertakes activities that are necessary to prepare the asset for its intended use or sale.

Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale. The Group did not incur borrowing costs in 2009 and 2010.

**Pension and post-employment benefits.** The Company makes all mandatory payments to the Russian state pension fund on behalf of its employees. Mandatory contributions to the state pension fund are expensed when incurred.

Group entities provide a number of post-employment and other long-term benefits of a defined benefit nature as well as a defined contribution pension benefit plans. Defined benefits include old-age and disability pensions, death in service and death in pension benefits, lump sum payment upon retirement, jubilee benefits to current and former employees retired from the Group as well as financial support after old-age retirement for such former employees.

Defined benefit plans, except for old-age and disability pensions, are unfunded and paid on pay-as-you-go basis, i.e. cost is met directly by the Group when due. With regard to old-age and disability pensions the Group has an agreement with a non-state pension fund. The defined benefit pension plan defines the pension allowance that an employee will receive upon retiring. The allowance depends on several factors such as age, experience and salary. Pension obligation is settled by the Group via a non-state pension fund when the employee retires.

Defined benefit obligations are calculated using the projected unit credit method. The present value of 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 and which have terms to maturity approximating the terms of the related pension liabilities.

The liability recognised in the statement of financial position for defined benefit plans is the present

value of the defined benefit obligation at the balance sheet date less plan assets and unrecognised past service cost. Actuarial gains and losses are reflected in full in other comprehensive income.

Past-service costs are recognized immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (vesting period). In this case, past service costs are amortised on a straight-line basis over the vesting period.

**Operating leases.** 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 lease term. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option. Operating leases include long-term leases of land with rental payments contingent on cadastral values regularly reviewed by the authorities.

**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 lease commencement date at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges in order to achieve a constant rate on the outstanding debt. The corresponding rental obligations, net of future finance charges, are included in debt. The interest expense is charged to the profit and loss over the lease term using the effective interest method. Assets acquired under finance leases are depreciated over their useful lives or over the lease term if the Group is not reasonably certain that it will obtain ownership by the end of the lease term. The Group does not have finance leases in 2010.

**Hedge accounting.** Hedge accounting was applied by the Group since 1 January 2009 in relation to cash flow hedge of the currency risks related to cash outflows in foreign currencies on investment program. Funds received as a result of additional share issue which took place in 2007 and to be spent on investment program under the contracts concluded in foreign currencies were placed on deposits in the same currencies (hedging instrument). As the amount of hedging instrument matches the amount of hedged item the effectiveness of the hedge is ensured. The Group has applied accounting policy to reclassify associated gains and losses that were recognised in other comprehensive income to profit or loss as a reclassification adjustment in the same periods during which the asset acquired affects profit or loss (that is in the periods when depreciation expense is recognised). The Group has started to reclassify gains and losses that were recognized in other comprehensive income, as part of the acquired assets are affecting the profit and loss in 2010. In the Cash flow statement the cash inflows related to the hedging instrument are classified in the same manner as the cash outflows of the position being hedged.

In 2010 the Group has also started to apply derivative financial instruments, including forward rate agreements, currency swaps and currency options to further reduce the Group's foreign exchange risk exposure related to cash outflows in foreign currencies as a consequence of the investment program. The Group has used these derivatives as hedging instruments.

The group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed in note 22 and are based on quoted market prices, if derivatives have a positive value they are recognized as short term financial assets and if they have a negative fair value they are recognized as short term financial liabilities. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income.

The Group has applied accounting policy to reclassify associated gains and losses that were recognised in other comprehensive income to profit or loss as a reclassification adjustment in the same periods during which the asset acquired affects profit or loss (that is in the periods when

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depreciation expense is recognised). In the Cash flow statement the cash flows related to the hedging instrument are classified in the same manner as the cash flows of the position being hedged.

**Provisions.** Provisions are recorded where the Group has legal or other obligations that have arisen as a result of past events, where it is probable that the Group will need to spend resources to repay the obligation, and the amount of the obligation can be reliably estimated.

**Revenue recognition.** Electricity sales are recognized when the electricity produced is transferred to the grid. Correspondingly, when in accordance with the utilities market regulation in the Russian Federation utilities companies are required to conclude transactions for the sale and purchase back of electric energy (for bilateral contracts concluded, for electricity consumed in production process) these linked transactions are netted. Capacity sales are recognized when the capacity obligations have been fulfilled; heat energy sales are recorded when the heat is delivered to the customer. Other revenue is recognized when goods are shipped/delivered, services are provided. Revenues are measured at the fair value of the consideration received or receivable. Revenue is presented exclusive of value-added tax.

**Earnings per share.** Earnings per share are determined by dividing the profit attributable to ordinary shareholders of the parent company of the Group (OA O GK-4) by the weighted average number of ordinary shares outstanding during the reporting period.

**Non-controlling interest.** Non-controlling interests represent minority shareholders' proportionate share of the equity and results of operations of the Group's subsidiaries. This is calculated based on the non-controlling interest's ownership in these subsidiaries. For purchases of non-controlling interests, the difference between the carrying amount of a non-controlling interest and the amount paid to acquire it, if any, is recorded as a loss directly in equity.

**Interest.** Interest income and expense are recognised in profit or loss for all debt instruments on an accrual basis using the effective interest method. Interest income includes nominal interest and amortised discount and premium. When loans become doubtful, they are written down to their recoverable amounts, and interest income thereafter is recognised based on the interest that was used to discount future cash flows for the purpose of measuring the recoverable amount.

**Fair value measurement.** The fair value of accounts receivable for disclosure purposes is measured by discounting the value of expected cash flows at the market interest for similar borrowers at the reporting date.

The fair value of financial liabilities and other financial instruments (unless publicly quoted) for disclosure purposes is measured by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments. The fair value of publicly quoted financial instruments is measured based on the current market value at the reporting date.

**Segment reporting.** Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker.

**Change in presentation.** The revenue and operating expenses as reported in 2009 were adjusted to reflect the fact that linked transactions performed to comply with the specific regulation in the Russian utilities market should be presented net in the financial statements (see accounting policy on revenue recognition above).

Account	Amount before adjustment year ended 31 December 2009	Reclassification	Adjusted amount year ended 31 December 2009
Revenues	42,890,097	(2,140,727)	40,749,370
Operating expenses	(37,160,037)	2,140,727	(35,019,310)
<b>Operating profit</b>	<b>5,730,060</b>	-	<b>5,730,060</b>

Management considered materiality and concluded that it was sufficient for an entity to present this information in those notes that have been impacted by this reclassification. No changes were made to the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity and the Cash Flow Statement, as the change in presentation in the Consolidated Statement of Comprehensive Income did not affect these statements.

**Note 3. 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 judgements 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 judgements, apart from those involving estimates, in applying accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that could cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

**Provision for impairment of accounts receivable.** Provision for impairment of accounts receivable is based on the Group's assessment of whether the collectability of specific customer accounts has deteriorated compared to prior estimates. If there is deterioration (improvement) in a major customer's creditworthiness or actual defaults are higher (lower) than the estimates, the actual results could differ from those estimates reported in these consolidated financial statements (see Note 9).

**Tax contingencies.** Russian tax legislation is subject to varying interpretations and changes, which can occur frequently. Where 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 IFRS financial statements.

**Useful lives of property, plant and equipment.** The estimation of the useful lives of an item of property, plant and equipment is a matter of management judgement based on experience with similar assets. In determining the useful life of an asset, management considers existing industry practices, 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.

**Note 4. Adoption of New or Revised Standards and Interpretations**

**(a) Standards effective for annual periods beginning on or after 1 January 2010**

The following new standards and interpretations became effective for the Group from 1 January 2010:

**IFRIC 17, Distributions of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009).** The interpretation clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets should be recognised in profit or loss when the entity settles the dividend payable. IFRIC 17 did not have an impact on these financial statements, as the Group has not distributed non-cash assets to its owners.

**IFRIC 18, Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009).** The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. IFRIC 18 did not have an impact on these financial statements, as the Group did not receive any assets (property plant and equipment) from its customers.

**IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009).** The revised IAS 27 requires an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interest") even if this results in the non-controlling interests having a deficit balance (the previous standard required the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary.



At the date when control is lost, any investment retained in the former subsidiary has to be measured at its fair value. The change in IAS 27 did not materially affect the financial statements as the results of the non-controlling interests are not material, furthermore there were no changes in parent's ownership interest.

**IFRS 3, Business Combinations** (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 allows entities to choose to measure non-controlling interests using the previous IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer has to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss for the year. Acquisition-related costs are accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer has to recognise a liability for any contingent purchase consideration at the acquisition date. Changes in the value of that liability after the acquisition date are recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The revised IFRS 3 did not have an impact on these financial statements, as there were no business combinations during the reporting period.

**Group Cash-settled Share-based Payment Transactions - Amendments to IFRS 2, Share-based Payment (effective for annual periods beginning on or after 1 January 2010).** The amendments provide a clear basis to determine the classification of share-based payment awards in both consolidated and separate financial statements. The amendments incorporate into the standard the guidance in IFRIC 8 and IFRIC 11, which are withdrawn. The amendments expand on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation. The amendments also clarify the defined terms in the Appendix to the standard. The amendments did not have an impact on these financial statements, as the Group did not have share based payment awards in the reporting period.

**Eligible Hedged Items—Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after 1 July 2009).** The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The Group's accounting policy is in compliance with the principles.

**IFRS 1, First-time Adoption of International Financial Reporting Standards** (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009). The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The revised standard did not have an impact on these financial statements, as the Group is not a first time adopter of IFRS.

**Additional Exemptions for First-time Adopters - Amendments to IFRS 1, First-time Adoption of IFRS** (effective for annual periods beginning on or after 1 January 2010). The amendments exempt entities using the full cost method from retrospective application of IFRSs for oil and gas assets and also exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4, 'Determining Whether an Arrangement Contains a Lease' when the application of their national accounting requirements produced the same result. The amendments did not have an impact on these financial statements, as the Group is not a first time adopter of IFRS.

**Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010).**

The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations:

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- clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2, this amendment did not affect the Group as there were no such transactions;
- clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations, this amendment did not affect the Group as there were no assets / disposal groups classified as held for sale;
- requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker, this amendment was adopted by the Group, refer to Note 24 Segment information;
- amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current, this amendment did not affect the Group as it does not have such liabilities;
- changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities, the Group is in compliance with this improvement;
- allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease, this amendment was taken into account, however the Group does not have long-term land leases which can be classified as finance lease in accordance with this improvement;
- providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent, this guidance does not relate to the Group's operations;
- clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation, this amendment does not affect the Group as the cash generating units identified by the Group are not larger than the operating segment before aggregation;
- supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination, this amendment did not affect the Group as the Group did not have a business combinations in the reporting period;
- amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss for the year and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender. The accounting policy applied for reclassifying gains and losses from hedging is consistent with this amendment; other amendments did not affect the Group;
- amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope, this amendment did not affect the Group as the Group did not engage in such transactions;
- removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged, this amendment did not affect the Group as the Group does not have foreign operations;
- in addition, the amendments clarifying classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary, published as part of the Annual Improvements to International Financial Reporting Standards, which were issued in May 2008, are effective for annual periods beginning on or after 1 July 2009.

**New accounting pronouncements**

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2011 or later and which the Group has not early adopted.

**IFRS 9, Financial Instruments Part 1: Classification and Measurement.** IFRS 9 issued in November 2009 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities. Key features of the standard are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated as at fair value through profit or loss in other comprehensive income.

While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

**Classification of Rights Issues - Amendment to IAS 32 (issued on 8 October 2009; effective for annual periods beginning on or after 1 February 2010).** The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives. The Group does not expect the amendment to have any material effect on its financial statements, as the Group does not have shares with proceeds denominated in foreign currencies.

**Amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011).** IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. The Group does not expect the amendments to have any material effect on its financial statements.

**IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010).** This IFRIC clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in profit or loss based on the fair value of the equity instruments compared to the carrying amount of the debt. The Group does not expect IFRIC 19 to have any material effect on its financial statements, as the Group does not use equity instruments to extinguish financial liabilities.

**Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14 (effective for annual periods beginning on or after 1 January 2011).** This amendment will have a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan. It removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement. The Group does not expect the amendments to have any material effect on its financial statements.

**Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011).** The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations:

- IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements;
- IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3;
- IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period;
- IAS 1 was amended to clarify the requirements for the presentation and content of the statement of changes in equity;
- IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008);
- IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments;
- IFRIC 13 was amended to clarify measurement of fair value of award credits.

The Group does not expect the amendments to have any material effect on its financial statements.

**Limited exemption from comparative IFRS 7 disclosures for first-time adopters - Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2010).** Existing IFRS preparers were granted relief from presenting comparative information for the new disclosures required by the March 2009 amendments to IFRS 7, Financial Instruments: Disclosures. This amendment to IFRS 1 provides first-time adopters with the same transition provisions as included in the amendment to IFRS 7. The Group does not expect the amendment to have any effect on its financial statements, as the Group is not a first time adopter.

**Disclosures—Transfers of Financial Assets – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011).** The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the

effects of those risks to be understood. The Group is currently assessing the impact of the amended standard on disclosures in its financial statements.

**Recovery of Underlying Assets – Amendments to IAS 12** (issued in December 2010 and effective for annual periods beginning on or after 1 January 2012). The amendment introduced a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. SIC-21, Income Taxes – Recovery of Revalued Non-Depreciable Assets, which addresses similar issues involving non-depreciable assets measured using the revaluation model in IAS 16, Property, Plant and Equipment, was incorporated into IAS 12 after excluding from its scope investment properties measured at fair value. The Group does not expect the amendment to have any material effect on its financial statements, as the Group does not have investment property.

**Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters – Amendments to IFRS 1** (issued in December 2010 and effective for annual periods beginning on or after 1 July 2011). The amendment regarding severe hyperinflation creates an additional exemption when an entity that has been subject to severe hyperinflation resumes presenting or presents for the first time, financial statements in accordance with IFRS. The exemption allows an entity to elect to measure certain assets and liabilities at fair value; and to use that fair value as the deemed cost in the opening IFRS statement of financial position. The IASB has also amended IFRS 1 to eliminate references to fixed dates for one exception and one exemption, both dealing with financial assets and liabilities. The first change requires first-time adopters to apply the derecognition requirements of IFRS prospectively from the date of transition, rather than from 1 January 2004. The second amendment relates to financial assets or liabilities where the fair value is established through valuation techniques at initial recognition and allows the guidance to be applied prospectively from the date of transition to IFRS rather than from 25 October 2002 or 1 January 2004. This means that a first-time adopter may not need to determine the fair value of certain financial assets and liabilities at initial recognition for periods prior to the date of transition. IFRS 9 has also been amended to reflect these changes. The Group does not expect the amendment to have any effect on its financial statements, as the Group is not a first time adopter.

**IFRS 10, 'Consolidated financial statements'** builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements. The standard provides additional guidance to assist in determining control where this is difficult to assess. This new standard might impact the entities that a group consolidates as its subsidiaries. The Group does not expect the change to have a material impact on its financial statements.

**IFRS 11, 'Joint arrangements'** provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. The Group does not expect any impact on its financial statements as the Group does not have joint arrangements.

**IFRS 12, 'Disclosure of Interests in Other entities'** is a new standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group does not expect that the changes will have a material effect on the financial statements.

**IAS 27, 'Separate financial statements'** includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10. The Group does not prepare separate financial statements and does not expect any impact of this change.

**IAS 28, 'Investments in associates and joint ventures'** now includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11. The change is

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not expected to have a material impact on the Group, as the Group currently has no participations and joint ventures.

**IFRS 13**, 'Fair value measurement' aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. IFRS 13 is effective for annual periods beginning on or after 1 January 2013. The Group is current assessing the impact of this change.

**Note 5. Related parties**

E.ON AG is ultimate parent and ultimate controlling party of the Group. E.on AG is widely held. The Group's immediate parent is E.ON Russia Holding GmbH.

The Group had the following transactions and balances with ultimate parent and other entities under common control:

Accounts receivable from related parties:

	At 31 December 2010	At 31 December 2009
E.ON AG	5,677	-
OOO E.ON Russia Power	4,176	6,006
E.ON Ruhrgas AG	1,098	-
E.ON Ruhrgas E & P Russia	1,001	-
E.ON Russia	967	-
E.ON Risk Consulting GmbH	-	2,566
<b>Total</b>	<b>12,919</b>	<b>8,572</b>

Accounts payable and accruals to related parties:

	At 31 December 2010	At 31 December 2009
OOO E.ON Russia Power	67,976	16,314
OOO E.ON IS	11,238	-
OOO E.ON Russia	10,816	-
E.ON AG	3,505	4,916
E.ON AG -Academy	3,297	-
<b>Total</b>	<b>96,832</b>	<b>21,230</b>

The Group's proceeds from the sales of services to related parties amounted to (VAT excluded):

	Year ended 31 December 2010	Year ended 31 December 2009
OOO E.ON Russia Power	3,539	17,047
OOO E.ON Russia	2,684	-
E.ON Ruhrgas AG	930	-
OOO E.ON Ruhrgas E & P Russia	848	-
<b>Total</b>	<b>8,001</b>	<b>17,047</b>

Services and works performed by the related parties for the Group, PPE acquired (VAT excluded):

	Year ended 31 December 2010	Year ended 31 December 2009
OOO E.ON Russia Power	71,194	13,825
OOO E.ON Russia	44,633	-
OOO E.ON IS	11,238	-
E.ON Risk Consulting GmbH	6,465	-
E.ON Kraftwerke GmbH	5,520	-

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	<b>Year ended 31 December 2010</b>	<b>Year ended 31 December 2009</b>
E.ON AG -Academy	4,013	-
E.ON AG	-	16,569
<b>Total</b>	<b>143,063</b>	<b>30,394</b>

On 30 November 2010 the Group provided a loan to E.ON AG in amount of RUB 1,750,000 thousand with pay-back period to 01 November 2011. In the period from 30 November 2010 to 31 December 2010 interest rate was of 3.7% per annum. During the reporting period interest amounted to RUB 5,677 thousand.

***Directors' compensation***

Members of the Company's Management Board receive compensation for their services in full-time management positions. Compensation is made up of a contractual salary, non-cash benefits and a performance bonus depending on results for the period according to the Russian statutory financial statements.

Members of the Board of Directors receive fees and compensation for their services and for attending board meetings depending on results for the year.

Total remuneration in the form of salary and bonuses paid to the members of the Board of Directors and Management Board for the year ended 31 December 2010 was RUB 150,598 thousand (31 December 2009: RUB 155,574 thousand).

	<b>Year ended 31 December 2010</b>	<b>Year ended 31 December 2009</b>
Short-term employee benefits	116,168	144,388
Termination benefits	34,430	10,532
Post-employment benefits	-	654
<b>Total</b>	<b>150,598</b>	<b>155,574</b>

In April 2009 loan in amount of RUB 8,408 thousand has been given to the General Director of the Company. In April 2010 the loan has been fully repaid ahead of schedule including interest.

***Employee remuneration in the form of share purchase options***

On 21 September 2007 the Board of Directors approved the OAO OGK-4 Stock Option Program – the Share Option Plan (the "Plan"), including that 859,785,942 ordinary shares be distributed under the Plan, which comprised 1.75% of the total amount of the Group's placed ordinary shares.

During 2007 43 agreements were concluded with Plan participants, but a number of participants cancelled their agreements in the fourth quarter of 2008. All other agreements were cancelled in the third quarter of 2009. As a consequence the Group recorded the expenses associated with options granted to employees (including accelerated expenses on cancellations) in the amount of RUB 18,360 thousand in 2009. In 2010 no transactions occurred.

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**Note 6. Property, plant and equipment**

<b>Cost</b>	<b>Land</b>	<b>Electricity and heat generation</b>	<b>Electricity distribution</b>	<b>Heating network</b>	<b>Construction in progress</b>	<b>Other</b>	<b>Total</b>
<b>Opening balance as at 1 January 2010</b>	<b>50,226</b>	<b>33,895,128</b>	<b>659,479</b>	<b>710,487</b>	<b>41,818,336</b>	<b>11,216,687</b>	<b>88,350,343</b>
Additions	17,690	709,784	-	4,544	16,247,186	269,584	17,248,788
Transfers	-	13,185,477	237,514	32,970	(15,741,275)	2,285,314	-
Disposals	-	(102,889)	-	-	(23 179)	(427,742)	(553,810)
<b>Closing balance as at 31 December 2010</b>	<b>67,916</b>	<b>47,687,500</b>	<b>896,993</b>	<b>748,001</b>	<b>42,301,069</b>	<b>13,343,843</b>	<b>105,045,321</b>

**Accumulated depreciation (including impairment)**

<b>Opening balance as at 1 January 2010</b>	<b>-</b>	<b>14,644,922</b>	<b>621,631</b>	<b>377,736</b>	<b>-</b>	<b>7,996,371</b>	<b>23,640,660</b>
Charge for the period	-	1,576,000	13,577	44,698	-	568,190	2,202,465
Impairment loss	-	53,745	-	-	-	-	53,745
Disposals	-	(41,797)	-	-	-	(409,436)	(451,233)
<b>Closing balance as at 31 December 2010</b>	<b>-</b>	<b>16,232,870</b>	<b>635,208</b>	<b>422,434</b>	<b>-</b>	<b>8,155,125</b>	<b>25,445,637</b>
<b>Net book value as at 31 December 2009</b>	<b>50,226</b>	<b>19,250,206</b>	<b>37 848</b>	<b>332,751</b>	<b>41,818,336</b>	<b>3,220,316</b>	<b>64,709,683</b>
<b>Net book value as at 31 December 2010</b>	<b>67,916</b>	<b>31,454,630</b>	<b>261,785</b>	<b>325,567</b>	<b>42,301,069</b>	<b>5,188,717</b>	<b>79,599,684</b>



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Cost	Land	Electricity and heat generation	Electricity distribution	Heating network	Construction in progress	Other	Total
<b>Opening balance as at 1 January 2009</b>	<b>6,341</b>	<b>32,441,317</b>	<b>647,034</b>	<b>691,651</b>	<b>24,102,503</b>	<b>10,831,365</b>	<b>68,720,211</b>
Additions	-	604,863	-	-	18,916,028	159,965	19,680,856
Transfers	43,885	853,474	12,868	18,836	(1,195,518)	266,455	-
Disposals	-	(4,526)	(423)	-	(4,677)	(41,098)	(50,724)
<b>Closing balance as at 31 December 2009</b>	<b>50,226</b>	<b>33,895,128</b>	<b>659,479</b>	<b>710,487</b>	<b>41,818,336</b>	<b>11,216,687</b>	<b>88,350,343</b>
<b>Accumulated depreciation (including impairment)</b>							
<b>Opening balance as at 1 January 2009</b>	-	<b>13,088,591</b>	<b>617,741</b>	<b>333,183</b>	-	<b>7,356,641</b>	<b>21,396,156</b>
Charge for the period	-	1,525,856	4,273	44,553	-	673,258	2,247,940
Impairment loss	-	32,229	-	-	-	-	32,229
Disposals	-	(1,754)	(383)	-	-	(33,528)	(35,665)
<b>Closing balance as at 31 December 2009</b>	-	<b>14,644,922</b>	<b>621,631</b>	<b>377,736</b>	-	<b>7,996,371</b>	<b>23,640,660</b>
<b>Net book value as at 31 December 2008</b>	<b>6,341</b>	<b>19,352,726</b>	<b>29,293</b>	<b>358,468</b>	<b>24,102,503</b>	<b>3,474,724</b>	<b>47,324,055</b>
<b>Net book value as at 31 December 2009</b>	<b>50,266</b>	<b>19,250,206</b>	<b>37,848</b>	<b>332,751</b>	<b>41,818,336</b>	<b>3,220,316</b>	<b>64,709,683</b>

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**Note 6. Property, plant and equipment (continued)**

Construction in progress represents the carrying amount of property, plant and equipment that is not yet available for use in production. The increase of construction in progress in 2010 (and in 2009) is connected with fulfilment of the investment program (primarily building four new blocks on Shaturuskaya GRES, Surgutskaya GRES-2, Berezovskaya GRES and Yayvinskaya GRES).

In October 2010 the power unit CCGT-400 on Shaturuskaya GRES was commissioned, which resulted in a transfer of RUB 14,970,716 thousand from construction in progress to completed assets. The construction of CCGT-400 started in the second quarter of 2008. The project was executed by consortium of General Electric International and GAMA Guch Sistemler.

Other property, plant and equipment include auxiliary production equipment, motor vehicles, computer equipment, office fixtures and other equipment.

**Operating lease**

The OAO OGK-4 leases a number of pieces of land owned by local governments under operating leases. Land lease payments are determined by lease agreements.

Operating lease charges are payable as follows:

	At 31 December 2010	At 31 December 2009
Less than one year	42,317	58,622
Between one and five years	122,543	226,908
More than five years	1,291,161	2,014,526
<b>Total</b>	<b>1,456,021</b>	<b>2,300,056</b>

OAO OGK-4 leases the land on which its electric power stations and other assets are located. Leases typically run for an initial period of 1–49 years, with an option to further extend the lease. Lease payments are subject to regular review.

**Impairment provision for property, plant and equipment**

The impairment provision included in the accumulated depreciation balance as at 31 December 2010 was RUB 281,000 thousand (as at 31 December 2009: RUB 259,859 thousand).

As at 31 December 2010 a loss from the impairment of fixed assets as a result of the changes in the regulation was considered possible. The Group has evaluated assets' recoverable amounts. The results of this evaluation showed that the Group did not have any additional losses from impairment of fixed assets apart from impairment of individual asset in amount of RUB 53,745 thousands.

**Note 7. Intangible assets**

	Computer software	Licences	Total
<b>Cost</b>			
Opening balance as at 1 January 2010	786,687	3,369	790,056
Additions	79,028	43,332	122,360
Disposals	(62,595)	(1,922)	(64,517)
<b>Closing balance as at 31 December 2010</b>	<b>803,120</b>	<b>44,779</b>	<b>847,899</b>
<b>Accumulated amortisation</b>			
Opening balance as at 1 January 2010	340,188	2,189	342,377
Charge for the period	134,031	5,493	139,524
Impairment	3,209	-	3,209
Disposals	(62,595)	(1,921)	(64,517)
<b>Closing balance as at 31 December 2010</b>	<b>414,833</b>	<b>5,761</b>	<b>420,593</b>

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	Computer software	Licences	Total
Net book value as at 31 December 2009	446,499	1,180	447,679
Net book value as at 31 December 2010	388,287	39,018	427,306

	Computer software	Licences	Total
<b>Cost</b>			
Opening balance as at 1 January 2009	741,643	2,398	744,041
Additions	78,153	1,138	79,291
Disposals	(33,109)	(167)	(33,276)
Closing balance as at 31 December 2009	786,687	3,369	790,056
<b>Accumulated amortisation</b>			
Opening balance as at 1 January 2009	92,558	813	93,371
Charge for the period	102,056	1,543	103,599
Impairment	178,683	-	178,683
Disposals	(33,109)	(167)	(33,276)
Closing balance as at 31 December 2009	340,188	2,189	342,377
Net book value as at 31 December 2009	446,499	1,180	447,679

**Note 8. Inventories**

Breakdown of inventories:

	At 31 December 2010	At 31 December 2009
Fuel production supplies	998,658	1,271,671
Materials and supplies	439,196	316,797
Other inventories	4,105	185,889
Provision for impairment of inventory	(32,483)	(75,006)
<b>Total</b>	<b>1,409,476</b>	<b>1,699,351</b>

**Note 9. Accounts receivable and prepayments**

	At 31 December 2010	At 31 December 2009
<b>Trade and other receivables</b>		
Trade receivables	2,912,024	2,543,571
Other financial receivables	114,279	96,908
Less impairment loss provision	(675,384)	(654,572)
<b>Total financial assets within trade and other receivables</b>	<b>2,350,919</b>	<b>1,985,907</b>
VAT recoverable	4,517,323	5,177,472
Due from budget (excluding VAT)	11,545	8,295
Prepayments	101,784	356,401
<b>Total account receivable and prepayments</b>	<b>6,981,571</b>	<b>7,528,075</b>

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Management has determined the impairment provision for accounts receivable based on specific customers' credit history, customer payment trends, the outlook for payments and settlements, and analyses of expected future cash flows. Management believes that Group will be able to realise the net receivable amount through direct collections and other non-cash settlements and that therefore the recorded value approximates the fair value.

The above accounts receivable and prepayments include amounts receivable from related parties (see Note 5).

**Note 10. Short-term financial assets**

During the reporting period the Group has used the funds previously placed on deposits as the result of an additional share issue which took place in 2007 to fund its investment program. Deposits were placed in OAO Sberbank (Moody's credit rating Baa1), OAO Vneshtorgbank (Moody's credit rating Baa1), AB Gazprombank (ZAO) (Moody's credit rating Baa3) and ZAO Unicreditbank (Fitch credit rating BBB+). The interest on these short-term deposits is fixed and, therefore, exposed to the risk of changes in market interest rates.

During 2010 the Group received non-interest bearing banking promissory notes as a settlement of customer debt for electricity and capacity sold (mainly to OAO Kalmenergosbyt, OAO Karachayevo-Cherkesskenergo, OAO Kabbalkenergo, OAO Sevkavkazenergo, OAO Dagestan ESK and OAO Ingushenergo, OAO Nizhnovatomenergosbyt). These promissory notes initially are recognized at their fair value as at the date of purchase. The fair values of these promissory notes were determined based on repayment dates and discount rates (using the average rate received on RUB deposits opened during 2010). The effect of discounting of these promissory notes reduced revenues by RUB 13,025 thousand in 2010 (in 2009 – by RUB 11,970 thousand). The interest income from unwinding of the discounting is reflected in finance income. In 2010 the related finance income was RUB 24,202 thousand (in 2009 – RUB 7,492 thousand).

Name	Effective interest rate, %	Closing balance as at 31 December 2010 (hard currency, thousand)	Closing balance as at 31 December 2010 (RUB, thousand)	Closing balance as at 31 December 2009 (hard currency, thousand)	Closing balance as at 31 December 2009 (RUB, thousand)
<b>Total short-term deposits</b>			<b>12,042,054</b>		<b>16,997,102</b>
Short-term deposits in US Dollar	0.10-1.80	21,335	650,228	68,725	2,078,520
Short-term deposits in Euro	0.1-7.30	-	-	201,798	8,755,683
Short-term deposits in Rouble	0.50-8.05	-	11,391,826	-	6,162,899
<b>Total promissory notes</b>	-	-	<b>376,723</b>	-	<b>134,464</b>
<b>Total foreign exchange forwards and option</b>	-	-	<b>129,131</b>	-	-
<b>Total loans issued to E.ON AG (see note 5)</b>	3.7	-	<b>1,750,000</b>	-	-
<b>Total short-term financial assets</b>	-	-	<b>14,297,908</b>	-	<b>17,131,566</b>

**Note 11. Equity**

The Group was formed through the combination of a number of businesses under common control. Because the predecessor basis of accounting (see Note 2) was applied, the majority of the net equity recognised for the Group is based on the historic carrying value of the net assets contributed, as recorded in the IFRS financial records of the predecessor enterprises, rather than the fair values of those assets. Since the Group was formed as a result of a series of share issues, the equity statement reflects additions to the share capital equal to the statutory nominal value of the shares issued.

In the third quarter of 2008, as a result of the takeover of OGK-4 Holding, the Group received OAO Rushydro shares and classified them as financial assets available for sale. Those shares are reflected

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at the fair value based on market quotation. Changes in fair value are reflected in other comprehensive income.

The actuarial gains and losses, cash flow hedges and fair value gain/ (loss) on available for sale financial assets are reflected in other reserves. For details of cash flow hedge applied by the Group starting from 1 January 2009 see Note 2 and Note 22.

Each component of other comprehensive income, including current and deferred tax effects, are represented in the table below:

<i>In thousands of Russian Roubles</i>	2010			2009		
	Before-tax amount	Income tax (expense) / benefit	Net-of-tax amount	Before-tax amount	Income tax (expense) / benefit	Net-of-tax amount
Available-for-sale financial assets revaluation	(15,307)	-	(15,307)	(37,830)	-	(37,830)
Actuarial gains / (losses)	42,291	(8,458)	33,833	146,210	(29,242)	116,968
Cash flow hedges	944,651	(188,930)	755,721	1,359,568	(271,914)	1,087,654
<b>Other reserves</b>	<b>971,635</b>	<b>(197,388)</b>	<b>774,247</b>	<b>1,467,948</b>	<b>(301,156)</b>	<b>1,166,792</b>

**Share capital**

The share capital consists of 63,048,706,145 shares with nominal-value of 0.40 roubles and equals to RUB 25,219,482 thousand. There were no changes in share capital in 2010 and 2009.

**Dividends**

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

**Note 12. Pension liabilities**

The tables below provide information on defined benefit obligations, pension expense, plan assets and actuarial assumptions used for the twelve months ended 31 December 2010, 31 December 2009. Amounts recognised in the Consolidated Statement of Financial Position:

	At 31 December 2010	At 31 December 2009
Present value of funded obligations	718,106	534,222
Fair value of plan assets	(85,952)	(83,620)
Funded status	632,154	450,602
Present value of unfunded obligations	219,036	220,180
Unrecognised past service cost	(312,783)	(391,534)
<b>Net liability in the Consolidated Statement of Financial Position</b>	<b>538,407</b>	<b>279,249</b>

Amounts recognised as income and expense in the Consolidated Statement of Comprehensive Income:

	Year ended 31 December 2010	Year ended 31 December 2009
Current service cost	46,557	52,226
Interest cost	74,457	91,973
Expected return on plan assets	(8,606)	(6,796)
Amortisation of past service cost	72,354	7,438

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	Year ended 31 December 2010	Year ended 31 December 2009
Curtailment gain	-	(70,000)
Immediate recognition of vested prior service cost	-	-
Other	7,058	-
<b>Net expense recognised in profit and loss</b>	<b>191,820</b>	<b>74,840</b>

Movements in the net liability recognized in the Consolidated Statement of Financial Position are as follows:

	At 31 December 2010	At 31 December 2009
Net liability at start of period	279,249	496,068
Net expense recognized in profit and loss	191,820	74,840
Contributions	(36,581)	(102,821)
Actuarial loss/ (gain) recognized in other comprehensive income	103,919	(188,839)
<b>Net liability at end of period</b>	<b>538,407</b>	<b>279,249</b>

Changes in the present value of the Group's defined benefit obligation are as follows:

	Year ended 31 December 2010	Year ended 31 December 2009
Present value of defined benefit obligations (DBO) at the beginning of the year	754,402	1,037,715
Current service cost	46,557	52,226
Interest cost	74,457	91,973
Actuarial loss/(gain)	95,477	(164,502)
Past service cost	662	(56,972)
Benefits paid	(34,413)	(136,037)
Curtailment gain	-	(70,000)
<b>Present value of defined benefit obligations (DBO) at the end of the year</b>	<b>937,142</b>	<b>754,402</b>

Experience adjustments arose due to experience being different from the assumption applied:

	At 31 December 2010	At 31 December 2009	At 31 December 2008	At 31 December 2007	At 31 December 2006
Present value of defined benefit obligations (DBO)	937,142	754,402	1,037,715	822,503	1,056,910
Fair value of plan assets	(85,952)	(83,620)	(85,703)	(92,114)	-
Deficit in plan	851,190	670,782	952,012	730,389	1,056,910
(Gains)/losses arising of experience adjustments on plan liabilities	(16,796)	(42,272)	(8,148)	(49,088)	285,462
Losses/(gains) arising of experience adjustments on plan assets	8,442	(24,337)	38,351	-	-

Principal actuarial assumptions are as follows:

	At 31 December 2010	At 31 December 2009
Discount rate at 31 December	7.50%	9.50%

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	<b>At 31 December 2010</b>	<b>At 31 December 2009</b>
Expected return on plan assets at 31 December	8.13%	10.16%
Future salary increase	7.08%	7.96%
Future financial support increases	5.5%	6.36%
Staff turnover	2.5%	2.50%
<b>Mortality</b>	Russian population table for 1998	Russian population table for 1998

The movements in the plan assets are as follows:

	<b>Year ended 31 December 2010</b>	<b>Year ended 31 December 2009</b>
At 1 January	83,620	85,703
Expected return on plan assets	8,606	6,796
Actuarial (loss)/gain	(8,442)	24,337
Contributions by employer	36,581	102,821
Payments	(34,413)	(136,037)
<b>At 31 December</b>	<b>85,952</b>	<b>83,620</b>

Contributions expected to be paid to the plan during the annual period beginning after the balance sheet date equals to RUB 80,942 thousand.

The structure of the plan assets:

	<b>At 31 December 2010</b>	<b>At 31 December 2009</b>
Corporate bonds	64,5%	43,5%
Bank deposits	13,4%	18,9%
Share and mutual funds	9,5%	13,9%
Government bonds	6,8%	10,4%
Cash	0,6%	4,5%
Other	5,2%	8,8%

To determine the expected return on plan assets for 2010 the Group assumed that investment return on bonds and bank deposits will be equal to 9.5% pa and investment return on shares and other investments will be equal to 12.5% pa over long term.

**Note 13. Accounts payable and accruals**

	<b>At 31 December 2010</b>	<b>At 31 December 2009</b>
<b>Financial liabilities</b>	<b>4,446,643</b>	<b>3,871,537</b>
Trade payables	1,702,678	1,881,449
Accounts payable to capital construction contractors	2,662,248	1,810,207
Other creditors	73,747	171,575
Dividends payable	7,970	8,306

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<b>Non- financial liabilities</b>	<b>756,022</b>	<b>647,435</b>
Advances from customers	102,323	55,503
Staff payables	653,699	591,932
<b>Total</b>	<b>5,202,665</b>	<b>4,518,972</b>

**Note 14. Taxes payable other than income tax**

	<b>At 31 December 2010</b>	<b>At 31 December 2009</b>
VAT	644,751	879,556
Property tax	164,868	85,549
Employee taxes	10,824	13,505
Other	59,483	60,556
<b>Total</b>	<b>879,926</b>	<b>1,039,166</b>

**Note 15. Income tax**

**Income tax charge**

	<b>Year ended 31 December 2010</b>	<b>Year ended 31 December 2009</b>
Current income tax charge	(2,315,613)	(1,991,976)
Deferred income tax (charge)/benefit	(16,107)	293,311
<b>Total</b>	<b>(2,331,720)</b>	<b>(1,698,665)</b>

During the year ended 31 December 2010 the Group entities were subject to income tax at the following rates on taxable profits:

- 20% for Smolenskaya GRES, Berezovskaya GRES, TS BGRES branches and Moscow representative office of OAO "OGK-4";
- 19.17% for Shaturskaya GRES branch (according to art. 11 of the Moscow Region Law of Tax Benefits #151/2004-OZ dated 24 November 2004);
- 18% for Surgutskaya GRES branch (according to art. 2.1. HMAO-Yugra Law of the part of corporate income tax rates to be paid to HMAO-Yugra budget # 65-OZ dated 30 November 2004);
- 15.5 % for Yajvinskaya GRES branch (according to the art. 15 Perm Region Tax Law # 1685 dated 16 August 2001).

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

	<b>Year ended 31 December 2010</b>	<b>Year ended 31 December 2009</b>
<b>Profit before income tax</b>	<b>12,582,275</b>	<b>7,213,876</b>
Theoretical tax charge at the statutory tax rate (20% for the year ended 31 December 2010 and 2009)	(2,516,455)	(1,442,775)
Non deductible income/ (expenses)	16,735	(255,890)
Tax effect of local reductions in tax rate	168,000	-



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<b>Total income tax charge</b>	<b>(2,331,720)</b>	<b>(1,698,665)</b>
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**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 tax assets and liabilities are measured at the rate applicable when the temporary differences reverse, which is expected to be 20% as of 31 December 2010 and 31 December 2009. The Group received tax reductions for its stations, but due to the fact that the Group has insufficient evidence that those reductions will be sustained for the longer term the Group has applied statutory rate to reflect its deferred tax assets and liabilities.

Deferred tax assets/(liabilities) calculated on the temporary differences for balance sheet items are as follows:

	<b>At 31 December 2010</b>	<b>Movement for the year 2010 recognised in profit and loss</b>	<b>Movement for the year 2010 recognised in other comprehensive income</b>	<b>At 31 December 2009</b>
Property, plant and equipment	(2,852,289)	(326,910)	-	(2,525,380)
Accounts payable and other accruals	373,092	253,233		119,859
Pension liabilities	107,681	31,048	20,784	55,850
Trade receivables	20,019	35,003	-	(14,984)
Other (including derivatives)	2,226	(8,481)	(6,825)	17,533
<b>Net deferred tax liability at the end of the year</b>	<b>(2,349,270)</b>	<b>(16,106)</b>	<b>13,959</b>	<b>(2,347,122)</b>

	<b>At 31 December 2009</b>	<b>Movement for the year 2009 recognised in profit and loss</b>	<b>Movement for the year 2009 recognised in other comprehensive income</b>	<b>At 31 December 2008</b>
Property, plant and equipment	(2,525,380)	282,790	-	(2,808,170)
Accounts payable and other accruals	119,859	50,162	-	69,697
Pension liabilities	55,850	(5,893)	(37,763)	99,506
Trade receivables	(14,984)	(57,542)	-	42,558
Other	17,533	23,794	-	(6,261)
<b>Net deferred tax liability at the end of the year</b>	<b>(2,347,122)</b>	<b>293,311</b>	<b>(37,763)</b>	<b>(2,602,670)</b>

**Note 16. Revenues and other operating income**

**Revenues**

	<b>Year ended</b>	<b>Year ended</b>
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	<b>31 December 2010</b>	<b>31 December 2009</b>
Electricity and capacity	48,470,846	39,078,014
Heat	1,074,390	942,241
Other	776,641	729,115
<b>Total</b>	<b>50,321,877</b>	<b>40,749,370</b>

The revenue for 2009 was adjusted with RUB 2,140,727 thousand. This adjustment is described in Note 2.

**Other operating income**

	<b>Year ended 31 December 2010</b>	<b>Year ended 31 December 2009</b>
Penalties from other market participants	75,524	246,536
Gain on PPE disposal	34,386	-
Gain from legal provision reversal	52,739	-
Gain from inventory provision reversal	42,523	-
Prior year income	41,333	14,080
Insurance reimbursement	546	185,087
Gain on VAT reimbursement	-	94,672
Other	122,674	57,936
<b>Total</b>	<b>369,725</b>	<b>598,311</b>

**Note 17. Operating expenses**

	<b>Year ended 31 December 2010</b>	<b>Year ended 31 December 2009</b>
Fuel	26,194,149	22,770,914
Employee benefits	3,711,590	3,490,181
Depreciation and amortisation	2,339,759	2,349,189
Repairs and maintenance	1,279,259	1,076,729
Purchased power and electricity	1,179,573	1,405,423
Operational dispatch management	723,336	741,251
Taxes other than income tax	560,104	521,754
Security	284,760	250,718
Water usage expenses	214,397	213,221
Raw materials and supplies	177,605	238,399
Lease payments, including rent expenses	134,792	201,463
Loss on disposals of PPE	-	3,054
Insurance cost	84,834	125,472
Transportation expenses	87,297	92,944
Sponsoring	36,139	18,852
Provision for impairment of accounts receivable	21,178	276,252
Bank services	11,839	9,149
Other expenses	1,417,093	1,234,345
<b>Total</b>	<b>38,457,704</b>	<b>35,019,310</b>

Employee benefits expenses comprise the following:

	<b>Year ended</b>	<b>Year ended</b>
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	31 December 2010	31 December 2009
Salaries and wages, payroll taxes	3,251,603	3,021,005
Pension costs - Defined contributions plans (including state plan)	306,645	278,884
Termination benefits	34,430	112,268
Pension costs - defined benefit plans	118,912	59,664
Share options granted to directors and employees	-	18,360
<b>Employee benefits</b>	<b>3,711,590</b>	<b>3,490,181</b>

**Note 18. Finance income and expense**

**Finance income**

	Year ended 31 December 2010	Year ended 31 December 2009
Interest income (deposits and cash)	449,808	928,403
Foreign exchange gains	238,813	619,494
Other interest income	29,444	7,923
<b>Total</b>	<b>718,065</b>	<b>1,555,820</b>

**Finance expense**

	Year ended 31 December 2010	Year ended 31 December 2009
Foreign exchange losses	269,388	561,973
Effect of liability discounting	96,111	87,279
Interest expense	4,189	21,063
<b>Total</b>	<b>369,688</b>	<b>670,315</b>

**Note 19. Basic and diluted earnings per share payable to shareholders of OAO OGK-4**

Basic earning per share is calculated by dividing the net profit attributable to the Group's shareholders by the weighted average amount of ordinary shares in circulation, excluding treasury stock.

	Year ended 31 December 2010	Year ended 31 December 2009
Net weighted average number of ordinary shares issued during the year	63,048,706,145	63,048,706,145
Profit attributable to the shareholders of OAO OGK-4 (RUB thousand)	10,248,820	5,515,436
<b>Earnings per ordinary share for profit attributable to the shareholders of OAO OGK-4 – basic and diluted (in RUB)</b>	<b>0.163</b>	<b>0.087</b>

In 2010 and 2009 the Group did not have contracts with potential dilutive effect.

**Note 20. Commitments**

**Sales commitments.** The Group sells electricity in the two wholesale market sectors: the free trading sector and the regulated trading sector.

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The Group has entered into a number of annual electricity sales agreements with ZAO Centre for Financial Settlements and retail companies.

In accordance with the agency contract, between the Group, ZAO «ZFR», OAO «System Operator», OAO «ATS» and NP «Soviet rynka», the Group has concluded capacity contracts for the wholesale market (DPM contracts).

**Fuel commitments.** The Group concluded a number of contracts for fuel commitments (natural gas, fuel oil and coal).

The principal suppliers of natural gas and coal: OAO Surgutneftegaz, OAO Novatek, OOO Smolenskrengiongaz, OOO Permregiongaz, OOO Mosregiongaz, OOO Gazenergoprom and OAO Siberian Coal and Energy Group. Agreements with these suppliers were concluded for a term of five years.

The price of fuel is determined for one year. The total amount of contracts concluded with gas suppliers for 2011 near 2010 year end is RUB 27,142,648 thousand (for 2010 near 2009 year end – RUB 24,297,570 thousand), with coal suppliers – RUB 2,769,334 thousand (for 2010 – RUB 3,477,520 thousand), with fuel oil suppliers (for 2010 – RUB 18,710 thousand, all VAT exclusive). Contracts on delivery of fuel oil for 2011 were not concluded due to presence of essential stock.

**Capital commitments** At 31 December 2010 the Group has contractual capital expenditures commitments in respect of property, plant and equipment totalling RUB 18,711,853 thousand (2009: RUB 17,781,000 thousand). A significant part of contractual capital expenditures commitments in respect of property, plant and equipment as of 31 December 2010 is expressed in US dollars and Euro. Also in accordance with signed contracts on the supply of electric capacity on the wholesale market OAO OGC-4 has to conclude a number of additional contracts for the finalisation of the investment program. The total amount of the capital expenditure commitments expected to be concluded for finalisation of investment program is assessed to be approximately RUB 43,823,110 thousand.

#### **Note 21. Contingencies**

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

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

**Social obligations.** The Group has a responsibility to the regions where it operates to contribute to the development of favourable living conditions, create jobs and minimise harm to the environment. It also has a responsibility to the public and governmental authorities to pay taxes, support important public initiatives, and participate in the social and economic development of the regions.

Following the principles of corporate citizenship, the Group believes it is important to make a contribution to the development of the regions where it has a presence. To this end, the Group actively participates in funding social and charity programmes to support vulnerable segments of society – first and foremost, children and pensioners. Particular attention is paid to the development of educational programmes for schoolchildren and students. Various sporting events are also supported.

The Group continues the traditions of the power plants which came under its control: aiding different organisations, public associations and individuals in the regions in which they operate. The Group spent RUB 40,964 thousand on these programmes in 2010 (in 2009 - RUB 5,531 thousand).

**Legal proceedings.** Group entities are party to certain legal proceedings arising in the ordinary course of business. In the opinion of management, the current legal proceedings and claims listed below could not have a material effect on the financial position of the Group.

The Group has created a provision in relation to lawsuits where the risk of negative outcome is assessed as high in amount of RUB 19,936 thousands as of 31 December 2010 (as of 31 December

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2009 - in the amount of RUB 70,457 thousands).

As at the date of issuing these consolidated financial statements, management believes that it has adequately provided for all significant probable losses that may result from any lawsuits being asserted and contested.

**Tax contingencies.** Russian tax, currency and customs law is subject to varying interpretation 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 regional and federal authorities. In particular, the method for accounting of water tax and also operations with a number of counterparties of the Group in years 2008-2010 may be challenged. In addition, tax and other legislation do not specifically address all of the aspects of the Group's reorganisation resulting from power industry reform. As such, there may be tax and legal challenges to the various interpretations, transactions and resolutions that were a part of the reorganisation and reform process.

The Russian tax authorities may be taking a more assertive and sophisticated approach in their interpretation of the legislation and tax examinations. This includes the following guidance from the Supreme Arbitration Court for anti-avoidance claims based on reviewing the substance and business purpose of transactions. Combined with a possible increase in tax collection efforts to respond to budget pressures, the above may lead to an increase in the level and frequency of scrutiny by the tax authorities. In particular, it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods for three calendar years proceeding the year of review remain open to review by the tax authorities. Under certain circumstances a review may cover longer periods. No detailed disclosure has been made regarding the above contingencies and possible financial effect of potential claims or disputes on these matters, so as not to prejudice seriously the position of the Group.

As of 31 December 2010, management believes that its interpretation of the relevant law is appropriate and that the Group's position is sustainable as it relates to application of tax, currency and customs legislation.

**Environmental matters.** The Group's entities and their predecessor entities have operated in the Russian electric power industry for many years. The enforcement of Russian environmental regulation is evolving, and the position of government authorities on enforcing these regulations is continually being reconsidered.

The Group understands its responsibility for environmental protection and the rational use of natural resources. The Group's operations are directly related to the exploitation of natural resources and have a direct impact on the environment. The Group endeavours to fully understand the impact of its operations on the environment and to minimise any negative effects. The Group periodically evaluates its obligations according to environmental regulations. Any environmental costs related to power generation are assumed by the power plants.

The Group has a large-scale investment programme for new generation facilities using state-of-the-art steam gas technology. The Group intends to keep its impact on the environment to a minimum in implementing its investment programmes.

Potential liabilities might arise as a result of changes in regulations or civil litigation. The impact of these potential changes cannot be reliably estimated but could be material. In the current enforcement climate and under the existing laws, management believes that there are no significant unaccrued liabilities for damage to the environment.

The Company takes active part in the realization of a joint project in accordance with the Article 6 of the Kyoto protocol. In 2010 the construction of the new power unit operating with a highly effective CCGT-400 MW at Shaturskaya GRES was completed. The Shaturskaya GRES CCGT Unit is the first Russian project that received approval of United Nations in the frames of mechanisms of the Kyoto protocol. High effectiveness of the new power is designed to reduce the greenhouse emission by more than 1 mln tons CO<sub>2</sub> for the period 2010 to 2012. In April 2011 the Group has received independent appraiser's report that the project's emission reduction in 2010 comprised 56,904 tons CO<sub>2</sub>, this emission reduction will be reflected in 2011 financial statements when corresponding certificates will be put into practice by the authorized government body of the Russian Federation.

**Note 22. Financial instruments and financial risk factors**

The risk management control function within the Group is carried out by Risk and Finance Committee under the Board of Directors in respect of financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

**Market risks**

**Interest rate risk.**

The Group is significantly not exposed to fair value interest rate risk as the Group does not have significant financial assets and liabilities with fixed interest rates. However the group has interest bearing assets which are exposed to cash flow interest rate risk. The Group's significant interest bearing assets are disclosed in Note 10.

**Currency risk.**

Profit and cash flows from the Group's current operations are largely not dependent on changes in the ruble's exchange rate. Electric and thermal power produced by the Group is sold in Russia and is paid for in rubles, further the associated operational expenditure are to a large extent purchased and paid for in rubles.

The Group does however have commitments in foreign currency as part of its investment program. A hedging strategy was developed and implemented against financial risks related to currency purchases for future investments. The Group also has commitments that are not hedged. The total capital commitments of the Group are disclosed in Note 20.

**Hedge accounting.** Cash flow hedge using deposits in banks in foreign currencies was implemented by the Group since 1 January 2009 in relation to the currency risks related to cash outflows in foreign currencies on investment program. The amount of foreign exchange loss on hedging instrument recognised in other comprehensive income during the period ended 31 December 2010 equals to RUB 539,298 thousand (net of income tax). Upon the commissioning of CCGT-400 in Shaturuskaya GRES in 2010 an amount of RUB 2 mln was recycled from other comprehensive income to the profit and loss.

The cash flow hedge was effective and correspondingly no ineffectiveness was recognised in profit or loss during the reporting period. At the end of the reporting period the funds were fully utilized and therefore the hedge was terminated as per balance sheet date.

Also to reduce the Group's foreign exchange risk exposure (cash flow hedge in period from September 2010 to August 2011), the Group entered in 2010 into derivative financial instrument transactions with OOO Deutsche Bank. Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in foreign exchange rates.

The Group has applied hedge accounting for these forwards and option that were concluded in 2010. The amount of gain on hedging instruments recognised in other comprehensive income during the period ended 31 December 2010 equals to RUB 207,366 thousand (net of income tax). Loss in amount of RUB 64,612 thousand was recorded for ineffective hedges in profit and loss.

No amount were reclassified from other comprehensive income to profit or loss during the reporting period and it is expected that the profit or loss will be affected starting from third quarter 2011. The cash outflow under corresponding contracts are expected also till third quarter 2011.

The table below sets out fair values, at the end of the period, of foreign exchange forward contracts and option:

	At 31 December 2010	
	Assets	Liabilities
<b>Foreign exchange forwards:</b>	<b>101,218</b>	<b>91,429</b>
USD	-	17,442
EURO	101,218	73,987

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<b>Option:</b>	<b>27,913</b>	<b>-</b>
EURO	27,913	-
<b>Total financial instruments</b>	<b>129,131</b>	<b>91,429</b>

The full fair value of foreign exchange forwards and option is classified as short-term financial assets (Note 6) and short-term financial liabilities.

The table below summarises the Group's exposure to foreign currency exchange rate risk:

	At 31 December 2010			At 31 December 2009		
	Monetary financial assets	Monetary financial liabilities	Net balance sheet position	Monetary financial assets	Monetary financial liabilities	Net balance sheet position
Russian Roubles	16,283,388	(3,341,365)	12,942,023	8,766,638	(2,238,288)	6,528,350
US Dollars	652,081	(720,433)	(68,352)	2,078,520	(1,579,548)	498,972
Euros	130,424	(476,274)	(345,850)	8,755,683	(53,701)	8,701,982
<b>Total</b>	<b>17,065,893</b>	<b>(4,538,072)</b>	<b>12,527,821</b>	<b>19,600,841</b>	<b>(3,871,537)</b>	<b>15,729,304</b>

The following table presents sensitivities of the Group to reasonably possible changes in exchange rates applied at the balance sheet date relative to the functional currency of the Group entities, with all other variables held constant:

	At 31 December 2010		At 31 December 2009	
	Impact on profit or loss	Impact on other comprehensive income	Impact on profit or loss	Impact on other comprehensive income
Incremental (loss) / profit from US Dollar strengthening by 20%	(144,087)	130,416	(473,864)	623,556
Incremental profit / (loss) from US Dollar weakening by 20%	144,087	(130,416)	473,864	(623,556)
Incremental (loss) / profit Euro strengthening by 20%	(95,255)	26,085	(16,110)	2,626,705
Incremental profit / (loss) Euro weakening by 20%	95,255	(26,085)	16,110	(2,626,705)

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the respective entity of the Group. The Group's exposure to currency risk at the balance sheet date is not representative of the typical exposure during the year. The following table presents sensitivities of profit and loss to reasonably possible changes in exchange rates applied to the average exposure to currency risk during the year, with all other variables held constant:

	Average exposure during 2010		Average exposure during 2009	
	Impact on profit or loss	Impact on other comprehensive income	Impact on profit or loss	Impact on other comprehensive income
Incremental (loss) / profit from US Dollar strengthening by 20%	(263,652)	236,243	(412,782)	(472,161)
Incremental profit / (loss) from US Dollar weakening by 20%	263,652	(236,243)	412,782	472,161
Incremental (loss) / profit from Euro strengthening by 20%	(22,464)	455,269	(30,060)	4,326,608
Incremental profit / (loss) from Euro weakening by 20%	22,464	(455,269)	30,060	(4,326,608)

**Price risk.** The Group has identified the following risks relating to price:

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- the risk of the price for electric power decreasing due to market mechanisms or state intervention;
- the risk of a significant increase in the price of fuel due to macroeconomic conditions or market monopolisation.

Unless otherwise described above, the Group does not hedge the aforementioned financial risks.

**Credit risk.** The financial assets that potentially subject the Group to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation, consist principally of trade receivables (in the amount of RUB 2,236,640 thousand), other receivables (in the amount of RUB 114,279 thousand), bank deposits (in the amount of RUB 12,042,054 thousand), debt securities (in the amount of RUB 376,723 thousand), loans (in the amount of 1,750,000 thousand), cash (in the amount of RUB 268,850 thousand), available for sale financial assets (in the amount of RUB 73,856 thousand), other long-term financial assets (in the amount of RUB 148,216 thousand), and derivatives (in the amount of RUB 129,131 thousand), in total of RUB 17,139,749 thousand as of 31 December 2010.

Although the collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the impairment provision already recorded.

*Trade and other receivables*

Management believes that the majority of customers whose balances are included in trade receivables comprise a single class, as they bear the same characteristics. Those customers belong to the same wholesale electric power market (NOREM), which is regulated by NP ATS (Administrator of Trade System Non-commercial Partnership).

Due to the absence of an independent evaluation of buyers' and customers' solvency, credit risk is evaluated at the conclusion of an agreement with a potential debtor. The Group evaluates the financial position and credit history of the counteragent. The existing receivables are monitored in the Group's divisions, and collection measures are taken regularly.

Management has determined the provision for the impairment of accounts receivable based on specific customer identification, customer payment trends, subsequent receipts and settlements, and analyses of expected future cash flows. Management of the Group believes that the Group will be able to realise the net receivable amount through direct collections and other non-cash settlements, and that therefore the recorded value approximates fair value.

The Group tested trade and other receivables for impairment, the results are as follows:

	<b>At 31 December 2010</b>	<b>At 31 December 2009</b>
Current	1,877,466	1,256,293
Overdue but not impaired	473,453	729,614
Impaired	675,384	654,572
<b>Total trade and other receivable</b>	<b>3,026,303</b>	<b>2,640,479</b>

As at 31 December 2010 trade and other receivables of RUB 473,453 thousand (as at 31 December 2009: RUB 729,614 thousand) were past due but not impaired. These relate to a number of independent customers with no recent history of default. The aging analysis of these trade receivables is given in the table below:

	<b>Between 1 and 3 months</b>	<b>Between 3 and 12 months</b>	<b>More than 12 months</b>
As at 31 December 2010	17,316	366,308	89,829
As at 31 December 2009	333,999	304,637	90,978

The movement in trade receivables impairment reserve is given in the table below:

	<b>2010</b>	<b>2009</b>



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Balance as at 1 January	654,572	424,666
Additional trade receivables impairment reserve accrued	288,778	445,782
Write off	(49,861)	(46,347)
Release of unused reserve	(218,105)	(169,529)
<b>Balance as at 31 December</b>	<b>675,384</b>	<b>654,572</b>

An impairment provision in the amount of RUB 288,778 thousand has been created, as the Group's management considers the collection of some debts to be doubtful. An impairment provision in the amount RUB 218,105 thousand has been reversed in connection with the collection of past-due receivables.

*Cash*

The Group's Board of Directors approved a list of banks in which deposits can be placed as well as rules governing bank deposits. In addition, the Group continuously assesses the financial position of these banks as well as ratings prepared by independent agencies, past practice and other factors.

Funds are placed in financial institutions which are considered at the time of the deposit to be at minimal risk of default.

The Group placed cash in the following banks (ratings are given as of 31 December 2010):

Name	Rating	Rating agency	At 31 December 2010	At 31 December 2009
ZAO AB Gazprombank	Baa3	Moody's	238,012	17,060
OAO Alfa-Bank	Ba1	Moody's	20,053	111,407
OAO Sberbank	Baa1	Moody's	1,851	354,672
Other banks and cash in hand			8,934	229
<b>Total funds</b>			<b>268,850</b>	<b>483,368</b>

**Liquidity risk.** Reasonable management of liquidity risk includes having sufficient funds and access to sufficient credit resources to support the Group's continued operations. In most cases, the Group's financial obligations are of a short-term nature.

The Majority of the Group's accounts payable are of a short-term nature (less than one month) and stem from the Group's agreements with fuel suppliers and providers of production-related services.

The Group has significant commitments as part of its investment program and is planning to fund the associated expenditure from funds placed on deposits, cash flows from its own operating activity and potentially from the receipt of short term external financing in 2011. Management controls its liquidity risk by preparing detailed forecasts of cash flow.

**Fair values.** Management believes that the fair value of its financial assets and liabilities approximates their carrying amount.

**Reconciliation of classes of financial instruments with measurement categories**

Under IAS 39 the Group classifies its financial assets into the following categories for measurement purposes: (a) loans and receivables, (b) available-for-sale financial assets. The following table provides a reconciliation of the classes of financial assets with these measurement categories as at 31 December 2010 and 2009:

	At 31 December 2010	At 31 December 2009
<b>ASSETS</b>		
<b>Loans and receivables</b>		
Accounts receivables and prepayments (Note 9)	2,350,919	1,985,907

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Trade receivables	2,236,640	1,888,999
Other financial receivables	114,279	96,908
Short-term financial assets (Note 10)	<b>14,168,777</b>	<b>17,131,566</b>
Bank deposits	12,042,054	16,997,102
ST Promissory notes	376,723	134,464
Loans	1,750,000	-
Cash	<b>268,850</b>	<b>483,368</b>
<b>Total loans and receivables</b>	<b>16,788,546</b>	<b>19,600,841</b>
<b>Available for sale financial assets</b>		
Long-term financial assets	73,856	51,333
<b>Total available for sale financial assets</b>	<b>73,856</b>	<b>51,333</b>
Other long-term assets		
LT Promissory notes	125,989	-
LT loans given to employee	22,227	-
<b>Total other long-term assets</b>	<b>148 216</b>	<b>-</b>
<b>Derivatives</b>		
Forward contracts and options (Note 10)	129,131	-
<b>Total derivatives held for hedging purposes</b>	<b>129,131</b>	<b>-</b>
<b>Total financial assets</b>	<b>17,139,749</b>	<b>19,652,174</b>

At the 31 December 2010 the Group has derivative financial liabilities (forward contracts) which are recorded at fair value in amount of RUB 91,428 thousand and assigned as a hedge. All other financial liabilities as at 31 December 2010 and as at 31 December 2009 are carried at an amortised cost. The value of the long term financial assets is based on quoted market prices (fair value hierarchy level 1).

**Note 23. Risks associated with capital (capital management)**

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

- The share capital must be at least 1,000 minimal monthly wages as at the date of the company's registration;
- If the company's share capital exceeds its net assets, the company must decrease its share capital to a value not exceeding its net assets;
- If the minimum approved share capital exceeds the company's net assets, the company will be subject to liquidation.

As at 31 December 2010 and as at 31 December 2009 the OAO OGK-4's capital complied with the aforementioned requirements.

The Group's capital ensures the Group's ability to continue its operations and provide income to shareholders and remunerations to other stakeholders, as well as to maintain the optimal structure for increasing returns on capital.

To support or adjust the capital structure, the Group can regulate the amount of dividends that have been paid out, return capital to shareholders, issue new shares or sell assets to repay debts.

The Group manages capital structure using the debt factor.

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The debt factor is calculated as the value of net debt compared to the EBITDA amount. The value of net debt is determined as the sum of total financial and pension liabilities represented in the consolidated balance sheet less total financial assets.

During 2010 the strategy of the Group provides for maintaining the debt factor at a level not exceeding 3. The debt factor as at 31 December 2010, 2009 is represented below:

	At 31 December 2010	At 31 December 2009
Trade and other receivables (Note 9)	2,350,919	1,985,907
Short-term financial assets (Note 10)	14,297,908	17,131,566
Cash	268,850	483,368
Long-term financial assets	222,072	51,333
<b>Total financial assets</b>	<b>17,139,749</b>	<b>19,652,174</b>
<b>Accounts payable and accruals (Note 13)</b>	<b>(4,446,643)</b>	<b>(3,871,537)</b>
<b>Short-term financial liabilities</b>	<b>(91,429)</b>	-
<b>Total financial liabilities</b>	<b>(4,538,072)</b>	<b>(3,871,537)</b>
<b>Pension liabilities</b>	<b>(538,407)</b>	<b>(279,249)</b>
Excess of financial assets over financial and pension liabilities	12,061,730	15,501,388
EBITDA	14,573,657	8,634,662
Debt factor	-	-

Nil debt factor demonstrates low dependence on external financing at the reporting date.

**Note 24. Segment information**

The chief operating decision-maker has been identified as General Director. The General Director reviews the Group's internal reporting prepared in accordance with Russian accounting regulation in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

The General Director considers the business from the power plants perspective, i.e. the performance of each of the 5 power plants (Surgutskaya GRES-2, Berezovskaya GRES, Shaturskaya GRES, Yayvinskaya GRES and Smolenskaya GRES) is assessed. Surgutskaya GRES-2, Berezovskaya GRES, Shaturskaya GRES, Yayvinskaya GRES are aggregated into a single operating segment, that comprised more than 90% of Group's external revenue, as they have similar economic and other characteristics. The operating segment Smolenskaya GRES comprised not more than 6% of the total external revenue and 2% of total assets. Other services are provided by the group including communal services in Shatura district Moscow region. These sales have not been included within the reportable operating segments, as they are not included within the reports provided to the General Director.

The General Director assesses the performance of the operating segments based on a measure of adjusted earnings before interest and tax (EBIT). This measurement basis excludes foreign exchange differences.

Depreciation, income tax and also reconciliation of total adjusted EBIT in accordance with Russian accounting regulation to total profit before income tax is provided as follows:

	Year ended 31 December 2010	Year ended 31 December 2009
Information provided for 5 power plants:		
Depreciation	(1,163,791)	(1,132,082)

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	Year ended 31 December 2010	Year ended 31 December 2009
Income tax	(2,172,832)	(1,904,264)
Adjusted EBIT in accordance with Russian accounting regulation	14,257,560	8,197,387
Other services and other operating income and expenses	(966,400)	(999,387)
<b>Operating profit</b>	<b>13,291,160</b>	<b>7,198,000</b>
Finance income	998,743	6,147,830
Finance costs	(1,256,765)	(3,823,829)
IFRS adjustments	(450,863)	(2,308,125)
<b>Profit before income tax</b>	<b>12,582,275</b>	<b>7,213,876</b>

IFRS translation adjustments mainly relate to the following:

	Year ended 31 December 2010	Year ended 31 December 2009
Depreciation PPE and capitalized repairs	(498,037)	(642,126)
Hedging (transferring financial income / expense to OCI)	452,618	(1,359,565)
Pension liability expenses	(155,238)	27,981
Onerous contracts expenses	(69,589)	(29,531)
Impairment of non-current assets	(53,745)	(32,229)
Loss on disposals of PPE	(13,709)	(18,192)
Other	(113,163)	(254,463)
<b>IFRS adjustments</b>	<b>(450,863)</b>	<b>(2,308,125)</b>

Reconciliation of revenue from external customers for all 5 power plants to total revenue:

	Year ended 31 December 2010	Year ended 31 December 2009
Revenue of 5 power plants	53,610,778	42,062,006
Other revenue	216,705	828,091
IFRS translation adjustments*	(3,505,606)	(2,140,727)
<b>Total revenues</b>	<b>50,321,877</b>	<b>40,749,370</b>

\*IFRS translation adjustments relate mainly to netting adjustment, see accounting policy on revenue recognition.

The Group's revenues are analysed by products and services in Note 16.

Revenues from customers which represent 10% or more of the total revenues are as follows:

	Year ended 31 December 2010	Year ended 31 December 2009
OAO CFR	23,411,981	11,062,678
OOO Tyumenskaya energosbytovaya company	6,400,627	9,735,231
Others (mainly distribution companies, less than 10% each)	20,509,269	19,951,461
<b>Total revenues</b>	<b>50,321,877</b>	<b>40,749,370</b>

After reorganization of RAO UES OAO "Tyumenskaya energosbytovaya company" and a number of other distribution companies continue to be controlled by the state.