Joint Stock Company
Territorial Generating Company №1
and its subsidiaries

Consolidated Financial Statements
prepared in accordance with
International Financial Reporting Standards
and Independent Auditor's Report
31 December 2010

BDO

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Independent Auditor's Report

To the Shareholders and the Board of Directors of Joint Stock Company "Territorial Generating Company № 1" (JSC "TGC-1")

We have audited the accompanying consolidated financial statements of JSC "TGC-1" 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 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.

Auditor's 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 their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion we draw attention to Notes 1, 6, 25 and 26 to the accompanying consolidated financial statements of the Group. The Government of the Russian Federation has an ultimate controlling interest in the Group and Governmental economic and social policies affect the Group's financial position, results of operations and cash flows.

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15 March 2011

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JSC TERRITORIAL GENERATING COMPANY №1 AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2010
(in thousands of Russian Roubles)

	Notes	31 December 2010	31 December 2009
ASSETS			
Non-current assets			
Property, plant and equipment	7	99 019 521	84 962 638
Long-term investments	8	48 310	20 010
Deferred tax assets	9	592 472	523 018
Other non-current assets	10	592 174	637 841
Total non-current assets		**100 252 477**	**86 143 507**
Current assets			
Cash and cash equivalents	11	277 218	579 574
Short-term investments	12	6 201	595 695
Accounts receivable and prepayments	14	10 762 658	10 023 839
Inventories	15	2 538 368	2 143 210
Total current assets		**13 584 445**	**13 342 318**
Assets held for sale	13	184 324	-
TOTAL ASSETS		**114 021 246**	**99 485 825**
EQUITY AND LIABILITIES			
Equity			
Share capital	16	38 543 414	38 543 414
Share premium		22 913 678	22 913 678
Merger reserve		(6 086 949)	(6 086 949)
Fair value reserve		-	161 452
Retained earnings		20 075 786	12 929 217
Equity attributable to the shareholders of TGC-1		**75 445 929**	**68 460 812**
Non-controlling interest		(141 705)	-
TOTAL EQUITY		**75 304 224**	**68 460 812**
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities	9	5 897 255	4 661 287
Long-term borrowings	17	16 294 201	9 420 451
Post-employment benefits obligations	18	891 661	772 794
Total non-current liabilities		**23 083 117**	**14 854 532**
Current liabilities			
Short-term borrowings and current portion of long-term borrowings	19	6 905 720	5 617 750
Accounts payable and accrued liabilities	20	7 711 142	9 755 467
Current income tax payable		444 950	144 905
Other taxes payable	21	572 093	652 359
Total current liabilities		**15 633 905**	**16 170 481**
TOTAL LIABILITIES		**38 717 022**	**31 025 013**
TOTAL EQUITY AND LIABILITIES		**114 021 246**	**99 485 825**

Approved for issue and signed on behalf of the Board of Directors on 14 March 2011.

General Director Vaynzikher B.F.

Chief Accountant Stanishevskaya R.V.

The accompanying notes are an integral part of these consolidated financial statements.

(in thousands of Russian Roubles)

	Notes	Year ended 31 December 2010	Year ended 31 December 2009
Revenue			
Sales of electricity		31 101 477	22 319 785
Sales of heat		22 346 736	18 022 922
Other sales		655 678	1 007 289
Total revenue		**54 103 891**	**41 349 996**
Operating expenses, net	22	(48 863 262)	(36 382 417)
Impairment loss reversed during the year	7	4 007 001	6 154 980
Impairment loss recognized during the year	7	(42 698)	(722 067)
Total operating expenses		**(44 898 959)**	**(30 949 504)**
Operating profit		**9 204 932**	**10 400 492**
Finance income	23	88 781	518 920
Finance costs	23	(211 176)	(287 735)
Finance income, net		**(122 395)**	**231 185**
Profit before income tax		**9 082 537**	**10 631 677**
Income tax charge	9	(1 909 359)	(2 281 401)
Profit for the year		**7 173 178**	**8 350 276**
Other comprehensive income			
Net change in fair value of available-for-sale investments	12	(201 815)	201 815
Income tax on other comprehensive income		40 363	(40 363)
Other comprehensive income for the year, net of tax		**(161 452)**	**161 452**
Total comprehensive income for the year, net of tax		**7 011 726**	**8 511 728**
Profit for the year attributable to:			
Shareholders of TGC-1		7 201 814	8 350 276
Non-controlling interests	5	(28 636)	-
Profit for the year		**7 173 178**	**8 350 276**
Total comprehensive income attributable to:			
Shareholders of TGC-1		7 040 362	8 511 728
Non-controlling interests		(28 636)	-
Total comprehensive income		**7 011 726**	**8 511 728**
Earnings per share for profit attributable to the shareholders of TGC-1, basic and diluted (in Russian Roubles)	24	0.0019	0.0022

(in thousands of Russian Roubles)

	Year ended 31 December 2010	Year ended 31 December 2009
Cash flows from operating activities		
Profit before income tax	9 082 537	10 631 677
Adjustments to reconcile profit before tax and net cash from operating activities:		
Depreciation of property, plant and equipment and intangible assets	3 383 587	2 790 690
Impairment loss recognized during the year	42 698	722 067
Impairment loss reversed during the year	(4 007 001)	(6 154 980)
Compensation from municipal authorities	-	(1 376 517)
Finance (income)/expense, net	122 395	(231 185)
Reversal of impairment of available-for-sale investments	-	(266 501)
Change in provision for impairment of accounts receivable	71 138	205 262
Loss on disposal of property, plant and equipment	122 908	129 729
Loss on disposal of non-core assets	37 854	91 457
(Profit)/Loss from sale of investments	(212 411)	18 128
Change in provision for impairment of inventories	27 881	(10 952)
Increase of post-employment benefits obligations	33 762	1 994
Other non-cash items	9 797	10 249
Operating cash flows before working capital changes	**8 715 145**	**6 561 118**
Decrease/(increase) in accounts receivable and prepayments	155 071	(2 343 889)
(Increase)/decrease in inventories	(467 387)	461 553
Decrease/(increase) in other non-current assets	86 667	(179 525)
Decrease in accounts payable and accruals	(1 798 903)	(861 020)
(Decrease)/increase in taxes payable other than income tax	(53 788)	182 361
Cash generated from operations	**6 636 805**	**3 820 598**
Income tax paid	(428 915)	(586 428)
Interest paid	(2 017 472)	(1 297 358)
Net cash from operating activities	**4 190 418**	**1 936 812**
Cash flows from investing activities		
Purchase of property, plant and equipment	(13 373 524)	(14 532 041)
Proceeds from sale of property, plant and equipment	273 639	4 124
Proceeds from sale of investments	456 367	95 996
Purchase of promissory notes	-	(5 966 046)
Proceeds from repayments of promissory notes and loans	108 556	6 081 175
Purchases of shares	(28 300)	-
Net investments in bank deposits	-	260 828
Interest received	4 217	122 377
Net cash used in investing activities	**(12 559 045)**	**(13 933 587)**
Cash flows from financing activities		
Proceeds from borrowings	39 936 756	10 922 250
Repayments of borrowings	(31 692 147)	(5 458 727)
Proceeds from issuance of bonds	-	5 000 000
Dividends paid	(168 314)	-
Net cash from/(used in) financing activities	**8 076 295**	**10 463 523**
Effect of exchange rate fluctuations on cash and cash equivalents	(10 024)	54 208
Net decrease in cash and cash equivalents	(292 332)	(1 533 252)
Cash and cash equivalents at the beginning of the year	**579 574**	**2 058 618**
Cash and cash equivalents at the end of the year	**277 218**	**579 574**

(in thousands of Russian Roubles)

	Equity attributable to the shareholders of TGC-1								
	Share capital	Treasury shares	Share premium	Merger reserve	Fair value reserve	Retained earnings	Total	Non - controlling interest	Total equity
Balance at 31 December 2008	**38 543 414**	**(2)**	**22 913 678**	**(6 086 949)**	**-**	**4 581 594**	**59 951 735**	**-**	**59 951 735**
Comprehensive income for the year									
Profit for the year	-	-	-	-	-	8 350 276	**8 350 276**	**-**	**8 350 276**
Other comprehensive income									
Net change in fair value of available-for-sale investments	-	-	-	-	201 815	-	**201 815**	**-**	**201 815**
Income tax on other comprehensive income	-	-	-	-	(40 363)	-	**(40 363)**	**-**	**(40 363)**
Total other comprehensive income	-	-	-	-	*161 452*	-	*161 452*	-	*161 452*
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**161 452**	**8 350 276**	**8 511 728**	**-**	**8 511 728**
Transactions with owners									
Sale of treasury shares	-	2	-	-	-	-	**2**	**-**	**2**
Change in non – controlling interest in subsidiary	-	-	-	-	-	(2 653)	**(2 653)**	**-**	**(2 653)**
Total transactions with owners	**-**	**2**	**-**	**-**	**-**	**(2 653)**	**(2 651)**	**-**	**(2 651)**
Balance at 31 December 2009	**38 543 414**	**-**	**22 913 678**	**(6 086 949)**	**161 452**	**12 929 217**	**68 460 812**	**-**	**68 460 812**
Comprehensive income for the year									
Profit/(loss) for the year	-	-	-	-	-	7 201 814	**7 201 814**	**(28 636)**	**7 173 178**
Other comprehensive income									
Net change in fair value of available-for-sale investments	-	-	-	-	(201 815)	-	**(201 815)**	**-**	**(201 815)**
Income tax on other comprehensive income	-	-	-	-	40 363	-	**40 363**	**-**	**40 363**
Total other comprehensive income	-	-	-	-	*(161 452)*	-	*(161 452)*	-	*(161 452)*
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**(161 452)**	**7 201 814**	**7 040 362**	**(28 636)**	**7 011 726**
Transactions with owners									
Recognition of cumulative loss at 1 January 2010, which is attributable to non-controlling interest (Note 5)	-	-	-	-	-	113 069	**113 069**	(113 069)	**-**
Dividends	-	-	-	-	-	(168 314)	**(168 314)**	-	**(168 314)**
Total transactions with owners	**-**	**-**	**-**	**-**	**-**	**(55 245)**	**(55 245)**	**(113 069)**	**(168 314)**
Balance at 31 December 2010	**38 543 414**	**-**	**22 913 678**	**(6 086 949)**	**-**	**20 075 786**	**75 445 929**	**(141 705)**	**75 304 224**

Note 1. The Group and its operations

Joint-Stock Company (JSC) Territorial Generating Company № 1 (hereinafter "TGC-1", or the "Company") was established on 25 March 2005 within the framework of the Russian electricity sector restructuring in accordance with Resolution No. 181 adopted by the Board of directors of RAO UES of Russia (hereinafter "RAO UES") on 26 November 2004. The structure and principles of foundation of TGC-1 were adopted by the Board of Directors of RAO UES on 23 April 2004 (Resolution No. 168).

The Company and its subsidiaries (hereinafter the "Group") operates 55 power plants and its principal activity is electricity and heat generation. The Group's generating assets are located in the North-West of Russia, in particular, St. Petersburg, Leningrad region, Murmansk region and Karelia.

The Company's registered office is located at 1, Marsovo pole, 191186, Saint-Petersburg, Russia.

Operating environment

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

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The ongoing global financial crisis has resulted in capital markets instability, significant deterioration of liquidity in the banking sector, and tighter credit conditions within Russia. While the Russian Government has introduced a range of stabilization measures aimed at providing liquidity and supporting debt refinancing for Russian banks and companies, there continues to be uncertainty regarding the access to capital and cost of capital for the Group and its counterparties, which could affect the Group's financial position, results of operations and business prospects. Also, the customers of the Group may have been affected by the deterioration in liquidity, which could in turn impact their ability to repay the amounts due to the Group.

Relations with the State and current regulation

As at 31 December 2010 and 2009 the Group is controlled by Gazprom Group (51.79%) via its subsidiary LLC "Gazprom energoholding". Other significant shareholder of the Group as at 31 December 2009 and 31 December 2010 is Fortum Power and Heat Oy (25.7%). Gazprom Group, in its turn, is controlled by the Russian Federation; therefore, the Russian Government is the ultimate controlling party of the Group as at 31 December 2010 and 2009.

The Group's customer base also includes a large number of entities controlled by, or related to the State. Furthermore, the State controls a number of the Group's fuel and other suppliers.

The government of the Russian Federation directly affects the Group's operations through regulation by the Federal Service on Tariffs ("FST"), with respect to its wholesale energy purchases, and by the St. Petersburg and Leningrad Oblast Regional Services on Tariffs ("RSTs"), with respect to its retail electricity and heat sales. The operations of all generating facilities are coordinated by OAO System Operator of Unified Energy System, the State controlled company.

Tariffs which the Group may charge for sales of electricity and heat are governed by regulations specific to the electricity and heat industry and by regulations applicable to natural monopolies. Historically, such tariffs have been based on a "cost-plus" system, meaning cost of service plus a margin, where costs are determined based on the information taken from the Regulations on Accounting and Reporting of the Russian Federation, a basis of accounting which significantly differs from International Financial Reporting Standards.

As described in Note 26, the government's economic, social and other policies could have material effects on the operations of the Group.

Financial condition

As at 31 December 2010, the Group's current liabilities exceeded its current assets by RUB 1 865 136 thousand (as at 31 December 2009 the Group's current liabilities exceeded its current assets by RUB 2 828 163 thousand). Management plans to find the necessary financial resources to increase its current assets. Also the Company has already repaid part of its current loans in the first quarter of 2011 (see Note 29).

Note 2. Basis of preparation

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) under the historical cost convention except as described below. 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.

The Group 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 (RAR). These consolidated financial statements are based on the statutory records and adjusted and reclassified for the purpose of fair presentation in accordance with IFRS.

Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble ("RUB"), which is the functional currency of each of the entity of the Group and the currency in which these consolidated financial statements are presented.

Going concern

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

Note 3. Critical Accounting Estimates and assumption

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

Provision for impairment of property, plant and equipment

At each reporting date the carrying amounts of the Group's property, plant and equipment and assets under construction are reviewed to determine whether there is any indication of impairment. If any such indication exists, then the assets' recoverable amount is estimated.

The recoverable amount of property, plant and equipment and assets under construction is the higher of an asset's fair value less costs to sell and its value in use. When such recoverable amount has declined below the carrying value, the carrying amount is reduced to the recoverable amount. The amount of the reduction is recorded in the consolidated statement of comprehensive income in the period in which the reduction is identified. If conditions change and management determines that the value of property, plant and equipment and assets under construction has increased, the impairment provision will be fully or partially reversed. See effect of these critical accounting estimates and assumptions in Note 7.

Useful lives of property, plant and equipment

The estimation of the useful life of an item of property, plant and equipment is a matter of management's 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.

Recoverability of accounts receivable

Provision for impairment of accounts receivable is based on the Group's assessment of whether the collectibles of specific customer accounts worsened compared to previous period estimates. If there is a deterioration in a major customer's creditworthiness or actual defaults are higher than the estimates, the actual results could differ from these estimates (see also Note 27).

Pension obligation

The principal actuarial assumptions used to calculate the defined benefit obligation as at 31 December 2010 are listed in Note 18.

Note 4. Summary of significant accounting polices

Principles of consolidation

The consolidated financial statements comprise the financial statements of the Company and the financial statements of those entities, in which the Company has control. Control is presumed to exist when the Company has the right to control entities directly or indirectly through subsidiaries.

Subsidiaries are those companies and other entities (including special purpose entities) in which the Company, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain economic benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Company controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated; unrealized losses are also eliminated unless the cost cannot be recovered. The Company and its subsidiary use uniform accounting policies consistent with the Group's policies.

Non-controlling interest is that part of the net results and of the net assets of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Company. The non-controlling interest forms a separate component of the Group's equity.

Foreign currency

Monetary assets and liabilities, which are held by the Group entities and denominated in foreign currencies at the balance sheet date, are translated into Russian Roubles at the official exchange rates of the Central Bank of the Russian Federation prevailing at the respective balance sheet date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the other comprehensive income or losses. Translation at year-end rates does not apply to non-monetary items that are measured at historical costs.

As at 31 December 2010, the official rate of exchange, as determined by the Central Bank of the Russian Federation, between the Russian Rouble and the US Dollar ("USD") was RUB 30.4769 (31 December 2009 RUB 30.2442: USD 1), between the Russian Rouble and Euro: RUB 40.3331 (31 December 2009 RUB 43.3883: EURO 1).

The Russian Rouble is not freely convertible in most countries outside of the Russian Federation.

Property, plant and equipment

Property, plant and equipment are stated at cost, restated to the equivalent purchasing power of the Russian Rouble at 31 December 2002 for assets acquired prior to 1 January 2003, less accumulated depreciation and provision for impairment, where required. Cost includes borrowing costs incurred on specific or general funds borrowed to finance construction of qualifying assets.

At the time of the Group's foundation in 2005 property, plant and equipment were recorded at the carrying values determined in accordance with the IFRS at the date of their transfer to the Group by the Predecessor (RAO UES).

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount which is determined as the higher of an asset's fair value less costs to sell and its value in use.

(in thousands of Russian Roubles)

The carrying amount is reduced to the recoverable amount and the difference is recognized as an expense (impairment loss) in the profit or losses. An impairment loss recognized in prior periods is reversed if there has been a positive change in the estimates used to determine an asset's recoverable amount.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalized and the replaced part is retired. Gains and losses arising from disposal of property, plant and equipment are included in profit or losses.

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.

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. Depreciation commences on the date of acquisition, or in respect of internally constructed assets, from the time the asset is completed and ready for use.

The estimated useful lives, in years, of assets by type of facility are as follows:

Type of facility	Acquired prior to 1 January 2007*	Acquired subsequent to 1 January 2007
Production buildings	4-50	50
Hydrotechnical buildings	3-50	50
Generating equipment	6-30	20-30
Heating networks	3-20	25
Other	3-25	10-25

** remaining useful lives as at the date of assessment*

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

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at amortized cost using the effective interest method.

Inventories

Inventories are recorded at the lower of cost and net realizable value. Cost of inventory is determined on the weighted average basis. Net realizable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

Value added tax on purchases and sales

Output value added tax ("VAT") related to sales is payable to tax authorities on the earlier of (a) collection of the receivables 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 the settlement of VAT on a net basis. VAT related to sales and purchases is recognized in the balance sheet on a gross basis and disclosed separately as an asset and liability. Where provision has been made for the impairment of receivables, an impairment loss is recorded for the gross amount of the debtor, including VAT.

Long-term input VAT is recognized upon initial recognition at nominal amount. Any IAS36 type impairment indicator, which would include a delay in cash flows beyond those initial expected, would result in impairment. The impairment would be the difference between carrying amount (nominal) and the present value of the latest expected cash flows.

Accounts receivable

Accounts receivable are recorded inclusive of VAT. Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method less provision for impairment. Such a provision for impairment of accounts receivable is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of provision for impairment account. When a trade receivable is uncollectible, it is written off against the provision for impairment of trade receivables. Subsequent recoveries of amounts previously written off are credited against operating costs in the profit or losses. The primary factors that the Group considers whether a receivable is impaired is its overdue status and realizability of related collateral, if any. The following are the other principal criteria used to determine whether there is objective evidence that an impairment loss has occurred:

- any portion of the receivable is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the counterparty experiences a significant financial difficulty as evidenced in the financial information that the Group obtains;
- the counterparty undergoes bankruptcy or a financial reorganization;
- there is an adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty;
- the value of collateral, if any, significantly decreases as a result of deteriorating market conditions.

Prepayments

Prepayments are carried at cost less any 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 more than 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 offset 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 value of the prepayment is written down accordingly and a corresponding impairment loss is recognized in profit or loss.

Classification, recognition and measurement of financial assets

The Group classifies its financial assets into the following measurement categories available-for-sale and loans and receivables.

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.

All other financial assets are included in the available-for-sale category. Available-for-sale investments are carried at fair value. Dividends on available-for-sale equity instruments are recognized in profit or loss when the Group's right to receive payment is established. All other elements of changes in the fair value are deferred in equity until the investment is derecognized or impaired at which time the cumulative gain or loss is transferred from equity to profit or loss.

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

Classification of financial liabilities

The Group classifies its financial liabilities into other financial liabilities which are carried at amortized cost.

Initial recognition of financial instruments

Trading investments, derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial assets and liabilities are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

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

Derecognition of financial assets

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

Accounts payable and accrued liabilities

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

Borrowings

Borrowings are recognized initially at its' fair value. In subsequent periods, borrowings are stated at amortized cost using the effective yield method; any difference between the fair value at initial recognition (net of transaction costs) and the redemption amount is recognized as an interest expense over the period of the borrowing obligation. Interest costs on borrowings to finance the construction of property, plant and equipment are capitalized during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

Non-controlling interest

Non-controlling interest represents the non-controlling shareholders' proportionate share of the equity and results of operations of the Company's subsidiaries. This has been calculated based upon the non-controlling interests' ownership percentage of these subsidiaries. In purchases of non-controlling interest, difference, if any, between the carrying amount of a non-controlling interest and the amount paid to acquire it is recorded directly in equity.

Provisions for liabilities and charges

Provisions for liabilities and charges are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Where the Group expects a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

Pension and post-employment benefits

In the normal course of business the Group contributes to the Russian Federation defined contribution state pension scheme on behalf of its employees. Mandatory contributions to the governmental pension scheme are expensed when incurred.

The Group also operates defined benefit plans. In respect of some of these plans the Group has a contract with a non-governmental pension fund, whilst the other plans are operated by the Group without engaging pension funds.

Cash paid by the Group to the solidarity account with the non-governmental pension fund is refundable to the Group until it is allocated to individual pensioners' bank accounts, and, on that basis, is accounted for by the Group as an asset (accounts receivable from the pension fund).

Defined benefit plans determine 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 balance sheet in respect of defined benefit pension plans operated by the Group is the present value of the defined benefit obligation at the balance sheet date, together with adjustments for unrecognized actuarial gains or losses and past service cost. All defined benefit plans are considered to be fully unfunded. The defined benefit obligations are calculated using the projected unit credit method. The present value of the defined benefit obligations is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits associated with the operations of the plan will be paid, and that have terms to maturity approximating the terms of the related post-employment benefits.

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

Income tax

Income taxes have been provided for in these consolidated financial statements in accordance with the Russian legislation enacted or substantively enacted by the balance sheet date. The income tax charge comprises current tax and deferred tax and is recognized in the profit or losses unless it relates to transactions that are recognized, in the same or a different period, directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes other than on income are recorded within operating expenses.

Provisions for undeclared taxes, and related interest and penalties, are recognized when the Group has a present legal obligation, and a reliable estimate of the amount can be made. A provision is recognized for undeclared taxes and interest when they become payable according to law. The provisions are maintained, and updated if necessary, for the period over which the respective tax positions remain subject to review by the tax and customs authorities, being 3 years from the year of filing. Upon expiry of the review period, the provisions are released and disclosed as a contingent liability until the accounting documentation maintenance period expires, being an additional 2 years (i.e. 5 years in total).

Liabilities for undeclared taxes, interest and penalties are calculated based on management's best estimate of the obligations, in accordance with rates set out in the respective laws in effect at the balance sheet date.

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 more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the balance sheet date and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognized based on management's best estimate of the expenditure required to settle the obligations at the balance sheet date.

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

Deferred tax is not provided for the undistributed earnings of the subsidiary, as the Group requires profits to be reinvested, and only insignificant dividends are expected to be declared from future profits of the subsidiary. Neither these future profits nor the related taxes are recognized in these consolidated financial statements.

Revenue recognition

Revenue is recognized on the delivery of electricity and heat and on the dispatch of non-utility goods and services during the period. Revenue amounts are presented exclusive of VAT. Revenues are measured at the fair value of the consideration received or receivable.

Operating lease

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

Equity

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

Merger reserve. Any difference between the carrying value of the net assets merged into the Group as a result of a transaction under common control, and the nominal value of any shares issued is recorded in equity, as a merger reserve.

Dividends. Dividends are recognized as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the financial statements are authorized for issue.

Environmental liabilities

Liabilities for environmental remediation are recorded where there is a present obligation, the payment is probable and reliable estimates can be made.

Earnings per share

Earnings per share are determined by dividing the profit attributable to ordinary shareholders of the Parent by the weighted average number of ordinary shares outstanding during the reporting period.

Segment reporting

Operating segments are defined as types of operations that generate revenue and incur expenses that are covered by separate financial information regularly submitted to the decision-making body which is represented by the Company's Management Board. Primary activity of the Group is production of electric and heat power and capacity. The Group generates its revenues from the generation of electricity and heat in Russian Federation, so the Group holds assets in the same geographical area - the Russian Federation. The technology of electricity and heat production does not allow segregation of electricity and heat segments (see Note 28).

Seasonality

Demand for electricity and heat is influenced by both the seasons of the year and the relative severity of the weather. Revenues from sales of heat are concentrated within the months of October to March. A similar, although less intense, 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.

Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale (a qualifying asset) form are part of the cost of that asset.

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

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

Other borrowing costs are recognized as an expense on an accrual basis using the effective interest method. Interest income includes nominal interest and accrued discount and premium.

Note 5. Adoption of new and revised International Financial Reporting Standards

A number of New and Revised Standards and Interpretations has been adopted in these financial statements. The adoption of the following revised standard has significant impact on these financial statements:

> *Revised IAS 27 Consolidated and Separate Financial Statements* requires an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Adoption of other New and Revised Standards has not had any significant impact on the amounts reported in these financial statements but may affect the accounting for future transactions or arrangements.

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. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective.

> *Revised IAS 24 Related Party Disclosures (as revised in 2009)* modifies the definition of a related party and simplifies disclosures for government-related entities. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The Group will apply the revised standard from 1 January 2011. When the revised standard is applied, the Group will need to disclose any transactions between its subsidiaries and its associates.

> *IFRS 9 Financial Instruments* issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition. IFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. The Group is yet to assess IFRS 9’s full impact.

(in thousands of Russian Roubles)

Note 6. Related Parties

Related parties are defined in IAS 24, *Related Party Disclosures*. Parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties include shareholders that have control or significant influence over the Company, and key management personnel, as well as companies that are controlled by the State.

As at 31 December 2010 and 2009 the Russian Government was the ultimate controlling party of the Group (Note 1), hence all transactions with other state-controlled entities should be disclosed as related party transactions in accordance with IAS 24 requirements.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions in the years ended at 31 December 2010 and 2009, and had significant balances outstanding as at 31 December 2010 and 2009 are detailed below.

Gazprom Group and its subsidiaries

Transactions with Gazprom Group and its subsidiaries were as follows:

	Year ended 31 December 2010	Year ended 31 December 2009
Sales		
Sales of electricity	1 708 872	2 588 901
Sales of promissory notes	-	1 315 821
Interest income	-	36 040
Total sales	**1 708 872**	**3 940 762**
Purchases		
Purchases of electricity	(287 393)	-
Purchases of fuel	(20 001 192)	(12 980 539)
Purchases of promissory notes	-	(1 238 790)
Interest expense	-	(73)
Other	(134 231)	-
Total purchases	**(20 422 816)**	**(14 219 402)**

Balances with Gazprom Group subsidiaries at the end of the period were as follows:

	31 December 2010	31 December 2009
Accounts receivable and prepayments	82 778	1 032 359
Cash and cash equivalents	-	172 477
Available-for-sale investments	-	7 095
Accounts payable and accrued liabilities	1 107 002	251 024

State-controlled entities

In the normal course of business the Group enters into transactions with other entities under Government control. Prices for natural gas and heat electricity and heat are based on tariffs set by FST, prices for electricity and capacity based on tariffs set by FST and also based on competitive take-off on the wholesale electricity (capacity) market. Bank loans are obtained at market rates. Taxes are charged and paid under the Russian tax legislation.

(in thousands of Russian Roubles)

The Group had the following significant transactions with State-controlled entities:

	Year ended 31 December 2010	Year ended 31 December 2009
Sales		
Sales of heating	7 476 816	7 462 484
Sales of electricity	20 527 298	14 327 896
Other sales	106 882	121 162
Total sales	**28 110 996**	**21 911 542**
Expenses		
Water usage expenses	(1 828 511)	(1 697 270)
Electricity purchases	(7 705 333)	(4 046 774)
Heat distribution	(869 163)	(1 347 188)
Interest expenses	(656 155)	(252 718)
Security services	(259 031)	(338 004)
Operating lease	(417 601)	(343 272)
Transportation expenses	(55 206)	(12 414)
Interest income	46	23 709
Compensation from municipal authorities	-	1 376 517
Other expenses	(796 142)	(738 972)
Total expenses	**(12 587 096)**	**(7 376 386)**

In 2009 the Group concluded a compensation agreement with one of municipal authority in respect of recovering damage to TGC-1 for heating networks broken during construction works of municipal roads. Therefore in 2009 the Group obtained and recognized property, plant and equipment received and respective gain in profit or losses in the amount of RUB 1 376 517 thousand (see Note 22).

The Group had the following significant balances with the State-controlled entities:

	31 December 2010	31 December 2009
Cash and cash equivalents	72 351	25 504
Accounts receivable and prepayments	4 038 713	1 879 262
Borrowings	11 221 191	3 220 057
Accounts payable and accrued liabilities	1 166 826	985 008

Transactions with other related parties

The Group had the following significant transactions and balances with its shareholder Fortum Power and Heat Oy which has significant influence over Group:

	Year ended 31 December 2010	Year ended 31 December 2009
Sales of electricity	979 407	678 893

	31 December 2010	31 December 2009
Accounts receivable and prepayments	89 458	61 067

Transactions and balances with the Non-state pension fund of electrical energy industry are disclosed in Note 18.

Transactions with the Board of Directors and key management personnel

Total remuneration in the form of salary and bonuses paid to the members of the Board of Directors and key management personnel for the year ended 31 December 2010 was RUB 129 436 thousand (2009: RUB 105 857 thousand). All remuneration falls under short-term employee benefits definition in IAS 19 “Employee Benefits”.

(in thousands of Russian Roubles)

Note 7. Property, Plant and Equipment

Cost	Production buildings	Hydrotechnical buildings	Generating equipment	Heating networks	Construction in progress	Other	Total
Balance as at 31 December 2009	**15 028 980**	**16 632 842**	**19 071 275**	**30 269 991**	**34 727 285**	**17 933 131**	**133 663 504**
Additions	4 149	4 828	38 107	50 050	13 578 543	194 427	13 870 104
Transfers	2 559 100	6 703	9 447 367	2 005 538	(16 796 204)	2 777 496	-
Disposals	(15 335)	-	(2 035)	(871 588)	(93 675)	(298 138)	(1 280 771)
Reclassification to assets held for sale	-	-	(33 332)	-	-	(192 194)	(225 526)
Balance as at 31 December 2010	**17 576 894**	**16 644 373**	**28 521 382**	**31 453 991**	**31 415 949**	**20 414 722**	**146 027 311**
Accumulated depreciation (including impairment)							
Balance as at 31 December 2009	**(4 789 906)**	**(6 499 637)**	**(7 398 212)**	**(18 963 038)**	**(56 439)**	**(10 993 634)**	**(48 700 866)**
Charge for the year	(707 352)	(472 640)	(724 021)	(673 308)	-	(723 147)	(3 300 468)
Disposals	1 647	-	12 657	745 100	-	228 635	988 039
Reclassification to assets held for sale	-	-	3 228	-	-	37 974	41 202
Impairment losses reversed during the year	224 180	-	42 014	3 676 816	-	63 991	4 007 001
Impairment losses recognized during the year	-	-	(19 507)	(29 588)	9 493	(3 096)	(42 698)
Balance as at 31 December 2010	**(5 271 431)**	**(6 972 277)**	**(8 083 841)**	**(15 244 018)**	**(46 946)**	**(11 389 277)**	**(47 007 790)**
Net book value as at 31 December 2009	**10 239 074**	**10 133 205**	**11 673 063**	**11 306 953**	**34 670 846**	**6 939 497**	**84 962 638**
Net book value as at 31 December 2010	**12 305 463**	**9 672 096**	**20 437 541**	**16 209 973**	**31 369 003**	**9 025 445**	**99 019 521**

(in thousands of Russian Roubles)

Cost	Production buildings	Hydrotechnical buildings	Generating equipment	Heating networks	Construction in progress	Other	Total
Balance as at 31 December 2008	**14 805 875**	**16 550 921**	**13 683 993**	**27 558 799**	**26 779 896**	**16 442 462**	**115 821 946**
Additions	1 201	-	39 960	-	18 255 133	97 805	18 394 099
Transfers	235 435	81 938	5 348 910	3 137 096	(10 251 949)	1 448 570	-
Disposals	(13 531)	(17)	(1 588)	(425 904)	(55 795)	(55 706)	(552 541)
Balance as at 31 December 2009	**15 028 980**	**16 632 842**	19 071 275	**30 269 991**	**34 727 285**	**17 933 131**	**133 663 504**
Accumulated depreciation (including impairment)							
Balance as at 31 December 2008	**(5 468 686)**	**(6 039 222)**	**(8 346 860)**	**(20 190 251)**	**-**	**(11 686 488)**	**(51 731 507)**
Charge for the year	(574 470)	(512 303)	(524 107)	(635 360)	-	(544 450)	(2 790 690)
Disposals	6 858	17	1 235	337 858	-	42 450	388 418
Impairment losses recognized during the year	(220 877)	-	(64 425)	(270 224)	(56 439)	(110 102)	(722 067)
Impairment losses reversed during the year	1 467 269	51 871	1 535 945	1 794 939	-	1 304 956	6 154 980
Balance as at 31 December 2009	**(4 789 906)**	**(6 499 637)**	**(7 398 212)**	**(18 963 038)**	**(56 439)**	**(10 993 634)**	**(48 700 866)**
Net book value as at 31 December 2008	**9 337 189**	**10 511 699**	**5 337 133**	**7 368 548**	**26 779 896**	**4 755 974**	**64 090 439**
Net book value as at 31 December 2009	**10 239 074**	**10 133 205**	**11 673 063**	**11 306 953**	**34 670 846**	**6 939 497**	**84 962 638**

Construction in progress represents the carrying amount of property, plant and equipment that has not yet been made available for use in production, including generating stations under construction.

Other property, plant and equipment include electricity transmission equipment, motor vehicles, computer equipment, office fixtures and other equipment.

As at 31 December 2010 the advances given to contractors, which amounted to RUB 2 749 378 thousand, net of VAT (as at 2009: RUB 5 582 257 thousand), are recognized within construction in progress balance. The respective input VAT is recognized within other non-current assets balance (see Note 10) and within accounts receivable and prepayments (see Note 14).

As at 31 December 2010 The Group has no property, plant and equipment pledged as collateral according to loan agreements (as at 31 December 2009 net book value of pledged property, plant and equipment: RUB 1 376 522 thousand).

Total amount of capitalized interests which were calculated using capitalization rate equal 10% for the year ended 31 December 2010 is RUB 1 893 917 thousand (for the year ended 31 December 2009: RUB 1 161 433 thousand).

Impairment

As described in Note 3, management determined whether there was any indication of impairment of the Group's property, plant and equipment as at 31 December 2010.

The determination of indication of impairment was performed through six cash-generating units: TPP of Nevsky branch, HPS of Nevsky branch, Heating Network of Nevsky branch, Kolsky branch, Karelsky branch (HPS) and Murmanskaya TPP.

There was no identified any indication of impairment for cash-generating units except of Murmanskaya TPP. Management recognised further impairment loss in respect of the property, plant and equipment of Murmanskaya TPP in the amount of RUB 42 698 thousand.

Management considered recent changes in operation of the Russian electricity market and reassessed recoverable amount of the Group's property, plant and equipment as at 31 December 2010. As a result, management believes that provision for impairment of property, plant and equipment previously recorded by the Group in respect of Heating Network of Nevsky branch should be reversed as at 31 December 2010. The amount of reversal is estimated by management as RUB 4 007 001 thousand.

The indexes used by management in forecasting the future cash flows are based on the Parameters of Forecasting Social and Economic Development of the Russian Federation for 2011 and the 2012-2013 Planning Period, approved by the Government of the Russian Federation in September 2010.

As at 31 December 2009, management also reassessed recoverable amount of the Group's property, plant and equipment. As a result, management believes that provision for impairment of property, plant and equipment previously recorded by the Group in respect of certain electricity and heat generating assets should be partially reversed as at 31 December 2009. The amount of reversal was estimated by management as RUB 6 154 980 thousand. Similarly, management recognised a further impairment loss in respect of the property, plant and equipment of Murmanskaya TPP in the amount of RUB 722 067 thousand.

Weighted average cost of capital of 12.20% (as at 31 December 2009: 14.07%) was applied for discounting future operating cash flows generated by the Group from all cash generating units.

In management's opinion, the existing provision represents the best estimate of the impact of impairment as a result of the current economic conditions affecting the Group.

(in thousands of Russian Roubles)

Operating lease

The Group leases a number of land plots owned by local authorities under operating leases. Land lease commitments are determined by lease agreements and were as follows:

	31 December 2010	31 December 2009
Not later than one year	109 991	94 988
Later than one year and not later than five years	380 097	355 150
Later than five years	1 966 356	2 098 952
Total operating lease	**2 456 444**	**2 549 090**

Note 8. Long-term Investments

	31 December 2010	31 December 2009
Investments in OJSC “Hibinskaya TK”	48 300	20 000
Other	10	10
Total investments	**48 310**	**20 010**

Note 9. Income Tax

	Year ended 31 December 2010	Year ended 31 December 2009
Current income tax charge	(702 482)	(579 588)
Deferred income tax charge	(1 206 877)	(1 701 813)
Income tax charge	**(1 909 359)**	**(2 281 401)**

All companies of the Group were subject to tax rates of 20% on taxable profits in the Russian Federation for 2010 and 2009. Reconciliation between the expected and the actual taxation charge is provided below:

	Year ended 31 December 2010	Year ended 31 December 2009
Profit before tax	9 082 537	10 631 677
Theoretical tax charge at the statutory tax rate of 20%	(1 816 507)	(2 126 335)
Tax effects of items which are non-deductible for income tax purposes	(92 852)	(155 066)
Income tax charge	**(1 909 359)**	**(2 281 401)**

Deferred tax assets and liabilities

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 of 20% as at 31 December 2010 and 2009 which is expected to be applied to the period when the assets are realized and liabilities are settled.

In the context of the Group’s current structure, tax losses and current tax assets of different consolidated entities may not be offset against current tax liabilities and taxable profits of other consolidated entities and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity.

(in thousands of Russian Roubles)

Deferred tax liabilities:	**31 December 2010**	**Recognized in profit or losses**	**Recognized in other comprehensive income**	**31 December 2009**
Property, plant and equipment	(5 824 422)	(1 226 017)	-	(4 598 405)
Investments	2 905	1 886	40 363	(39 344)
Accounts receivable	(244 731)	(76 666)	-	(168 065)
Accounts payable and accrued liabilities	178 636	5 928	-	172 708
Tax loss carried forward	-	(1 727)	-	1 727
Long-term loans	(44 075)	238	-	(44 313)
Other	34 432	20 027	-	14 405
Total deferred tax liability	**(5 897 255)**	**(1 276 331)**	**40 363**	**(4 661 287)**

Deferred tax liabilities:	**31 December 2009**	**Recognized in profit or losses**	**Recognized in other comprehensive income**	**31 December 2008**
Property, plant and equipment	(4 598 405)	(1 797 356)	-	(2 801 049)
Investments	(39 344)	50 100	(40 363)	(49 081)
Accounts receivable	(168 065)	31 537	-	(199 602)
Accounts payable and accrued liabilities	172 708	(17 645)	-	190 353
Tax loss carried forward	1 727	(90 776)	-	92 503
Long-term loans	(44 313)	(44 313)	-	-
Other	14 405	(3 531)	-	17 936
Total deferred tax liability	**(4 661 287)**	**(1 871 984)**	**(40 363)**	**(2 748 940)**

Deferred tax assets	**31 December 2010**	**Recognized in profit or losses**	**31 December 2009**
Property, plant and equipment	131 348	(2 273)	133 621
Tax loss carried forward	411 201	100 393	310 808
Accounts receivable	9 769	(52 784)	62 553
Accounts payable and accrued liabilities	36 946	23 114	13 832
Other	3 208	1 004	2 204
Total deferred tax assets	**592 472**	**69 454**	**523 018**

Deferred tax assets	**31 December 2009**	**Recognized in profit or losses**	**31 December 2008**
Property, plant and equipment	133 621	143 719	(10 098)
Tax loss carried forward	310 808	12 064	298 744
Accounts receivable	62 553	14 996	47 557
Accounts payable and accrued liabilities	13 832	903	12 929
Other	2 204	(1 511)	3 715
Total deferred tax assets	**523 018**	**170 171**	**352 847**

(in thousands of Russian Roubles)

Note 10. Other Non-Current Assets

	31 December 2010	31 December 2009
Long-term receivables (interest free)	7 479	17 828
Loan issued	24 003	-
Promissory notes	8 892	10 083
Total financial receivables	**40 374**	**27 911**
Intangible assets	458 420	454 375
VAT in prepayments on capital construction	93 380	155 555
Total other non-current assets	**592 174**	**637 841**

Intangible assets mainly represent information and accounting systems purchased by the Company from third party vendors.

Note 11. Cash and Cash Equivalents

	31 December 2010	31 December 2009
Promissory notes with maturing less three month	-	61 400
Cash in bank and in hand in RUB	179 629	275 417
Foreign currency accounts in Euro	97 589	242 757
Total cash and cash equivalents	**277 218**	**579 574**

Note 12. Short-term Investments

	31 December 2010	31 December 2009
Equity shares in OJSC “Inter RAO UES”	-	445 881
Banks promissory notes	-	104 541
Loan issued	6 201	45 273
Total short-term investments	**6 201**	**595 695**

As at 31 December 2010 the shares of OJSC “Inter RAO UES” were sold for the total amount of RUB 456 477 thousand. As the result of this transaction the fair value reserve previously recognized in other comprehensive income for the total amount of RUB 201 815 thousand was reclassified to other operating income. The financial result of RUB 212 411 thousand was reflected as a gain from disposal of investments (see Note 22).

Note 13. Assets held for sale

As at 31 December 2010 the property, plant and equipment in the total amount of net book value RUB 184 324 thousand were classified as assets held for sale (see Note 7). According to agreement with the customer signed in January 2011 these assets will be sold for RUB 233 192 thousand during 2011.

(in thousands of Russian Roubles)

Note 14. Accounts Receivable and Prepayments

	31 December 2010	31 December 2009
Trade receivables, net of provision for impairment of RUB 476 029 thousand (31 December 2009: RUB 374 676 thousand)	9 157 203	5 371 666
Other receivables, net of provision for impairment of RUB 30 400 thousand (31 December 2009: RUB 112 790 thousand)	213 531	39 792
Total financial receivables	**9 370 734**	**5 411 458**
Value-added tax receivables	1 293 818	3 656 693
Advances to suppliers	55 828	939 330
Other taxes receivable	42 278	16 358
Total accounts receivable and prepayments	**10 762 658**	**10 023 839**

Note 15. Inventories

	31 December 2010	31 December 2009
Fuel	1 710 532	1 360 013
Spare parts	388 318	415 575
Raw materials and other supplies	439 518	367 622
Total inventories	**2 538 368**	**2 143 210**

Raw materials and other supplies are recorded net of provision for impairment in the amount of RUB 34 248 thousand (31 December 2009: RUB 6 367 thousand).

Note 16. Equity

Share capital

The Group's share capital as at 31 December 2010 and 2009 was RUB 38 543 414 thousand comprising 3 854 341 417 ordinary shares with a par value of RUB 0.01. All shares authorized are issued and fully paid.

Dividends

In accordance with the Russian legislation, the Group distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of financial statements prepared in accordance with Russian Accounting Rules. The statutory accounting reports of the Company are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the net profit. For 2010, the current year statutory net profit for the Company, as reported in the published annual statutory reporting forms, was RUB 3 606 945 thousand (2009: RUB 3 366 287 thousand) and the closing balance of the accumulated loss including the current year statutory net profit totalled RUB 8 537 501 thousand (31 December 2009: RUB 11 813 204 thousand). However, this legislation and other statutory laws and regulations 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 consolidated financial statements.

At the General Shareholders Meeting held on 28 June 2010, the decision was made to pay the 2009 annual dividends in the total amount of RUB 168 314 thousand.

(in thousands of Russian Roubles)

Note 17. Long-term Borrowings

	Currency	Effective interest rate	Maturity	31 December 2010	31 December 2009
Long-term bonds	RUB	16.99%	2014	5 000 000	5 000 000
Long-term bonds	RUB	8.5%	2014	923 126	921 939
NORDIC Investment Bank	Euro	EURIBOR + 3%	2014	651 535	901 142
European Bank for Reconstruction and Development	Euro	EURIBOR + 2.75%	2010	-	173 551
Nordic Environment Finance Corporation	Euro	EURIBOR + 2.00%	2015	90 750	119 319
AB Russia	RUB	5-7.2%	2011, 2013	1 200 000	-
TransCreditBank	RUB	6.5%	2012, 2013	1 969 405	2 700 000
Barclays bank	RUB	6.9%	2013	1 000 000	-
VTB North-West	RUB	6.95-7.1%	2012	4 700 600	-
Sberbank RF	RUB	6.8-6.9%	2013	3 700 000	-
Unicreditbank	RUB	6.8%	2015	1 124 505	-
Alfabank	RUB	6.8%	2015	2 000 000	-
				22 359 921	**9 815 951**
Less: current portion					
Long-term bonds issued				(5 000 000)	-
NORDIC Investment Bank				(186 153)	(200 254)
European Bank for Reconstruction and Development				-	(173 551)
Nordic Environment Finance Corporation				(20 167)	(21 695)
VTB North-West				(859 400)	-
Total long-term borrowings				**16 294 201**	**9 420 451**

On 7 July 2009 Group issued 5 000 000 bonds at a nominal value of for RUB 1 000 per bond, with coupon rate of 16.99%, maturing in 2014 and with buy-back put option in 2011.

Compliance with covenants

In accordance with the long-term borrowings facility agreements, the Group is required to comply with certain financial and non-financial covenants. The most significant and most important covenants are:

- to maintain certain ratios: EBITDA to Finance Charges, total debt to equity and Current Ratio;
- to maintain certain liquidity and debt-to-assets ratio.

In case of breach of these covenants the schedule of repayment can be changed by the respective lender, up to immediate repayment. Management does not believe that the Group is in danger of breaching the covenants imposed.

(in thousands of Russian Roubles)

Note 18. Post-Employment Benefits Obligations

The Group operates defined benefit and defined contribution pension plans. In respect of some of these plans the Group has a contract with a pension fund "Non-state pension fund of electrical energy industry" ("NPFE"), which is a separate legal entity; the other plans are operated by the Group without engaging pension funds. Defined contribution plans are considered immaterial for disclosure.

The defined benefit pension plan through NPFE provides for monthly pension benefit paid upon retirement. Annual contributions are made by the Group to the solidarity account in the non-state pension fund. Amount of the contribution is defined by the Group's budget and is considered to be enough at least to finance running pension benefits. No part of this contribution is recognized as plan asset as far as the Group can recall this money back and the plan is considered as unfunded thereat. Pension benefits are paid from the solidarity account on 'pay-as-go' basis.

Additionally to the NPFE pension plan, the Group provides financial support, of a defined benefit nature, to its old-age pensioners, who have completed certain service for the Group, and other post-employment benefits such as lump-sum payments upon retirement, lump-sum material aid, etc.

The tables below provide information about the benefit obligations, plan assets and actuarial estimations used for the years ended 31 December 2010 and 31 December 2009.

Amounts recognized in the consolidated balance sheet:

	31 December 2010	31 December 2009
Defined benefit obligations	919 323	1 043 001
Unrecognized net actuarial losses	36 637	(114 770)
Unrecognized past service cost	(64 299)	(155 437)
Net liability on the balance sheet	**891 661**	**772 794**

Amounts recognized in the consolidated statement of profit or losses:

	Year ended 31 December 2010	Year ended 31 December 2009
Current service cost	62 743	47 729
Interest cost	85 105	84 533
Past service cost	1 929	17 881
Actuarial losses on obligation	(5 994)	6 872
Termination benefits	139 750	31 285
Total	**283 533**	**188 300**

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

	Year ended 31 December 2010	Year ended 31 December 2009
Benefit obligations as at the beginning of the period	1 043 001	954 886
Current service cost	62 743	47 729
Interest cost	85 105	84 533
Past service cost	(89 209)	-
Benefits paid	(79 100)	(70 488)
Actuarial (gains) / losses	(103 217)	26 341
Benefit obligations as at the end of the period	**919 323**	**1 043 001**

The principal actuarial estimations are as follows:

	31 December 2010	31 December 2009
Discount rate for benefits at accumulation phase	8.00%	9.00%
Future salary increase	7.50%	9.00%
Future inflation rate	6.00%	6.50%

(in thousands of Russian Roubles)

Note 19. Short-Term Borrowings and Current Portion of Long-Term Borrowings

Name of lender	Currency	Effective interest rate	31 December 2010	31 December 2009
VTB North-West	RUB	9.7-12.3%	840 000	500 000
Alfabank	RUB	17.5%	-	1 230 000
Gazenergoprombank	RUB	14.5%	-	1 200 000
AB Russia	RUB	5-18%	-	250 000
Unicreditbank	RUB	12.15%	-	1 300 000
Baltinvestbank	RUB	12%	-	742 250
Current portion of long-term borrowings:				
Long-term bonds issued	RUB	16.99%	5 000 000	-
Nordic Environment Finance Corporation	Euro	EURIBOR+2.00%	20 167	21 695
European Bank for Reconstruction and Development	Euro	EURIBOR+2.75%	-	173 551
NORDIC Investment Bank	Euro	EURIBOR+3%	186 153	200 254
VTB North-West	RUB	6.95-7.1%	859 400	-
Total short-Term Borrowings			**6 905 720**	**5 617 750**

Note 20. Accounts Payable and Accrued Liabilities

	31 December 2010	31 December 2009
Trade accounts payable	3 403 848	2 792 198
Accounts payable for capital construction	2 428 919	5 416 898
Accrued liabilities and other payables	364 329	434 731
Interest accrued on loans	56 445	77 365
Total financial payables	**6 253 541**	**8 721 192**
Advances from customers	1 115 330	882 848
Employee benefits	342 271	151 427
Total accounts payable and accrued liabilities	**7 711 142**	**9 755 467**

Note 21. Other Taxes Payable

	31 December 2010	31 December 2009
Property tax	174 375	157 914
Water usage tax	13 643	67 419
Employee taxes	54 429	1 367
VAT provision	233 811	347 947
Other taxes	95 835	77 712
Total taxes Payable	**572 093**	**652 359**

(in thousands of Russian Roubles)

Note 22. Operating Expenses, net

	Year ended 31 December 2010	Year ended 31 December 2009
Fuel	21 636 975	15 692 676
Employee benefits	5 517 651	5 149 671
Electricity and heat purchases	8 703 426	4 740 156
Depreciation of property, plant and equipment and intangible assets	3 383 587	2 790 690
Repairs and maintenance	1 879 363	1 783 650
Water usage expenses	1 880 446	1 708 434
Heat distribution	869 163	1 191 920
Taxes other than income tax	1 068 364	1 031 958
Dispatcher's fees	638 138	603 983
Other materials	374 080	375 481
Lease expenses	557 760	326 095
Insurance cost	218 229	215 890
Provision for impairment of accounts receivable	71 138	205 262
Loss on disposal of property, plant and equipment	122 908	129 729
(Gain)/Loss from sale of investments	(212 411)	18 128
Compensation from municipal authorities	-	(1 376 517)
Impairment of available-for-sale investments	-	(266 501)
Provision/(reversal of provision) for inventory obsolescence	27 881	(10 952)
Other operating income	(188 921)	(405 986)
Other operating expenses	2 315 485	2 478 650
Total operating expenses, net	**48 863 262**	**36 382 417**

In 2009 the Group concluded a compensation agreement with one of municipal authority in respect of recovering damage to TGC-1 for heating networks broken during construction works of municipal roads. Therefore in 2009 the Group obtained and recognized property plant and equipment received and respective gain in profit or losses for the total amount of RUB 1 376 517 thousand (see Note 6).

Note 23. Finance income and finance costs

	Year ended 31 December 2010	Year ended 31 December 2009
Interest income	4 165	122 377
Gain from disposal of banks' promissory notes	4 015	152 907
Exchange differences	80 601	-
Effect of discounting	-	243 636
Finance income	**88 781**	**518 920**
Interest expense	(205 581)	(223 455)
Exchange differences	-	(64 280)
Effect of discounting	(5 595)	-
Finance costs	**(211 176)**	**(287 735)**

Note 24. Earnings per Share

	Year ended 31 December 2010	Year ended 31 December 2009
Profit attributable to the shareholders of TGC-1	7 201 814	8 350 276
Weighted average number of ordinary shares issued (thousands)	3 854 341 417	3 854 341 417
Earnings per ordinary share attributable to the shareholders of TGC-1 after tax – basic and diluted – in Russian Roubles	0.0019	0.0022

Note 25. Commitments

Fuel commitments

The Group concluded a number of contracts for fuel supply. Main supplier of gas is CJSC Peterburgregiongaz (subsidiary of Gazprom Group, controlled by the State) and the main supplier of coal is OJSC Plant Polymer. The prices for natural gas and coal stipulated in the contracts are mainly determined on the basis of tariffs established by the FST, published inflation rates and current market prices.

Contractual capital commitments

As at 31 December 2010, the Group had outstanding contractual commitments in respect of construction of property, plant and equipment in the amount of RUB 16 838 739 thousand (31 December 2009: RUB 16 408 245 thousand).

Note 26. Contingencies

Political environment

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

Insurance

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

Legal proceedings

The Group is a party to certain legal proceedings arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding and not provided which, upon final disposition, will have a material adverse effect on the financial position of the Group.

Tax legislation

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. The Russian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. In October 2006, the Supreme Arbitration Court issued guidance to lower courts on reviewing tax cases providing a systemic roadmap for anti-avoidance claims, and it is possible that this will significantly increase the level and frequency of tax authorities' scrutiny. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

As at 31 December 2010 the Group estimates that it has total potential obligations from exposure to possible tax risks related to pricing and documentation of certain transactions of RUB 851 698 thousand.

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

Environmental matters

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations.

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

(in thousands of Russian Roubles)

Compliance with covenants

The Group is subject to certain covenants related to its long-term borrowings (see Note 17). Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default. The Group's management believes that the Group is in compliance with covenants.

Note 27. Financial Risk Management

Financial risks

The Group's activities expose it to a variety of financial risks including market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The Group does not have a formal risk policy to hedge its financial exposures.

Credit risk

Financial assets, which potentially subject the Group to concentrations of credit risk, consist principally of trade receivables. 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.

Cash transactions are conducted through high-credit-quality financial institutions. Cash is placed in financial institutions, which are considered at time of deposit to have minimal risk of default.

The table below shows the rating and balances with major banks at the balance sheet dates:

	Rating agency	National scale ratings	Long-term RDE* in foreign currency	31 December 2010	31 December 2009
Cash at bank and cash equivalents					
SEB Bank	Fitch	AAA (rus)	BBB+	-	35 643
Sberbank RF	Fitch	-	BBB	30 302	23 499
NB Trust	Moody's	-	Caa1	1 256	60 733
Alfabank	Fitch	AA-(rus)	BB	214	4 137
VTB	Fitch	AAA (rus)	BBB	42 043	2 000
AB Russia	Fitch	BBB (rus)	B	161 108	4
Gazenergoprombank	Moody's	Aa3	Ba3/NP	-	384 400
Baltinvestbank	Moody's	-	B3	-	9
VTB	Fitch	AAA(rus)	BBB	-	39 770
Baltiyskiy Bank	Moody's	-	-	9 025	9 887
UnicreditBank	Fitch	AAA (rus)	BBB+	3	32
Sobinbank	Moody's	-	B3	29 432	18 612
Other	-	-	-	3 835	848
Total cash at bank and cash equivalents				**277 218**	**579 574**

** Rating of default of the bank*

At the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk at the reporting date without taking account of any collateral held is as follows:

	31 December 2010	31 December 2009
Cash and cash equivalents (Note 11)	277 218	579 574
Short - term investments (Note 12)	6 201	595 695
Total short-term financial receivables (Note 14)	9 370 734	5 411 458
Total long-term financial receivables (Note 10)	40 374	27 911
Total	**9 694 527**	**6 614 638**

(in thousands of Russian Roubles)

Total financial receivables by type of customers are presented in the table below:

	31 December 2010	31 December 2009
Domestic customers	6 929 912	3 647 095
Wholesale customers	1 483 423	1 032 501
Free market	820 633	622 325
Export customers	136 766	109 537
Total	**9 370 734**	**5 411 458**

Total financial receivables on a contract basis as at the reporting date are presented in the table below:

	Fully performing	Past due but not impaired	Impaired
Total financial receivables as at 31 December 2010	5 114 868	4 255 866	506 429
Total financial receivables as at 31 December 2009	4 005 065	1 406 393	487 466

Fully performing trade receivables relate to a number of independent customers for whom there is no recent history of default. The majority of performing trade receivables is represented by large number of individually insignificant end-user customers; therefore the credit risk is widely spread.

Past due but not impaired financial receivables have the following ageing structure:

	31 December 2010	31 December 2009
Up to 45 days	2 306 644	579 487
From 45 to 90 days	321 486	229 998
More than 90 days	1 627 736	596 908
Total	**4 255 866**	**1 406 393**

Movements in impairment provision for financial receivables are as follows:

	Year ended 31 December 2010	Year ended 31 December 2009
Provision for impairment as at 1 January	**487 466**	**289 040**
Impairment loss recognized during the period	438 905	198 426
Impairment loss reversed during the period	(396 751)	-
Consumed	(23 191)	-
Provision for impairment as at 31 December	**506 429**	**487 466**
Account receivable directly written-off as an expenses	28 984	6 836

(in thousands of Russian Roubles)

Currency risk

The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. At 31 December 2010, the Group had the following currency positions:

	RUB	EURO	Total
Monetary financial assets			
Cash and cash equivalents	179 629	97 589	277 218
Short - term investments	6 201	-	6 201
Total short-term financial receivables	9 233 923	136 811	9 370 734
Total long-term financial receivables	40 374	-	40 374
Total financial assets	**9 460 127**	**234 400**	**9 694 527**
Monetary financial liabilities			
Long-term borrowings	(15 758 236)	(535 965)	(16 294 201)
Short-term borrowings	(6 699 400)	(206 320)	(6 905 720)
Total other financial liabilities	(6 253 541)	-	(6 253 541)
Total financial liabilities	**(28 711 177)**	**(742 285)**	**(29 453 462)**
Net balance sheet position	**(19 251 050)**	**(507 885)**	**(19 758 935)**

As at 31 December 2009, the Group had the following currency positions:

	RUB	USD	EURO	Total
Monetary financial assets				
Cash and cash equivalents	336 817	20	242 737	579 574
Short - term investments	595 695	-	-	595 695
Total short-term financial receivables	5 301 411	510	109 537	5 411 458
Total long-term financial receivables	27 911	-	-	27 911
Total financial assets	**6 261 834**	**530**	**352 274**	**6 614 638**
Monetary financial liabilities				
Long-term borrowings	(8 621 939)	-	(798 512)	(9 420 451)
Short-term borrowings	(5 222 250)	-	(395 500)	(5 617 750)
Total other financial liabilities	(8 721 192)	-	-	(8 721 192)
Total financial liabilities	**(22 565 381)**	**-**	**(1 194 012)**	**(23 759 393)**
Net balance sheet position	**(16 303 547)**	**530**	**(841 738)**	**(17 144 755)**

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 liquidity risk management includes maintaining sufficient cash to fund operations and the investment programme and the availability of funding from an adequate amount of committed credit facilities.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date, based on the contractual undiscounted amounts, including future interest payments.

(in thousands of Russian Roubles)

As at 31 December 2010

	Carrying amount	Contractual cash flows	Less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Total
Long-term and short-term bonds	5 923 126	6 143 503	-	-	5 000 000	1 143 503	6 143 503
Long-term and short-term loans	17 276 795	17 276 795	-	-	1 905 720	15 371 075	17 276 795
Total other financial liabilities	6 253 541	6 253 541	3 936 301	586 817	1 730 423	-	6 253 541
Total financial liabilities	**29 453 462**	**29 673 839**	**3 936 301**	**586 817**	**8 636 143**	**16 514 578**	**29 673 839**

As at 31 December 2009

	Carrying amount	Contractual cash flows	Less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Total
Long-term and short-term bonds	5 921 939	6 143 503	-	-	-	6 143 503	6 143 503
Long-term and short-term loans	9 116 262	9 116 262	350 126	1 366 636	3 900 988	3 498 512	9 116 262
Total other financial liabilities	8 721 192	8 721 192	6 285 440	671 356	1 764 396	-	8 721 192
Total financial liabilities	**23 759 393**	**23 980 957**	**6 635 566**	**2 037 992**	**5 665 384**	**9 642 015**	**23 980 957**

As at 31 December 2010, the contractual cash flows for financial liabilities were translated using the following rates: CB RF official exchange rates as at 31 December 2010 of EURO 1 = RUB 40.3331 (31 December 2009: EURO 1 = RUB 43.3883) and future interest was calculated using EURIBOR effective rate as at 31 December 2010 of 1.507 % (31 December 2009: 1.248 %).

Market risk

The Group exports part of produced electricity to Finland and Norway and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Euro. Foreign exchange risk arises on foreign currency denominated borrowings (see Notes 17 and 19). The Group does not have formal arrangements to mitigate this risk.

At 31 December 2010, if the Russian Rouble had weakened/strengthened on 10% in 2010 (2009: 10%) against the EURO with all other variables held constant, the profit for the year would have been RUB 50 788 thousand (2009: RUB 84 174 thousand) lower/higher. Since the Group does not hold any financial instruments revalued through equity, the effect of change of exchange rate on equity would be the same as on post-tax profit.

Interest rate risk

The Group’s operating profits and cash flows from operating activity are largely independent of changes in market interest rates. The Group’s interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

(in thousands of Russian Roubles)

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

	Carrying amount	
	31 December 2010	**31 December 2009**
Fixed rate instruments		
Long-term loans and borrowings	11 917 036	8 621 939
Short-term loans and borrowings	5 000 000	5 222 250
Variable rate instruments		
Long-term loans and borrowings	4 377 165	798 512
Short-term loans and borrowings	1 905 720	395 500
Total financial instruments	**23 199 921**	**15 038 201**

The Group analyses its interest rate exposure on a regular basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing. Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift.

A general increase/decrease of one percent in interest rates would have increased/decreased the Group's profit after income tax for the year ended 31 December 2010 by approximately RUB 50 263 thousand (for the year ended 31 December 2009: RUB 9 552 thousand). The effect on equity (retained earnings) would be the same as on post-tax profit.

Fair value sensitivity analysis for fixed rate instruments

In 2010 the Group did not hold any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group did not designate derivatives as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rate at the reporting date would not affect profit or loss.

Fair values

The fair value of long-term bonds (including the current portion) as estimated by management on the basis of future contracted cash flows and marketable interest rates on similar instruments applicable to the Group is less than its carrying value in the amount of RUB 220 377 thousand as at 31 December 2010 (as at 31 December 2009: RUB 221 564 thousand).

Management believes that the fair values of the Group's other financial assets and liabilities approximate their carrying values as of both year ends and determines the appropriate level of the financial assets and liabilities using a three – level hierarchy on the basis of the lowest level input that is significant to the fair value measurements.

Capital risk 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 to equity holders 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 equity holders, return capital to equity holders or issue new shares.

The Group monitors capital on the basis of the gearing ratio to be consistent with other companies in the industry. This ratio is calculated as net debt divided by total equity. Net debt is calculated as total borrowings (including borrowings and trade and other payables, as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as equity (net of non-controlling interest), as shown in the consolidated balance sheet, plus net debt. Management of capital is linked to maintaining certain financial ratios to comply with covenants imposed by the banks (see Notes 17 and 19).

(in thousands of Russian Roubles)

During 2010, the Group's strategy, which was unchanged from 2009, was to maintain a gearing ratio between net debt and equity not higher than 0.6. The gearing ratios at 31 December 2010 and 31 December 2009 were as follows:

	31 December 2010	31 December 2009
Total borrowings	23 199 921	15 038 201
Trade and other liabilities	7 711 142	9 755 467
Less: cash and cash equivalents	(277 218)	(579 574)
Net debt	30 633 845	24 214 094
Total equity	75 445 929	68 460 812
Total capital	**106 079 774**	**92 674 906**
Debt % in Capital Structure	28.88%	26.13%
Equity % in Capital Structure	71.12%	73.87%
Gearing ratio	0.41	0.35

Note 28. Segment information

The Group generates its revenues from the generation of electricity and heat in one geographical segment - Russian Federation (see Note 4). The Group major customers are the regional electricity wholesalers. Management does not believe that the Group is dependent on any particular customer.

The Management Board of the Company controls and allocates economic resources of the Group between segments and evaluates segment's operating efficiency. Primary activity of the Group is production of electric and heat power and capacity. The technology of electricity and heat production does not allow segregation of electricity and heat segments. Due to significant decentralization and distances between Company branches, the Group identifies six primary reporting segments: TPP of Nevsky branch, HPS of Nevsky branch, Heating Network of Nevsky branch, Kolsky branch, Karelsky branch (HPS) and Murmanskaya TPP. All reporting segments are located on the territory of Russian Federation. In the process of valuation of segments results and allocation of economic resources of the Group the Management Board uses financial information provided below prepared in accordance with Russian Accounting Standards (RAS). The differences between the above-mentioned financial indicators analyzed by the Management Board and IFRS financial information are caused by different approaches applied in IFRS and RAS. The main difference is the estimation of the value of property, plant and equipment.

(in thousands of Russian Roubles)

Year ended 31 December 2010	**TPP of Nevsky branch**	**HPS of Nevsky branch**	**Heating Network of Nevsky branch**	**Kolsky branch**	**Karelsky branch (HPS)**	**Murmanskaya TPP**	**Total operating segments**
Revenue:	30 623 667	3 931 699	7 008 975	7 433 885	4 018 606	3 799 628	**56 816 460**
including export	-	979 407	-	1 108 823	-	-	**2 088 230**
Depreciation of property, plant, equipment	1 337 376	191 055	1 222 738	294 278	294 983	42 999	**3 383 428**
Reportable segment profit / (loss)	1 307 584	1 823 638	3 201 656	2 859 147	811 191	(545 929)	**9 457 287**
Other material non-cash items:							
Impairment loss reversal	-	-	4 007 001	-	-	-	**4 007 001**
Impairment loss recognized	-	-	-	-	-	(42 698)	**(42 698)**

Year ended 31 December 2009	**TPP of Nevsky branch**	**HPS of Nevsky branch**	**Heating Network of Nevsky branch**	**Kolsky branch**	**Karelsky branch (HPS)**	**Murmanskaya TPP**	**Total operating segments**
Revenue:	22 457 324	2 716 976	3 523 069	6 069 921	3 604 551	2 978 155	**41 349 996**
including export	-	678 894	-	1 008 220	-	-	**1 687 114**
Depreciation of property, plant, equipment	1 178 124	134 815	1 071 973	256 735	210 218	51 820	**2 903 685**
Reportable Segment profit / (loss)	1 136 390	1 602 559	1 395 518	2 119 749	964 692	(62 069)	**7 156 839**
Other material non-cash items:							
Impairment loss reversal	4 294 989	-	1 859 991	-	-	-	**6 154 980**
Impairment loss recognized	-	-	-	-	-	(722 067)	**(722 067)**

(in thousands of Russian Roubles)

A reconciliation of management financial information prepared in accordance with based on RAR to IFRS figures is provided as follows:

	Year ended 31 December 2010	Year ended 31 December 2009
Segment operating profit	**9 457 287**	**7 156 839**
Adjustments, arisen from different accounting policy:		
Depreciation adjustment	19 321	212 149
Reversal/(charge) of property, plant and equipment impairment, net	3 964 303	5 432 913
Provision for impairment of trade and other receivables	199 391	(32 311)
Provision for taxes	-	209 916
Actuarial losses	(118 867)	(86 527)
Effect of discounting	(5 595)	243 636
Interest capitalized	745 582	456 878
Net change in fair value of available-for-sale investments	201 815	(201 815)
Income tax provision	-	120 136
Elimination of intercompany revenue	(2 712 592)	-
Elimination of intercompany expenses	524 225	-
Other adjustments	(104 779)	26 006
Unallocated expenses:		
Employee benefits	(427 885)	(428 594)
Rent	(190 642)	(206 627)
Consulting, legal and audit services	(121 900)	(151 767)
Other corporate expenses	(2 347 127)	(2 119 155)
Profit for the year	**9 082 537**	**10 631 677**

Segment's assets are disclosed below:

	31 December 2010	31 December 2009
TPP of Nevsky branch	60 728 191	50 232 751
HPS of Nevsky branch	7 233 720	6 691 912
Heating Network of Nevsky branch	15 042 245	14 014 385
Kolsky branch	10 232 209	9 835 386
Karelsky branch (HPS)	4 704 837	4 539 003
Murmanskaya TPP	3 298 844	2 311 293
Total operating segments	**101 240 046**	**87 624 730**

A reconciliation of management financial information prepared in accordance with based on RAR to IFRS figures is provided as follows:

	Year ended 31 December 2010	Year ended 31 December 2009
Total assets for reportable segment	**101 240 046**	**87 624 730**
Adjustments, arisen from different accounting policy:		
Property, plant and equipment adjustment	11 105 506	6 343 523
Impairment of trade and other receivables	(102 003)	(301 394)
Deferred tax assets	174 588	203 365
Discounting of accounts receivables and investments	(29 279)	(24 871)
Elimination of intersegment accounts receivable	(1 233 386)	(11 585)
Other adjustments	(173 455)	(63 483)
Unallocated assets	3 039 229	5 715 540
Total assets	**114 021 246**	**99 485 825**

The unallocated assets are the assets which cannot be directly related to the certain operating segment and also out of the operating segment control for decision making. These assets include, short – term and long - term trade receivables, cash in bank, deposits, inventories and fixed assets which are the subject to headquarter control.

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

Note 29. Events after the reporting period

Loans

For the period from 1 January 2011 till 14 March 2011 the Group repaid its short-term borrowings outstanding as at 31 December 2010 for the total amount of RUB 2 828 805 thousand.