

OGK-6 GROUP

**Consolidated Financial Statements
prepared in accordance with
International Financial Reporting Standards (IFRS)
for the year ended
31 December 2010**

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Independent Auditors' Report

To the Board of Directors of Open Joint Stock Company "The Sixths Generating Company of the Wholesale Electric Power Market" (OJSC "OGK-6")

We have audited the accompanying consolidated financial statements of OJSC "OGK-6" (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

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15 April 2011

	Notes	31 December 2010 '000 RUB	31 December 2009 '000 RUB
ASSETS			
Non-current assets			
Property, plant and equipment	4	69,124,560	61,867,198
Other non-current assets	5	942,833	805,098
Total non-current assets		70,067,393	62,672,296
Current assets			
Inventories	6	3,638,880	3,225,580
Short-term investments	7	24,670	417,120
Income tax receivable		6,759	7,373
Other current assets		108,462	51,201
Receivables and prepayments	8	3,288,455	4,852,229
Cash and cash equivalents	9	2,338,912	1,197,075
Total current assets		9,406,138	9,750,578
TOTAL ASSETS		79,473,531	72,422,874
EQUITY AND LIABILITIES			
Equity			
Share capital	10	15,497,760	15,497,760
Revaluation reserve		13,339,605	13,341,701
Share premium		18,339,193	18,339,193
Retained earnings		10,503,920	8,274,549
Total equity		57,680,478	55,453,203
Non-current liabilities			
Deferred income tax liabilities	12	5,700,424	5,648,016
Loans and borrowings	11	10,134,527	4,937,610
Employee benefits	13	898,002	824,703
Other non-current liabilities		543,178	776,593
Total non-current liabilities		17,276,131	12,186,922
Current liabilities			
Loans and borrowings	11	10,290	37,567
Accounts payable and accrued charges	14	3,817,061	4,203,947
Income taxes payable		457,611	290,230
Other taxes payable		231,960	251,005
Total current liabilities		4,516,922	4,782,749
Total liabilities		21,793,053	16,969,671
TOTAL LIABILITIES AND EQUITY		79,473,531	72,422,874

These consolidated financial statements were approved by management on 15 April 2011 and were signed on its behalf by:

N.V. Vaytulenis

Deputy General Director for Economics and Finance

B.Z. Dolgoarshinnikh

Chief Accountant

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 35.



	Notes	2010 '000 RUB	2009 '000 RUB
Revenues	15	48,599,178	41,295,879
Operating expenses	16	(45,664,526)	(37,896,202)
Other income		374,349	32,328
Operating profit		3,309,001	3,432,005
Finance income	17	107,792	384,329
Finance costs	17	(565,871)	(310,450)
Profit before income tax		2,850,922	3,505,884
Income tax expense	12	(641,883)	(1,063,626)
Profit for the year		2,209,039	2,442,258
Other comprehensive income			
Change in fair value of available-for-sale financial assets		22,795	(37,830)
Income tax (expense)/benefit on other comprehensive income		(4,559)	7,566
Other comprehensive income /(expense) for the year		18,236	(30,264)
Total comprehensive income for the year		2,227,275	2,411,994
Profit attributable to the owners of the Group		2,209,039	2,442,258
Total comprehensive income attributable to the owners of the Group		2,227,275	2,411,994
Earnings per Share – basic and diluted (in Russian Rubles per share)	18	0.068	0.076

	Notes	2010 ‘000 RUB	2009 ‘000 RUB
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax		2,850,922	3,505,884
Adjustments for:			
Depreciation	4	2,150,766	1,866,892
Loss on disposal of property, plant and equipment		48,222	207,196
Finance costs/(income), net	17	458,079	(73,879)
Other (income)/expense		(33,738)	366,068
Cash from operating activities before changes in working capital		5,474,251	5,872,161
Working capital changes:			
Change in accounts receivable and prepayments		1,651,440	(1,262,930)
Change in inventories		(369,838)	1,360,221
Change in other current assets		(57,261)	41,289
Change in other non-current assets		(267,750)	394,152
Change in accounts payable and accruals		(819,616)	(1,648,790)
Change in other non-current liabilities		(233,415)	631,656
Change in taxes payable other than income tax		(27,229)	(7,112)
Cash flows from operations before income taxes and interest paid		5,350,582	5,380,647
Interest paid		(485,090)	(266,165)
Income tax paid		(426,038)	(357,108)
Net cash generated from operating activities		4,439,454	4,757,374
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of property, plant and equipment		(9,004,464)	(9,593,910)
Proceeds from short-term deposits		392,450	3,484,293
Interests received	17	107,792	349,169
Proceeds from disposal of property, plant and equipment		40,581	21,200
Net cash used in investing activities		(8,463,641)	(5,739,248)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from borrowings		10,000,000	2,000,000
Repayment of borrowings		(4,833,976)	(29,046)
Dividends paid		-	(7,019)
Net cash generated from financing activities		5,166,024	1,963,935
Net increase in cash and cash equivalents		1,141,837	982,061
Cash and cash equivalents at the beginning of the year		1,197,075	215,014
Cash and cash equivalents at the end of the year		2,338,912	1,197,075

'000 RUB	Share capital	Revaluation reserve	Retained earnings	Share premium	Total equity
As at 1 January 2009	15,497,760	13,401,156	5,803,100	18,339,193	53,041,209
Total comprehensive income for the year					
Profit for the year	-	-	2,442,258	-	2,442,258
Other comprehensive income					
Change in fair value of available-for-sale investments, net of tax	-	(30,264)	-	-	(30,264)
Transfer of revaluation reserve to retained earnings, net of tax	-	(29,191)	29,191	-	-
Total other comprehensive income	-	(59,455)	29,191	-	(30,264)
Total comprehensive income for the year		(59,455)	2,471,449		2,411,994
As at 31 December 2009	<u>15,497,760</u>	<u>13,341,701</u>	<u>8,274,549</u>	<u>18,339,193</u>	<u>55,453,203</u>
As at 1 January 2010	15,497,760	13,341,701	8,274,549	18,339,193	55,453,203
Total comprehensive income for the year					
Profit for the year	-	-	2,209,039	-	2,209,039
Other comprehensive income					
Change in fair value of available-for-sale investments, net of tax	-	18,236	-	-	18,236
Transfer of revaluation reserve to retained earnings, net of tax	-	(20,332)	20,332	-	-
Total other comprehensive income	-	(2,096)	20,332	-	18,236
Total comprehensive income for the year		(2,096)	2,229,371		2,227,275
As at 31 December 2010	<u>15,497,760</u>	<u>13,339,605</u>	<u>10,503,920</u>	<u>18,339,193</u>	<u>57,680,478</u>

1 Background

(a) Business environment

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

(b) Organisation and operations

Open Joint Stock Company "The Sixths Generating Company of the Wholesale Electric Power Market" ("OJSC "OGK-6", or "the Company") was established on 17 March 2005 within the framework of the Russian electricity sector restructuring in accordance with the Resolution of the Chairman of the Management Board of OJSC RAO Russian Open Joint Stock Company for Energy and Electrification Unified Energy System of Russia ("RAO UES") dated 16 March 2005.

OJSC "OGK-6" and its following subsidiaries form the OGK-6 Group ("the Group"):

	<u>31 December 2010</u>	<u>31 December 2009</u>
OJSC Agricultural entity Voskhod	100%	100%
OJSC Novomichurinskoe Vehicle Transportation Company	100%	100%
LLC OGK-InvestProekt	100%	-

During the year the Group operated 5 state district power plants (SDPP's): Kirishskaya GRES, Ryazanskaya GRES, Novochebasskaya GRES, Krasnoyarskaya GRES-2, Cherepovetskaya GRES. The operations of GRES-24, which existed as a separate station in 2008, were merged with the operations of Ryazanskaya GRES.

The Group's principle activity is generation and sale of electricity and heat.

The registered office of OJSC "OGK-6" is located at 101/3 Vernadsky's prospectus, 119526, Moscow, Russia.

The head office of OJSC "OGK-6" located at 101/3 Vernadsky's prospectus, 119526, Moscow, Russia.

(c) Changes in the Group

On 16 September 2010 the Group registered a 100% owned subsidiary, InvestProekt LLC with the share capital of RUB 530,000 thousand. The subsidiary was created for construction purposes and did not have significant operations.

(d) Current regulation

The Government of the Russian Federation directly affects the Group's operations through regulation by the Federal Tariff Service ("FTS"), with respect to its wholesale energy sales, and by the Regional Energy Commissions ("RECs") or by the Regional Tariff Services ("RTSs"), with respect to its heat sales. The operations of all generating facilities are coordinated by OJSC "System Operator – the Central Dispatch Unit of Unified Energy System" ("SO-CDU") in order to meet system requirements in an efficient manner.

2 Basis of preparation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”).

Each enterprise of the Group individually maintains its own books of accounts and prepares its statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation. The accompanying Financial Statements are based on the statutory records and adjusted and reclassified for the purpose of fair presentation in accordance with IFRS.

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except:

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

(c) Prior year reclassifications

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

	For the year ended 31 December 2009		
	As previously reported	Change in presentation	As adjusted
Revenues	41,870,322	(574,443)	41,295,879
Operating expenses	(38,470,645)	574,443	(37,896,202)

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

(d) Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble (“RUB”), which is the Group’s functional currency and the currency in which these consolidated financial statements are presented. All financial information presented in RUB has been rounded to the nearest thousand.

(e) Use of judgments, estimates and assumptions

The preparation of consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

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

Critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements include:

Provision for impairment of accounts receivable

Provision for impairment of accounts receivable is based on the Group's assessment of whether the collectibility of specific customer accounts worsened compared to prior estimates. If there is deterioration in a major customer's creditworthiness or actual defaults are higher than the estimates, the actual results could differ from these estimates.

Revaluation of property, plant and equipment and other assets

Fair value of property, plant and equipment, except land, has been determined by an independent appraiser based on the depreciated replacement cost method. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation, and obsolescence. Further, management assesses the remaining useful life of property, plant and equipment in accordance with the current technical conditions of assets and estimated period when these assets will bring economic benefit to the Group. Carrying value and depreciation of property, plant and equipment are affected by the estimates of replacement cost, depreciated replacement cost, residual value and remaining useful lives, and actual results could differ from these estimates.

The fair value of land is based on market approach using quoted market prices for recent market transactions.

Useful lives of property, plant and equipment

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

Retirement benefit obligation

The Group uses an actuarial valuation method for measurement of the present value of post-employment benefit obligations and related current service cost. This involves the use of demographic assumptions about the future characteristics of the current and former employees who are eligible for benefits (mortality, both during and after employment, rates of employee turnover, disability and early retirement, etc.) as well as financial assumptions (discount rate, future salary and benefit levels, etc.).

Tax contingencies

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

Accounting for leases

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

Revenue recognition

Electricity purchases entered into to support a delivery of non-regulated bilateral contracts are presented net within revenue. Management applies judgement in determining which electricity purchases are entered into in order to support a delivery of non-regulated bilateral contracts.

(f) Changes in accounting policies

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

The amendment to IAS 17 Leases regarding the lease of land became effective from 1 January 2010. The amendment removed the earlier exemption which allowed leases of land to be classified as operating leases regardless of the length of the lease term. The amended guidance requires all existing leases of land to be reassessed and reclassified if necessary as finance leases if the finance lease classification criteria are met. At 1 January 2010, the Group reassessed all existing land lease contracts and concluded that existing land lease contracts do not qualify as finance lease contracts and therefore, the classification was not changed (see Note 4).

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities, except as explained in note 2(f) which addresses changes in accounting policies.

(a) Basis of consolidation

(i) *Subsidiaries*

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

(ii) *Transactions eliminated on consolidation*

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(iii) *Transactions under common control*

Transfers of subsidiaries between parties under common control are accounted for using the predecessor basis of 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.

(b) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising in retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments which are recognised in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(c) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

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

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

The Group has the following non-derivative financial assets: loans and receivables and available-for-sale financial assets.

Loans and receivables

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

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale equity instruments, are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised or impaired, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

Investments in equity securities that are not quoted on a stock exchange are principally valued using valuation techniques such as discounted cash flow analysis, option pricing models and comparisons to other transactions and instruments that are substantially the same. Where fair value cannot be estimated on a reasonable basis by other means, investments are stated at cost less impairment losses.

(d) Non-derivative financial liabilities

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

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

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

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

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

(e) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(f) Dividends

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

(g) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(h) Property, plant and equipments

As at 31 December 2007 property, plant and equipment was stated at the carrying value determined in accordance with the IFRS as at the date of their transfer to the Group by the Predecessor, and adjusted taking into account further additions, disposals and depreciation charges.

Effective 1 January 2008, the Group changed its accounting policy to revaluing its property, plant and equipment at fair value from that date. Management believes that this resulted in a more meaningful presentation of the Group's financial position and financial performance.

Property, plant and equipment are subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair values of the assets being revalued. Increases in the carrying amount arising on revaluation of property, plant and equipment are credited to the asset revaluation reserve in equity. However, the increase shall be recognised in the profit and loss statement to the extent that it reverses a revaluation decrease of the same asset previously recognised in the profit and loss. Decreases that offset previous increases of the same asset are charged against the revaluation reserve directly in equity; all other decreases are charged to the profit and loss. The Group transfers revaluation surplus directly to retained earnings when the asset is derecognized or as the asset is used by the entity.

Any accumulated depreciation at the date of revaluation is eliminated against the gross amount of the asset, and the net amount is restated to the revalued amount of the asset.

The Group charges deferred tax liabilities in respect of revaluation of property, plant and equipment directly to equity.

Renewals and improvements are capitalized and the carrying amounts of assets replaced are retired, if it is probable that the future economic benefits embodied within the newly installed parts will flow to the Group and its cost can be measured reliably. The costs of repair and maintenance are expensed as incurred.

Gains and losses arising from the retirement of property, plant and equipment are included in the profit and loss statement as incurred.

Depreciation of property, plant and equipment is calculated on a straight-line basis over the estimated useful life of the asset when it is available for use.

The estimated useful lives of assets by types of facility are as follows:

- Electricity and heat generation 22-54 years
- Electricity distribution 11-32 years
- Heating networks 10-30 years
- Other 7-37 years

Social assets are not capitalized 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.

(i) Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Property, plant and equipment

The fair value of property, plant and equipment is based on market values, when possible. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of items of plant, equipment, fixtures and fittings is based on quoted market prices for similar items.

When no quoted market prices are available, the fair value of property, plant and equipment is primarily determined using depreciated replacement cost. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation, and obsolescence. Information about significant assumptions used in determination of depreciation replacement cost is described in Note 4.

(ii) Investments in equity and debt securities

The fair value of financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets is determined by reference to their quoted closing bid price at the reporting date. The fair value of held-to-maturity investments is determined for disclosure purposes only.

(iii) Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

(iv) Non-derivative financial liabilities

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

(j) Impairment

(i) Financial assets

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

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, the disappearance of an active

market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Group considers evidence of impairment for receivables and held-to-maturity investment securities at both a specific asset and collective level. All individually significant receivables and held-to-maturity investment securities are assessed for specific impairment. All individually significant receivables and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together receivables and held-to-maturity investment securities with similar risk characteristics.

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

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

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income, and presented in the fair value reserve in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

(ii) *Non-financial assets*

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

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

The Group's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the cash generating unit to which the corporate asset belongs.

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

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased

or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(k) Borrowing costs

Borrowing costs related to the acquisition or construction of qualifying assets are capitalized as part of that assets.

(l) Pension and post-employment benefits

In the normal course of business the Group contributes to the Russian Federation state pension scheme on behalf of its employees. Mandatory contributions to the governmental pension scheme are expensed when incurred in employee benefit expenses and payroll taxes in profit and loss.

The Group operates defined benefit plans that cover the majority of the Group's employees. Benefit plans define the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognized in the statement of financial position in respect of the defined benefit pension plans is the present value of the defined benefit obligation at the statement of financial position date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and unrecognized past service cost. The defined benefit obligations are calculated using the Projected Unit Credit Method. The present value of the defined benefit obligations are determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liabilities.

Actuarial gains and losses arising from changes in actuarial assumptions and exceeding the higher of 10% of the defined benefit obligations and fair value of plan assets are charged or credited to profit and loss over the average remaining service lives of employees starting from the next reporting period.

Past service costs are amortized over vesting period of 10.5 years.

(m) Provisions

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

(n) Guarantees

Where the Group enters into financial guarantee contracts to guarantee the indebtedness of other companies under common control, the Group considers these to be insurance arrangements, and accounts for them as such. In this respect, the Group treats the guarantee contract as a contingent liability until such time as it becomes probable that the Group will be required to make a payment under the guarantee.

(o) Revenue recognition

Revenue is recognized on the delivery of electricity, heat and on the dispatch of non-utility goods and services during the period. Revenue amounts are presented exclusive of value added tax. Revenue is based on the application of authorized tariffs for electricity sales as approved by the Regional Tariffs Authorities.

(p) Finance income and costs

Finance income comprises dividend income, gains on the disposal of available-for-sale financial assets and foreign currency gains. Interest income is recognised as it accrues in profit and loss, using the effective interest method. Dividend income is recognised in profit and loss on the date that the Group's right to receive payment is established.

Finance costs comprise interest expense on borrowings, foreign currency losses and impairment losses recognised on financial assets, other than trade receivables. Borrowing costs, except borrowing costs related

to the acquisition or construction of qualifying assets as described in Note 3 (k), are recognised in profit and loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

(q) Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit and loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity or in other comprehensive income.

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

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

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

(r) Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. The Group has no outstanding dilutive instruments.

(s) Operational segments

The Group has a single reportable segment - the generation of electric power and heat in the Russian Federation as the management does not review profit measures for SDPPs or any other components in order to make a decision about allocation of resources. The generation of electricity and heat are related activities and are subject to similar risks and returns, therefore they are reported as one business segment.

(t) Seasonality of operations

Demand for electricity and heat is influenced by both the season of the year and the relative severity of the weather. Revenues from heating are concentrated within the months of October to March. A similar, though less severe, concentration of electricity sales occurs within the same period. The seasonality of electricity and heat production has a corresponding impact on the usage of fuel and the purchase of power. Furthermore, during the periods of lower production from April to September, there is an increase in the expenditures on repairs and maintenance. This seasonality does not impact the revenue or cost recognition policies of the Group.

(u) New Standards and Interpretations not yet adopted

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

- Revised IAS 24 *Related Party Disclosures (2009)* introduces an exemption from the basic disclosure requirements in relation to related party disclosures and outstanding balances, including commitments, for government-related entities. Additionally, the standard has been revised to simplify some of the presentation guidance that was previously non-reciprocal. The revised standard is to be applied retrospectively for annual periods beginning on or after 1 January 2011. The Group has not yet determined the potential effect of the amendment.
- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in several phases and is intended to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement* once the project is completed by the end of 2010. The first phase of IFRS 9 was issued in November 2009 and relates to the recognition and measurement of financial assets. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued.
- Various Improvements to IFRSs have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2011. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Property, plant and equipment

'000 RUB	Electricity and heat generation	Electricity transmission	Heating networks	Other	Construction in progress	Total
<i>Cost / Revalued amount</i>						
Balance at 1 January 2009	31,404,378	1,040,402	347,422	8,825,006	14,104,812	55,722,020
Additions	-	454	-	157,948	10,088,580	10,246,982
Construction	1,556,036	264,998	-	826,082	(2,647,116)	-
Disposals	(19,683)	(26,890)	(2,804)	(102,032)	(211,006)	(362,415)
Balance at 31 December 2009	32,940,731	1,278,964	344,618	9,707,004	21,335,270	65,606,587
Additions	8,321	5,763	-	176,780	9,314,936	9,505,800
Construction	4,669,909	30,907	12,419	1,358,163	(6,071,398)	-
Disposals	(44,320)	(125)	-	(40,138)	(27,254)	(111,837)
Balance at 31 December 2010	37,574,641	1,315,509	357,037	11,201,809	24,551,554	75,000,550
<i>Depreciation and impairment losses</i>						
Balance at 1 January 2009	128,589	201,804	77,828	338,356	1,224,121	1,970,698
Depreciation for the year	1,168,385	98,211	17,826	582,470	-	1,866,892
Disposals	(431)	(1,719)	(236)	(5,292)	(90,523)	(98,201)
Impairment loss	285,068	59,655	-	233,093	(577,816)	-
Balance at 31 December 2009	1,581,611	357,951	95,418	1,148,627	555,782	3,739,389
Depreciation for the year	1,342,447	110,755	17,590	679,974	-	2,150,766
Disposals	(4,558)	(31)	-	(9,576)	-	(14,165)
Impairment loss	128,244	-	-	15,894	(144,138)	-
Balance at 31 December 2010	3,047,744	468,675	113,008	1,834,919	411,644	5,875,990
<i>Net book value</i>						
Balance at 1 January 2009	31,275,789	838,598	269,594	8,486,650	12,880,691	53,751,322
Balance at 31 December 2009	31,359,120	921,013	249,200	8,558,377	20,779,488	61,867,198
Balance at 31 December 2010	34,526,897	846,834	244,029	9,366,890	24,139,910	69,124,560

Construction in progress as at 31 December 2010 and 31 December 2009 includes prepayments for property, plant and equipment in amount of RUB 2,699,966 thousand and RUB 5,629,522 thousand respectively.

None of the property, plant or equipment was pledged as collateral according to loan agreements.

Effective 1 January 2008, the Group changed its accounting policy to revaluing its property, plant and equipment from that date. Management believes that this resulted in a more meaningful presentation of the Group's financial position and financial performance.

Each revalued class of property, plant and equipment is stated at a revalued amount in these consolidated financial statements. The carrying amounts that would have been recognised had the assets been carried under the cost model are as follows:

'000 RUB	Electricity and heat generation	Electricity transmission	Heating networks	Other	Construction in progress	Total
At 31 December 2008	20,385,189	1,088,298	192,789	3,937,260	13,642,544	39,246,080
At 31 December 2009	20,432,071	1,262,423	182,969	4,078,045	20,922,498	46,878,006
At 31 December 2010	24,403,406	2,379,018	195,533	5,470,547	22,911,414	55,359,918

(a) Operating leases

The Group leases a number of land areas owned by local government under operating lease. Land lease payments are determined by lease agreements. Generally the leases run for an initial period of 5-49 years with an option to renew the lease after that date. Lease payments are reviewed regularly to reflect market rentals.

Operating land lease rentals are payable as follows:

	31 December 2010 ‘000 RUB	31 December 2009 ‘000 RUB
Less than one year	17,148	33,318
Between one and five years	26,841	103,529
More than five years	74,583	594,381
Total	118,572	731,228

As at 31 December 2010 the Group owns fifty four plots entirely containing of 849 hectares.

Operating lease rentals for other fixed assets are payable as follows:

	31 December 2010 ‘000 RUB	31 December 2009 ‘000 RUB
Less than one year	118,170	140,047
Between one and five years	-	-
More than five years	-	-
Total	118,170	140,047

5 Other non-current assets

	31 December 2010 ‘000 RUB	31 December 2009 ‘000 RUB
Trade accounts receivable	600,557	515,703
Other non-current assets	424,264	400,774
VAT recoverable	213,452	193,317
Investments	74,128	51,333
Allowance for impairment of trade accounts receivable	(369,568)	(356,029)
Total	942,833	805,098

6 Inventories

	31 December 2010 ‘000 RUB	31 December 2009 ‘000 RUB
Fuel	2,907,502	2,542,251
Spare parts	378,328	397,611
Materials and supplies	375,048	351,229
Other inventories	3,479	3,428
Provision for slow-moving and obsolete inventory	(25,477)	(68,939)
Total	3,638,880	3,225,580

None of the inventories held were pledged as collateral according to loan agreements.

7 Short-term investments

As at 31 December 2010 cash balances placed on term deposit maturing after 3 months with OJSC “AB Rossiya” amounted to RUB 24 670 thousand. The cash was deposited at 12.5% interest rate.

As at 31 December 2010 cash in the amount of RUB 1,659,750 thousand placed on term deposit maturing after 3 months with OJSC “Alfa bank” and OJSC “AB Rossiya” were reclassified to cash and cash equivalents (Note 9). The cash deposited at the following interest rates: 2.4, 3.25% with OJSC “AB Rossiya” and 2.95, 3.00, 3.50 and 3.90% with OJSC “Alfa bank”.

As at 31 December 2009 cash in the amount of RUB 417,120 thousand was placed on term deposit maturing after 3 months with JS “Gazenergoprombank” and JS “Moscovskiy kreditniy bank” at the interest rates of 12.5% and 14% respectively.

8 Receivables and prepayments

	31 December 2010 ‘000 RUB	31 December 2009 ‘000 RUB
Trade receivables	2,080,286	2,873,765
VAT recoverable	780,242	1,583,146
Advances to suppliers and prepayments	250,529	414,764
Other receivables	337,205	228,028
Allowance for impairment of prepayments and advances to suppliers	(156)	(480)
Allowance for impairment of other receivables	(58,487)	(30,885)
Allowance for impairment of trade receivables	(101,164)	(216,109)
Total	3,288,455	4,852,229

9 Cash and cash equivalents

	31 December 2010 ‘000 RUB	31 December 2009 ‘000 RUB
Cash	679,162	78,985
Cash equivalents	1,659,750	1,118,090
Total	2,338,912	1,197,075

10 Equity

(a) Share capital

	31 December 2010	31 December 2009
Number of shares issued and fully paid	32,287,001,231	32,287,001,231
Par value (RUB)	0.48	0.48
Total	15,497,760	15,497,760

As at 31 December 2010 the number of issued ordinary shares amounted to 32,287,001,231 with a par value of RUB 0.48 each.

(b) Dividends

In accordance with Russian legislation the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with Russian Accounting Principles ("RAP").

On 10 June 2010 the General Shareholders meeting approved to pay no dividends to the shareholders in relation to 2009 financial year.

11 Loans and borrowings

	Currency	Interest rate	Amount '000 EUR	31 December 2010 '000 RUB	31 December 2009 '000 RUB
<i>Non-current liabilities</i>					
Bonds	RUB	7.25%	-	1,532,550	2,874,136
LLC EUROFERT Trading Limited	RUB	8.4%	-	8,600,000	-
CJSC Unicreditbank	EUR	Euribor+ 3.75%	1,195	-	51,869
Moskovskiy kreditniy bank	RUB	14%	-	-	2,000,000
Finance lease liabilities	RUB	-	-	1,977	11,605
				10,134,527	4,937,610

On 23 April 2009 the Group paid off the fourth coupon yield on the bonds. Fixed interest rate coupon yield was 7.55% per annum. The amount of yield paid was RUB 108,211 thousand.

On 23 October 2009 the Group paid off the fifth coupon yield on the bonds of RUB 108,211 thousand. The fixed interest rate of the coupon yield was 7.55 %.

On 23 April 2010 the Group paid off the sixth coupon yield on the bonds. Fixed interest rate coupon yield was 7.55% per annum. The amount of yield paid was RUB 108,211 thousand.

On 29 April 2010 at the bond owners request and in accordance with terms of the offer the Group repaid interest-bearing documentary non-convertible bearer series 01 bonds in the amount of RUB 1,341,586 thousand at a price of 100% of the nominal value (RUB 1,000 per bond) of bonds.

On 20 October 2010 the Group paid off the seventh coupon yield on the bonds of RUB 55,402 thousand. The fixed interest rate of the coupon yield was 7.25 %.

12 Income tax

	2010	2009
	'000 RUB	'000 RUB
<i>Current tax expense</i>		
Current year	728,201	1,021,810
Adjustment for prior years	(134,167)	141,941
Current tax charge	594,034	1,163,751
<i>Deferred tax expense</i>		
Origination and reversal of temporary differences	47,849	(100,125)
Total income tax expense	641,883	1,063,626

The Group entities were subject to 20% income tax rate on taxable profits, which is a standard income tax rate for Russian companies.

In accordance with Russian tax legislation, tax losses in different Group companies may not be offset against taxable profits of other Group companies. Accordingly, tax may be accrued even where there is a net consolidated tax loss.

For the reporting purposes net profit before tax is reconciled with the tax charge as follows:

	2010		2009	
	'000 RUB	%	'000 RUB	%
Profit before income tax	2,850,922	100	3,505,884	100
Theoretical tax expense at an average statutory tax rate of 20%	570,184	20	701,176	20
Adjustment for prior years	(134,167)	(5)	141,941	4
Non-deductible expenses	205,866	7	220,509	6
Total income tax expense	641,883	22	1,063,626	30

'000 RUB	31 December 2009	Movement for the period recognized in profit and loss	Movement for the period recognized in other comprehensive income	31 December 2010
Property, plant and equipment	(5,857,302)	(44,991)	-	(5,902,293)
Accounts receivable	(21,732)	(2,277)	-	(24,009)
Other	231,018	(581)	(4,559)	225,878
Total	(5,648,016)	(47,849)	(4,559)	(5,700,424)

'000 RUB	31 December 2008	Movement for the period recognized in profit and loss	Movement for the period recognized in other comprehensive income	31 December 2009
Property, plant and equipment	(6,048,922)	191,620	-	(5,857,302)
Accounts receivable	37,873	(59,605)	-	(21,732)
Tax loss	11,728	(11,728)	-	-
Other	243,614	(20,162)	7,566	231,018
Total	(5,755,707)	100,125	7,566	(5,648,016)

13 Employee benefits

The tables below provide information about the benefit obligations and actuarial assumptions used for the years ended 31 December 2010 and 2009:

	31 December 2010 '000 RUB	31 December 2009 '000 RUB
Present value of defined benefit obligations (unfunded)	1,107,457	979,723
Unrecognized net actuarial loss	(172,591)	(114,704)
Unrecognised past service cost	(36,864)	(40,316)
Net liability in the consolidated statement of financial position	898,002	824,703

Amounts recognized in the consolidated statement of comprehensive income:

	31 December 2010 '000 RUB	31 December 2009 '000 RUB
Current service cost	39,985	40,150
Interest cost	91,213	87,820
Net actuarial losses/(gains) recognised during the year	15,048	(4,124)
Amortisation of past service cost	14,922	39,119
Total	161,168	162,965

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

	31 December 2010 '000 RUB	31 December 2009 '000 RUB
Present value of defined benefit obligations at beginning of year	979,723	985,894
Service cost	39,985	40,150
Interest cost	91,213	87,820
Actuarial gain	72,936	(73,761)
Past service cost	11,469	-
Benefits paid	(87,869)	(60,380)
Present value of defined benefit obligations at end of year	1,107,457	979,723

	31 December 2010	31 December 2009
	'000 RUB	'000 RUB
Net liability at beginning of year	824,703	722,118
Net expense recognised in the profit and loss statement	161,168	162,965
Benefits paid	(87,869)	(60,380)
Net liability at end of year	898,002	824,703

Principal actuarial assumptions are as follows:

	31 December 2010	31 December 2009
Discount rate	8.0%	9.5%
Pension increase (excl. annuities via non-state pension fund)	7.5%	8.0%
Inflation	6.0%	6.5%
Salary increase	6.0%	6.5%

Historical information

'000 RUB	2010	2009	2008	2007	2006
Present value of the defined benefit obligation	1,107,457	979,723	985,894	958,948	811,012
Deficit in the plan	1,107,457	979,723	985,894	958,948	811,012
Experience adjustments arising on plan liabilities	5,593	(19,568)	53,439	101,798	(55,997)

The Group expects RUB 106,605 thousand in contributions to be paid to its defined benefit plans in 2011.

14 Accounts payable and accrued charges

	31 December 2010	31 December 2009
	'000 RUB	'000 RUB
Trade payables	3,364,103	2,349,588
Advances received	64,840	1,320,973
Other payables	226,514	309,504
Payables to employees	160,477	216,771
Dividends payable	1,127	7,111
Total	3,817,061	4,203,947

15 Revenues

	2010 '000 RUB	2009 '000 RUB
Electricity	44,382,657	38,630,313
Heating	2,374,882	2,223,004
Other	1,841,639	442,562
	48,599,178	41,295,879

16 Operating expenses

	2010 '000 RUB	2009 '000 RUB
Fuel expenses	27,590,186	19,206,397
Purchased heat and electricity	3,914,085	4,143,067
Employee benefit expenses and payroll taxes	3,444,483	3,757,846
Depreciation	2,150,766	1,866,892
Repairs and maintenance	2,199,439	1,902,996
Other materials	1,525,550	1,876,547
Water usage expenses	938,870	851,563
Energy market infrastructure cost	732,315	752,424
Taxes	522,571	629,321
Rent and lease payments	281,792	379,935
Electricity transmission	503,300	446,495
Security and fire safety	239,473	221,685
Transport	413,232	408,535
Consulting, legal and information services	404,110	231,002
Insurance	103,753	86,418
Loss on disposal of property, plant and equipment	48,222	207,196
Charity expenditure	88,506	60,275
Write off of inventories	-	147,213
Reversal of impairment of inventories	(43,462)	(4,863)
(Reversal) / origination of allowance for accounts receivable	(74,128)	226,197
Other	681,463	499,061
Total	45,664,526	37,896,202

Employee benefits expenses comprise the following:

	2010	2009
	'000 RUB	'000 RUB
Salaries and wages, payroll taxes	3,041,403	3,355,915
Financial aid to employees and pensioners	264,260	259,643
Non-governmental pension fund expenses	138,820	142,288
	3,444,483	3,757,846

17 Finance income/(costs)

Finance income

	2010	2009
	'000 RUB	'000 RUB
Interest income	107,792	349,169
Amortization of discounting of accounts receivable	-	35,160
Total	107,792	384,329

Finance costs

	2010	2009
	'000 RUB	'000 RUB
Interest expense	(445,323)	(310,450)
Discounting of accounts receivable	(120,548)	-
Total	(565,871)	(310,450)

18 Earnings per share

	2010	2009
	'000 RUB	'000 RUB
Weighted average number of ordinary shares issued (thousand)	32,287,001	32,287,001
Profit for the year	2,209,039	2,442,258
Earnings per ordinary share – basic and diluted (in RUB)	0.068	0.076

19 Commitments

(a) Fuel commitments

The Group has signed a number of short-term agreements for the fuel purchases. These agreements do not cover all the needs of the Group. The remaining part of the fuel required by the Group will also be purchased on short-term agreements from a number of suppliers with immediate payment terms.

The quantity of supplies is determined annually on the basis of fuel stocks requirements.

(b) Capital commitments

In accordance with the Russian Federation Government Resolution №89 dated 24 February 2010 "Certain organizational aspects of long-term capacity take-off on a competitive basis on the wholesale electricity (capacity) market, Russian Federation Government Resolution №238 dated 13 April 2010 "Pricing strategy of capacity trading on the wholesale electricity (capacity) market during the transition period" and Russian

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

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

On 1 November 2010 the Company had signed an agency agreement with CFS, OJSC "ATS", NP Council Market and SO UES, under which CFS was to sign on behalf of the OJSC "OGK-6" contracts on capacity provision. On 5 December 2010 CFS on behalf of the OJSC "OGK-6" signed the contracts on provision of capacity from estimated generating units with total capacity of 2 180 MWth. Pursuant to the terms and conditions of the Agency Agreement, if the Group violates the timeframe for commissioning the generating assets, or fails to deliver sufficient capacity, the Group should pay a forfeit to the Agent, the size of which depends on the extent of the delay in the commissioning of the generating asset, the amount of the capacity that was not delivered and the price of this capacity under a long-term capacity contract. The Management of the Group does not expect to default or fail on fulfilment of the above obligations under the contracts on the provision of capacity.

Future capital expenditures for which contracts have been signed, amounts to RUB 26,928,589 thousand.

20 Contingencies

(a) Political environment

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

(b) Insurance

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

(c) Legal proceedings

The Group was not a party to any legal proceedings which, upon final disposition, will have a material adverse effect on the financial position of the Group.

(d) Taxation

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

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

(e) Environmental matters

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

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

21 Related party transactions

As at 31 December 2010 and 31 December 2009 the Group is controlled by OJSC "Gazprom". The Russian Government is the ultimate controlling party of the Group.

Related parties include the ultimate beneficiaries, affiliates and entities under common ownership and control within the Group.

The Group enters into transactions with related parties in the normal course of business. Prices for natural gas, electricity and heat are based on tariffs set by FTS and RTS. Taxes are charged and paid under the Russian tax legislation. Other sales and purchase transactions are based on normal market prices.

(a) Transactions with state-controlled entities

	2010 ‘000 RUB	2009 ‘000 RUB
Energy and heat sales	27,936,715	18,265,329
Other sales	101,250	134,332
Fuel purchases	17,711,806	11,229,365
Energy market infrastructure cost	732,315	752,424
Interest income	48,344	315,022

The outstanding balances were as follows:

	31 December 2010 ‘000 RUB	31 December 2009 ‘000 RUB
Short-term investments	-	24,670
Receivables and prepayments	2,885,195	2,153,943
Accounts payables and accrued charges	878,648	175,655
Allowance for impairment of receivables and prepayments	(391,203)	(383,762)

(b) Transactions with management and close family members

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

Key management received the following remuneration during the years ended 31 December 2010 and 2009:

	2010 ‘000 RUB	2009 ‘000 RUB
Salaries and bonuses	153,178	81,223
Termination cost	675	5,838
Payroll taxes	988	2,924
Other	6,344	892
Total	161,185	90,877

22 **Financial instruments and financial risk factors**

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

- credit risk
- liquidity risk
- market risk

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

(a) **Risk management framework**

The Board of Directors has overall responsibility for the establishment and oversight of the Group’s risk management framework.

The Group established a number of controls over compliance with Group’s risk management policies and procedures. On a quarterly basis, the Group’s Audit Committee reviews managements actions and estimates the adequacy of the measures taken in relation to the risks faced by the Group. The Group’s Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures as well as day-to-day activities and reports to the Audit Committee on a monthly basis.

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

(b) **Credit risk**

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

(i) **Trade receivables**

The Group’s exposure to credit risk is influenced mainly by the individual characteristics of each customer.

The Group has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group’s standard payment and delivery terms and conditions are offered. The Group’s review includes external ratings, when available, and in some cases bank references.

Majority of the Group’s customers have been transacting with the Group for over several years, and losses have occurred infrequently. In monitoring customer credit risk, customers are grouped according to their

credit characteristics, including whether they are an individual or legal entity, whether they are a wholesale, retail or end-user customer, geographic location, industry, aging profile, maturity and existence of previous financial difficulties.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments.

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

(ii) Investments

The Group limits its exposure to credit risk by only investing in liquid securities and only with counterparties that have a high credit rating. Given this management does not expect any counterparty to fail to meet its obligations.

(iii) Guarantees

The Group considers that financial guarantee contracts entered into by the Group to guarantee the indebtedness of parties under common control are insurance arrangements, and accounts for them as such. In this respect, the Group treats the guarantee contract as a contingent liability until such time as it becomes probable that the Group will be required to make a payment under the guarantee.

As at 31 December 2009 the Group issued guarantees on behalf of OJSC "Mezhregionenergosbyt" to "Alteya Finance" LLC, "Sigma" LLC and OJSC "Joint stock bank "Rossiya" in the amount of RUB 2,725,000 thousand.

OJSC "Mezhregionenergosbyt" is a wholly owned subsidiary of the Group's parent company, OJSC "Gazprom" and has a strong credit history. Management believes that possibility of default in relation to the above-mentioned obligations is remote.

At 31 December 2010 no guarantees were outstanding.

Exposure to credit risk

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

	Note	Carrying amount	
		31 December 2010 '000 RUB	31 December 2009 '000 RUB
Available-for-sale financial assets			
Investments	5	74,128	51,333
Loans and receivables			
Long-term accounts receivable	5	230,989	159,674
Short-term investments	7	24,670	417,120
Trade and other receivable	8	2,257,840	2,854,799
Cash and cash equivalents		2,338,912	1,197,075
Total		4,926,539	4,680,001

Cash is placed in financial institutions, which are considered at the time of the deposit to have minimal risk of default.

A significant portion of trade accounts receivable is represented by CJSC "CFR" in amount of RUB 1,254,848 thousand as at 31 December 2010. As at 31 December 2009 the amount of accounts receivable due from CJSC "CFR" was RUB 1,181,053 thousand.

Impairment losses

The aging of trade receivables at the reporting date was:

	31 December 2010		31 December 2009	
	Gross '000 RUB	Impairment '000 RUB	Gross '000 RUB	Impairment '000 RUB
Not past due	2,039,014	-	2,525,545	-
Past due 3-6 months	132,889	(66,433)	171,637	(140,851)
More than 6 months	189,887	(85,246)	295,775	(34,776)
More than 1 year	319,053	(319,053)	396,511	(396,511)
	2,680,843	(470,732)	3,389,468	(572,138)

The management believes that Group entities will be able to realize the net receivable amounts through direct collections and other non-cash settlements, and that therefore the recorded values approximate their fair values. The individually impaired receivables mainly relate to the counterparties which are in difficult economic situation.

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

	2010	2009
	'000 RUB	'000 RUB
1 January	572,138	307,314
Increase during the period	197,851	296,814
Decrease due to reversal	(299,257)	(31,990)
31 December	470,732	572,138

(c) **Liquidity risk**

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements. Values presented in the table reflect non-discounted cash flows.

'000 RUB	Carrying amount	Contractual cash flows	0-6 mths	6-12 mths	1-2 years	2-5 years	More than 5 years
As at 31 December 2010							
Non-derivative financial liabilities:							
Bonds	1,532,550	1,698,758	55,403	55,403	1,587,952	-	-
Borrowing	8,600,000	12,053,666	358,231	364,169	1,446,779	9,884,487	-
Finance lease liabilities	12,267	13,074	8,750	2,243	2,081	-	-
Accounts payable	3,752,221	3,752,221	3,699,702	47,863	4,656	-	-
Other non-current liabilities	536,402	536,402	-	483,489	6,807	45,268	838
As at 31 December 2009							
Non-derivative financial liabilities:							
Bonds	2,874,136	3,415,142	108,201	108,201	216,403	2,982,337	-
Bank loan	2,051,869	2,554,126	141,556	141,556	2,213,315	57,699	-
Finance lease liabilities	49,172	53,613	25,356	15,875	12,382	-	-
Accounts payable	2,882,974	2,882,974	2,859,032	132	23,810	-	-
Other non-current liabilities	545,481	545,481	-	509,859	34,652	-	970

(d) Market risk

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

(i) Currency risk

Power and heat produced by the Group is sold on the internal market of Russian Federation with prices fixed in the currency of Russian Federation. Hence, the Group is not subject to the foreign currency exchange risk. The financial condition of the Company, its liquidity, financing sources and the results of activities do not considerably depend on currency rates as the Group activities are planned to be performed in such a way that its assets and liabilities are denominated in the national currency. At the same time, some transactions connected with acquisition of the equipment, are denominated in foreign currency.

Although the Group may from time to time conclude contracts in foreign currency for implementation of investment program or other purposes, the Group's management considers the currency risk on financial performance and operations in case of unfavourable changes of foreign currency rates as minimal due to insignificance of underlying amounts. The Group sees market risk principally in the risk of a change in interest rates.

(ii) Interest rate risk

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

The Group's income and operating cash flows are largely independent of changes in market interest rates. The Group is exposed to interest rate risk only through market value fluctuations of interest-bearing assets, loans and borrowings. The interest rates on long- and short-term interest-bearing loans and borrowings are fixed.

Since the power sector is regarded as a capital-intensive industry, reinforcement of the Group's market standing would require significant capital endowments. The Group is planning to raise additional debt capital in accordance with its financial policy. The increase in market interest rates would increase the cost of borrowed funds attracted by the Group for financing of its investment program and operations. But at the same time, the growth of market interest rates would decrease the real cost of capital of existing fixed-rate loans.

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate interest/currency swaps as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss.

(e) Fair values versus carrying amounts

Management believes that the fair value of its financial assets and liabilities approximates their carrying amounts. The basis for determining fair values is disclosed in Note 3 (i).

(f) Fair value hierarchy

The table below analyses financial instruments carried at fair value, except financial instruments stated in Note 22 (b) measured at amortised cost, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices);
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1	Level 2	Level 3	Total
31 December 2010				
Investments	74,128	-	-	74,128
	74,128	-	-	74,128

23 Capital risk management

The Group's objectives when managing capital are to ensure 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.

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

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity, as shown in the consolidated statement of financial position, plus net debt. The gearing ratios at 31 December 2010 and at 31 December 2009 were as follows:

	31 December 2010 '000 RUB	31 December 2009 '000 RUB
Total borrowings	10,144,817	4,975,177
Less: cash and cash equivalents (Note 9)	(2,338,912)	(1,197,075)
Net debt	7,805,905	3,778,102
Total equity	57,680,478	55,453,203
Total capital	65,486,383	59,231,305
Gearing ratio	11.9%	6.4%