**Joint Stock Company**
**Territorial Generating Company №1**
**and its subsidiaries**

Brief Intermediate Consolidated Financial Statements
prepared in accordance with
International Financial Reporting Standards
for NINE MONTHS ended 30 September 2010

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*(in thousands of Russian Roubles)*

| | 30 September 2010 | 31 December 2009 |
|---|---|---|
| **ASSETS** | | |
| **Non-current assets** | | |
| Property, plant and equipment | 91 623 838 | 84 962 638 |
| Long-term investments | 48 310 | 20 010 |
| Deferred tax assets | 594 517 | 523 018 |
| Other non-current assets | 642 418 | 637 841 |
| **Total non-current assets** | **92 909 083** | **86 143 507** |
| **Current assets** | | |
| Cash and cash equivalents | 436 730 | 579 574 |
| Short -term investments | 188 193 | 595 695 |
| Accounts receivable and prepayments | 9 299 531 | 10 023 839 |
| Inventories | 2 578 168 | 2 143 210 |
| **Total current assets** | **12 502 622** | **13 342 318** |
| **TOTAL ASSETS** | **105 411 705** | **99 485 825** |
| **EQUITY AND LIABILITIES** | | |
| **Equity** | | |
| Share capital | 38 543 414 | 38 543 414 |
| Treasury shares | - | - |
| Share premium | 22 913 678 | 22 913 678 |
| Merger reserve | (6 086 949) | (6 086 949) |
| Fair value reserve | - | 161 452 |
| Retained earnings | 15 221 991 | 12 929 217 |
| **Equity attributable to the shareholders of TGC-1** | **70 592 134** | **68 460 812** |
| Non-controlling interest | - | - |
| **TOTAL EQUITY** | **70 592 134** | **68 460 812** |
| **LIABILITIES** | | |
| **Non-current liabilities** | | |
| Deferred tax liabilities | 5 094 255 | 4 661 287 |
| Long-term borrowings | 13 539 701 | 9 420 451 |
| Post-employment benefits obligations | 837 718 | 772 794 |
| **Total non-current liabilities** | **19 471 674** | **14 854 532** |
| **Current liabilities** | | |
| Short-term borrowings and current portion of long-term borrowings | 5 859 612 | 5 617 750 |
| Accounts payable and accrued liabilities | 8 750 276 | 9 755 467 |
| Current income tax payable | 138 654 | 144 905 |
| Other taxes payable | 599 355 | 652 359 |
| **Total current liabilities** | **15 347 897** | **16 170 481** |
| **TOTAL LIABILITIES** | **34 819 571** | **31 025 013** |
| **TOTAL EQUITY AND LIABILITIES** | **105 411 705** | **99 485 825** |

General Director — Vaynzikher B.F.

Chief Accountant — Stanishevskaya R.V.

*(in thousands of Russian Roubles)*

| | Nine months ended 30 September 2010 | Nine months ended 30 September 2009 |
|---|---|---|
| **Revenue** | | |
| Sales of electricity | 21 670 737 | 14 694 420 |
| Sales of heat | 14 737 870 | 11 804 900 |
| Other sales | 440 726 | 761 013 |
| **Total revenue** | **36 849 333** | **27 260 333** |
| Operating expenses, net | (33 678 835) | (23 210 735) |
| Impairment loss reversed during the year | - | - |
| Impairment loss recognised during the year | - | - |
| **Total operating expenses** | **(33 678 835)** | **(23 210 735)** |
| **Operating profit** | **3 170 498** | **4 049 598** |
| Finance income | 7 353 | 210 352 |
| Finance cost | (247 845) | (453 704) |
| **Finance income, net** | **(240 492)** | **(243 352)** |
| **Profit before income tax** | **2 930 006** | **3 806 246** |
| Income tax charge | (538 071) | (1 021 450) |
| **Profit** | **2 391 935** | **2 784 796** |
| **Other comprehensive income** | | |
| Foreign currency translation differences, net | 69 153 | (72 807) |
| Net change in fair value of available-for-sale investments | (201 815) | - |
| Income tax on other comprehensive income | 40 363 | - |
| **Other comprehensive income, net of tax** | **(92 299)** | **(72 807)** |
| **Total comprehensive income** | **2 299 636** | **2 711 989** |
| **Profit attributable to:** | | |
| Shareholders of TGC-1 | 2 391 935 | 2 775 939 |
| Non-controlling interests | - | 8 857 |
| **Profit** | **2 391 935** | **2 784 796** |
| **Total comprehensive income attributable to:** | | |
| Shareholders of TGC-1 | 2 299 636 | 2 703 132 |
| Non-controlling interests | - | 8 857 |
| **Total comprehensive income** | **2 299 636** | **2 711 989** |

*(in thousands of Russian Roubles)*

| | Nine months ended 30 September 2010 | Nine months ended 30 September 2009 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit before income tax | 2 930 006 | 3 806 246 |
| Adjustments to non-cash items | 2 282 656 | 1 035 784 |
| **Operating cash flows before working capital changes** | **5 212 662** | **4 842 030** |
| **Capital changes** | 1 153 482 | 1 198 604 |
| **Cash generated from operations** | **6 366 144** | **6 040 634** |
| Income tax paid and interest paid | (2 475 438) | (1 253 518) |
| **Total cash generated from operations** | **3 890 706** | **4 787 116** |
| **Net cash used in investing activities** | **(8 319 571)** | **(13 025 964)** |
| **Net cash (used in)/from financing activities** | **4 286 021** | **8 638 957** |
| **Net (decrease)/increase in cash and cash equivalents** | **(142 844)** | **400 109** |
| **Cash and cash equivalents at the beginning of the period** | **579 574** | **2 058 618** |
| **Cash and cash equivalents at the end of the period** | **436 730** | **2 458 727** |

| | 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 2007** | **38 509 598** | **(6 740)** | **23 271 781** | **(6 086 949)** | **(93 560)** | **3 530 184** | **59 124 314** | **35 318** | **59 159 632** |
| **Comprehensive income for the year** | | | | | | | | | |
| Profit for the year | - | - | - | - | - | 1 215 783 | **1 215 783** | (35 318) | **1 180 465** |
| **Other comprehensive income** | | | | | | | | | |
| Foreign currency translation differences, net | - | - | - | - | - | (164 373) | **(164 373)** | - | **(164 373)** |
| Net change in fair value of available-for-sale investments | - | - | - | - | 123 105 | - | **123 105** | - | **123 105** |
| Income tax on other comprehensive income | - | - | - | - | (29 545) | - | **(29 545)** | - | **(29 545)** |
| *Total other comprehensive income* | - | - | - | - | *93 560* | *(164 373)* | *(70 813)* | - | **(70 813)** |
| **Total comprehensive income for the year** | **-** | **-** | **-** | **-** | **93 560** | **1 051 410** | **1 144 970** | **(35 318)** | **1 109 652** |
| **Transactions with owners** | | | | | | | | | |
| Transaction cost for issuance of shares in 2007 | - | - | (422 308) | - | - | - | **(422 308)** | - | **(422 308)** |
| Issuance of shares for the purpose of merger with "TGC-1 Holding" | 33 816 | 6 738 | 64 205 | - | - | - | **104 759** | - | **104 759** |
| **Total transactions with owners** | **33 816** | **6 738** | **(358 103)** | **-** | **-** | **-** | **(317 549)** | **-** | **(317 549)** |
| **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 | - | - | - | - | - | 8 414 557 | **8 414 557** | **-** | **8 414 557** |
| **Other comprehensive income** | | | | | | | | | |
| Foreign currency translation differences, net | - | - | - | - | - | (64 281) | **(64 281)** | **-** | **(64 281)** |
| 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* | *(64 281)* | *97 171* | - | **97 171** |
| **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 of Murmanskaya TPP | - | - | - | - | - | (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** | | | | | | | | | |
| Profit | - | - | - | - | - | 2 391 935 | **2 391 935** | - | **2 391 935** |
| **Other comprehensive income** | - | - | - | - | - | - | **-** | - | **-** |
| Foreign currency translation differences, net | | | | | - | 69 153 | **69 153** | - | **69 153** |
| 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) | *69 153* | (92 299) | - | (92 299) |
| **Total comprehensive income** | **-** | **-** | **-** | **-** | **(161 452)** | **2 461 088** | **2 299 636** | **-** | **2 299 636** |
| **Transactions with owners** | | | | | | | | | |
| Dividends | - | - | - | - | - | (168 314) | **(168 314)** | - | **(168 314)** |
| **Total transactions with owners** | **-** | **-** | **-** | **-** | **-** | **(168 314)** | **(168 314)** | **-** | **(168 314)** |
| **Balance at 31 September 2010** | **38 543 414** | **-** | **22 913 678** | **(6 086 949)** | **-** | **15 221 991** | **70 592 134** | **-** | **70 592 134** |

## 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 was founded by three regional energy companies, all controlled by RAO UES: OJSC Lenenergo, OJSC Kolenergo and OJSC Karelenergogeneratsya.

On 1 November 2006, OJSC Petersburg Generating Company, OJSC Kolskaya Generating Company, OJSC Apatitskaya Thermal Power Plant and OJSC Karelenergogeneratsya, all controlled by RAO UES, were merged into TGC-1 and ceased to exist as separate legal entities. Since that time TGC-1 has been the owner of their generating assets.

In May 2007, the Company issued additional ordinary shares in order to exchange them for the shares of OJSC Murmanskaya Thermal Power Plant (hereinafter "Murmanskaya TPP") held by RAO UES and certain non - controlling shareholders. After completion of the share exchange, the Company owns 84.06% of Murmanskaya TPP. On 1 February 2010, the Group founded OJSC "Saint-Petersburg Heating Grid" in accordance with Resolution adopted by the Board of Directors on 21 December 2009. The Group is the only founder of the company. The Company together with Murmanskaya TPP and Saint-Petersburg Heating Grid hereinafter is referred to as the Group.

In October 2007, the Company further increased its equity via additional issue of ordinary shares by open subscription. The major part of the shares issued was bought by LLC Russian Energy Projects and Fortum Power and Heat Oy (Finland).

Following the reorganization process, an extraordinary general shareholder's meeting of RAO UES of Russia on 26 October 2007 decided to spin-off several holding companies to which shares in electricity generation companies, including OJSC TGC-1, held by RAO UES of Russia, were transferred. Holdings separated from RAO UES of Russia were merged with generation companies by means of shares conversion, which enabled the shareholders of RAO UES of Russia to receive direct shares in the generation companies after reorganization. Accordingly upon spin-off from RAO UES of Russia OJSC TGC-1 Holding (the "TGC-1 Holding") received the stake in OJSC TGC-1 held by RAO UES of Russia. Simultaneously with the spin-off, on 1 July 2008 TGC-1 Holding was merged with the Company and its shares were converted into the Company's shares.

On 29 October 2007, the Extraordinary General Meeting of Shareholders of TGC-1 approved an additional issue of shares for the purpose of the merger with OJSC "TGC-1 Holding".

Shares representing an interest of 28,69% in the group owned by RAO UES of Russia were acquired by the Gazprom Group on 23 June 2008.

In April 2009, the Group increased its share in Murmanskaya TPP from 84,06% to 90,34% in accordance with the resolution of Board of Directors (minute № 6 from 15 September 2009 and № 15 from 26 February 2009).

Currently, 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 borrowers 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.

***Impact of the ongoing global financial and economic crisis***

The ongoing global financial and economic crisis that emerged out of the severe reduction in global liquidity which commenced in the middle of 2008 (often referred to as the "Credit Crunch") has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector and wider economy, and, at times, higher interbank lending rates and very high volatility in stock and currency markets. The uncertainties in the global financial markets have also led to failures of banks and other corporates, and to bank rescues in the United States of America, Western Europe, Russia and elsewhere. The full extent of the impact of the ongoing financial crisis is proving to be difficult to anticipate or completely guard against.

The uncertainty in the global markets combined with other local factors has led over the recent period to very high volatility in the Russian Stock Markets and at times much higher than normal interbank lending rates. Management is unable to estimate reliably the effects on the Group's financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Management believes it takes all the necessary measures to support the sustainability and growth of the Group's business in the current circumstances.

***Relations with the State and current regulation***

As at 30 September 2010, TGC-1 is controlled by Gazprom Group (51.79%) via its subsidiary LLC "Gazprom energoholding". Other significant shareholder as at 30 September 2010 is Fortum Power and Heat Oy (25.7%)

As at 31 December 2008, Gazprom Group owned 28.66% of the voting shares of the Company. Other significant shareholders as at 31 December 2008 were Fortum Power and Heat Oy (25.7%), LLC Russian Energy Projects (17.67%) and HC Interros (5.6%).

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 30 September 2010.

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. System Operator is controlled by Russian Federation.

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.

The government's economic, social and other policies could have material effects on the operations of the Group.

***Regulatory issues and sector restructuring***

Following Russian electric utility sector restructuring aimed to introduce competition to electricity (capacity) market, the New Wholesale Electric Power (capacity) Market Rules of the Transitional period (the "NOREM") approved by Resolution of the Government of the Russian Federation No. 529 dated 31 August 2006 were adopted. Under the new wholesale market framework, electricity and power purchase-sales transactions in the regulated market sector are to be governed by a regulated bilateral contract system. Starting from 1 September 2006 regulated contracts covered all volumes of electricity and power produced and consumed.

Starting 2007 the volumes of electricity and power traded in the wholesale market applying regulated prices are substantially reducing, pursuant to Russian Federation Government Resolution No. 205 dated 7 April 2007 "On amending certain resolutions of the Russian Federation Government related to

the calculation of electricity volumes sold at free (competitive) prices". The Resolution states that electricity and power supplied at regulated prices will gradually decrease.

The period from 2006 to 2011 is considered as a transitional period. Upon the termination of the transitional period the organization of a competitive electricity wholesale competitive market will be completed.

Electricity volumes produced, not covered by the regulated contracts, are traded at unregulated prices on the basis of free bilateral contracts or on a day-ahead market. Under free bilateral contracts market participants have the right to choose contracting parties, prices and volumes. The day-ahead market is based on the competitive selection of bids submitted by suppliers and buyers the day before the electricity is supplied.

On 30 June 2008, a Resolution of the Russian Government was issued on the launch of the capacity market where available capacity volumes will be allowed to be traded at transition auctions providing for supplies during 2009-2011 and long-term auctions for 10 years supplies, provided they pass through the competitive selection procedure in their respective free power flow zone. For the first time, the wholesale market agents will have the possibility to conclude non-regulated contracts for capacity supply.

On 13 April 2010, Russian Federation Government adopted Resolution №238 "Pricing strategy of capacity trading on the wholesale electricity (capacity) market during the transition period" effective from 26 April 2010. This Resolution determines the pricing parameters of capacity trading on the wholesale capacity market during the transition period and together with Russian Federation Government Resolution № 89 "Certain organizational aspects of long-term capacity take-off on a competitive basis on the wholesale electricity (capacity) market", fully determine the principles of wholesale capacity market functioning.

In accordance with above resolution in case of discover by the Federal Antimonopoly Service (FAS) the reason for settle and applying the maximum level of capacity price, based on competitive capacity take-off in the zone of free capacity exchange, the maximum level of capacity price will be settled. This level will be defined for 2011 as a maximum monthly price on the level of RUB 112.5 thousand per MW for the first price zone and RUB 120.35 thousand for the second price zone adjust on coefficient of utilizing power for auxiliaries (1.05).

Management believes that ultimately a stable regulatory regime and a competitive power market will be put in place such that the Group will be able to raise required financing to sustain the business. However, there can be no assurance in this regard.

### *Financial condition*

As at 30 September 2010, the Group's current liabilities exceeded its current assets by RUB 2 845 275 thousand (as at 31 December 2009 the Group's current liabilities exceeded its current assets by RUB 2 828 163 thousand).

## 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.

***Accounting for the effects of hyperinflation***

The Russian Federation has previously experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29 "Financial Reporting in Hyperinflationary Economies". IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. Hyperinflation in the Russian Federation ceased effective from 1 January 2003. Restatement procedures of IAS 29 are therefore only applied to non-monetary assets acquired or revalued and liabilities incurred or assumed prior to that date. For these balances, the amounts expressed in the measuring unit current at 31 December 2002 are treated as the basis for the carrying amounts in these consolidated financial statements.

***Going concern***

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

***Reclassification***

Certain reclassifications have been made to prior year data to conform to the current year presentation:

- Balance of Other property plant and equipment have been increased by RUB 1 748 thousand as a result of the reclassification of generation equipment's balance;
- Accumulated depreciation of production buildings have been decreased by RUB 306 985 thousand as result of the reclassification of accumulated depreciation of hydrotechnical buildings by RUB 8 295 thousand, generating equipment by RUB 259 566 thousand, heating networks by RUB 34 845 thousand, other property plant and equipment by RUB 4 279 thousand.

## 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 judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised 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 Group assesses whether there is any indication that the recoverable amount of the Group's property, plant and equipment and assets under construction has declined below the carrying value. 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 a decline is identified, 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.

***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 judgement 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.

***Tax legislation***

Russian tax, currency and customs legislation is subject to varying interpretations.

**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 unrealised gains on transactions between group companies are eliminated; unrealised 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.

***Transfers of subsidiaries from parties under common control***

Contributions to share capital of shares in subsidiaries from parties under common control are accounted for using the pooling of interest method. Under this method the financial statements of the combined entity are presented as if the businesses had been combined from the beginning of the earliest period presented. The assets and liabilities of the subsidiary transferred under common control are recognised at the predecessor entity's carrying amounts. Any difference between the carrying amount of net assets and the nominal value of share capital and other considerations contributed is accounted for in the consolidated financial statements as an adjustment to 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 recognised 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 30 September 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 30.4030 (31 December 2009-RUB 30.2442: USD 1), between the Russian Rouble and Euro: RUB 41.3481 (31 December 2009-RUB 43.3883: EUR 1).

As at the balance sheet date, exchange restrictions and currency controls existed relating to converting the Russian Rouble into other currencies. 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. The carrying amount is reduced to the recoverable amount and the difference is recognised as an expense (impairment loss) in the profit or losses. An impairment loss recognised 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 capitalised 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 capitalised as they are not expected to result in future economic benefits to the Group. Costs associated with fulfilling the Group's social responsibilities are expensed as incurred.

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 | 20 |
| 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 amortised cost using the effective interest method.

***Inventories***

Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the weighted average basis. Net realisable 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 recognised 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 recognised 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 recognised 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 realisability 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 reorganisation;
- 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 recognised 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 recognised 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 derecognised 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 recognised 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 recognised in profit or loss – is removed from equity and recognised 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 recognised 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 amortised 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 recognised when the entity becomes a party to the contractual provisions of the instrument.

***Derecognition of financial assets***

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

***Accounts payable and accrued liabilities***

Accounts payable are stated inclusive of VAT. Trade payables are recognised initially at fair value and subsequently measured at amortised 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 capitalised during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

***Government grants***

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government

grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to the profit or losses on a straight line basis over the expected lives of the related assets.

Government grants relating to costs are deferred and recognised in the profit or losses over the period necessary to match them with the costs that they are intended to compensate.

***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 recognised 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 recognised 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 recognised 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 recognised 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 unrecognised 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 recognised in the profit or losses unless it relates to transactions that are recognised, 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 recognised when the Group has a present legal obligation, and a reliable estimate of the amount can be made. A provision is recognised 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 recognised 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 utilised. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised. Deferred tax 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 recognised in these consolidated financial statements.

### *Revenue recognition*

Revenue is recognised 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.

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

***Dividends.*** Dividends are recognised 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 authorised 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.

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

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

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

**Note 5. New Accounting Pronouncements**

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2010 or later periods and which the Group has not early adopted:

*IFRS 8, Operating Segments*. The standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments, with segment information presented on a similar basis to that used for internal reporting purposes. The revised IFRS 8 had an impact on the presentation of information about its operating segments but had no impact on the recognition or measurement of specific transactions and balances.

*IAS 23, Borrowing Costs, revised in March 2007*. The main change is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale (a qualifying asset) form part of the cost of that asset, if the commencement date for capitalisation is on or after 1 January 2009. Other borrowing costs are recognised as an expense using the effective interest method. *IAS 1, Presentation of Financial Statements, revised in September 2007*. The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which includes all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities are allowed to present two statements: a separate income statement and a statement of comprehensive income. The Company has elected to present a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a balance sheet (Statement of Financial Position) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The revised IAS 1 had an impact on the presentation of the Company's financial statements but had no impact on the recognition or measurement of specific transactions and balances.

*Improvements to International Financial Reporting Standards (issued in May 2009)*. In 2008, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The amendments did not have an impact on the Company.

*Puttable Financial Instruments and Obligations Arising on Liquidation - IAS 32 and IAS 1 Amendment*. The amendment requires classification as equity of some financial instruments that meet the definition of financial liabilities. The amendment did not have an impact on these financial statements.

*Vesting Conditions and Cancellations - Amendment to IFRS 2, Share-based Payment*. The amendment clarified that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The amendment did not have an impact on these financial statements.

*IFRIC 13, Customer Loyalty Programmes*. IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the

arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. The amendment did not have an impact on these financial statements.

*IFRIC 15, Agreements for the Construction of Real Estate*. The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. It also provides criteria for determining when entities should recognise revenue on such transactions. The amendment did not have an impact on these financial statements.

*Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate - IFRS 1 and IAS 27 Amendment, issued in May 2008*. The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous GAAP carrying value as deemed cost in the separate financial statements. The amendment also requires distributions from pre-acquisition net assets of investees to be recognised in profit or loss rather than as a recovery of the investment. The amendment did not have an impact on these financial statements.

*Improving Disclosures about Financial Instruments - Amendment to IFRS 7, Financial Instruments: Disclosures, issued in March 2009*. The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity is required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (b) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. The enhanced disclosures are included in these financial statements.

*Embedded Derivatives - Amendments to IFRIC 9 and IAS 39, issued in March 2009*. The amendments clarify that on reclassification of a financial asset out of the 'at fair value through profit or loss' category, all embedded derivatives have to be assessed and, if necessary, separately accounted for. The amendment did not have an impact on these financial statements.

*IFRIC 16, Hedges of a Net Investment in a Foreign Operation*. The interpretation explains which currency risk exposures are eligible for hedge accounting and states that translation from the functional currency to the presentation currency does not create an exposure to which hedge accounting could be applied. The IFRIC allows the hedging instrument to be held by any entity or entities within a group except the foreign operation that itself is being hedged. The interpretation also clarifies how the currency translation gain or loss reclassified from other comprehensive income to profit or loss is calculated on disposal of the hedged foreign operation. Reporting entities apply IAS 39 to discontinue hedge accounting prospectively when their hedges do not meet the criteria for hedge accounting in IFRIC 16. IFRIC 16 did not have an impact on these financial statements.

Certain new standards and interpretations have been published that are mandatory for the Company's accounting periods beginning on or after 1 January 2010 or later periods and which the Company has not early adopted:

*IFRIC 17, Distribution of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009)*. The amendment clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets will be recognised in profit or loss when the entity settles the dividend payable. IFRIC 17 is not relevant to the Company's operations because it does not distribute non-cash assets to owners.

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

*Classification of Rights Issues - Amendment to IAS 32 (issued 8 October 2009; effective for annual periods beginning on or after 1 February 2010).* The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives.

*IAS 27, Consolidated and Separate Financial Statements (revised January 2009; effective for annual periods beginning on or after 1 July 2009).* The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The Company does not expect the amended standard to have a material effect on its financial statements.

*IFRS 3, Business Combinations (revised January 2009; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009).* The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer will have to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. IFRS 3 is not relevant to the Company as it does not expect a business combination to occur.

*Eligible Hedged Items - Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after 1 July 2009).* The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment is not expected to have any impact on the Company's financial statements as the Company does not apply hedge accounting.

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

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

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

*Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010).* The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. The Company does not expect the amendments to have any material effect on its financial statements.

*Amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011).* IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. Management of the Group currently assesses the potential effect of the amendment.

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

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted.

*IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (issued in November 2009, effective for annual periods beginning on or after 1 July 2010 with earlier application permitted).* The interpretation clarifies the requirements of International Financial Reporting Standards (IFRSs) when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. IFRIC 19 clarifies that a) the entity's equity instruments issued to a creditor are part of the

consideration paid to extinguish the financial liability; b) the equity instruments issued are measured at their fair value. If their fair value cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished; c) the difference between the carrying amount of the financial liability extinguished and the initial measurement amount of the equity instruments issued is included in the entity's profit or loss for the period. The Company is considering the implications of the standard, the impact on the Company and the timing of its adoption by the Company.

Unless otherwise described above, the new standards and interpretations are not expected to significantly affect the Company's financial statements.

## Note 6. 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 | 3 482 | - | 26 875 | - | 9 284 041 | 71 845 | 9 386 243 |
| Transfers | 99 657 | - | 1 355 953 | 594 594 | (3 088 123) | 1 037 919 | - |
| Disposals | (726) | - | (15 135) | (871 743) | (66 745) | (193 660) | (1 148 009) |
| **Balance as at 30 September 2010** | **15 131 393** | **16 632 842** | **20 438 968** | **29 992 842** | **40 856 458** | **18 849 235** | **141 901 738** |
| **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 | (530 158) | (354 460) | (531 922) | (504 299) | - | (527 715) | (2 448 554) |
| Disposals | 242 | - | 12 627 | 745 104 | - | 113 545 | 871 520 |
| Impairment losses reversed during the year | - | - | - | - | - | - | - |
| Impairment losses recognised during the year | - | - | - | - | - | - | - |
| **Balance as at 30 September 2010** | **(5 319 822)** | **(6 854 097)** | **(7 917 507)** | **(18 722 233)** | **(56 439)** | **(11 407 804)** | **(50 277 900)** |
| **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 30 September 2010** | **9 811 571** | **9 778 745** | **12 521 461** | **11 270 609** | **40 800 019** | **7 441 431** | **91 623 838** |

| 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** | **13 685 741** | **27 558 799** | **26 779 896** | **16 440 714** | **115 821 946** |
| Effect of reclassifications | - | - | (1 748) | - | - | 1 748 | - |
| **Balance as at 31 December 2008 including reclassifications** | **14 805 875** | **16 550 921** | **13 683 993** | **27 558 799** | **26 779 896** | **16 442 462** | **115 821 946** |
| Additions | - | - | 2 892 | - | 11 181 245 | 34 793 | 11 218 930 |
| Transfers | 179 784 | 27 651 | 3 747 723 | 1 547 721 | (6 375 846) | 872 967 | - |
| Disposals | (11 966) | (17) | (1 062) | (406 028) | (23 404) | (48 827) | (491 304) |
| **Balance as at 30 September 2009** | **14 973 693** | **16 578 555** | **17 433 546** | **28 700 492** | **31 561 891** | **17 301 395** | **126 549 572** |
| **Accumulated depreciation (including impairment)** | | | | | | | |
| **Balance as at 31 December 2008** | **(5 775 671)** | **(6 030 927)** | **(8 087 294)** | **(20 155 406)** | **-** | **(11 682 209)** | **(51 731 507)** |
| Effect of reclassifications | 306 985 | (8 295) | (259 566) | (34 845) | - | (4 279) | - |
| **Balance as at 31 December 2008 including reclassifications** | **(5 468 686)** | **(6 039 222)** | **(8 346 860)** | **(20 190 251)** | **-** | **(11 686 488)** | **(51 731 507)** |
| Charge for the year | (429 693) | (383 446) | (387 764) | (470 330) | - | (384 767) | (2 056 000) |
| Disposals | 5 676 | 17 | 1 008 | 333 117 | - | 39 560 | 379 378 |
| Impairment losses reversed during the year | - | - | - | - | - | - | - |
| Impairment losses recognised during the year | - | - | - | - | - | - | - |
| **Balance as at 30 September 2009** | **(5 892 703)** | **(6 422 651)** | **(8 733 616)** | **(20 327 464)** | **-** | **(12 031 695)** | **(53 408 129)** |
| **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 30 September 2009** | **9 080 990** | **10 155 904** | **8 699 930** | **8 373 028** | **31 561 891** | **5 269 700** | **73 141 443** |

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 includes electricity transmission equipment, motor vehicles, computer equipment, office fixtures and other equipment.

## Note 7. Long-term Investments

| | % of ownership | 30 September 2010 | 31 December 2009 |
|---|---|---|---|
| **Investments** | | | |
| Investments in OJSC "Hibinskaya TK" | 50.00% | 48 300 | 20 000 |
| Other | | 10 | 10 |
| **Total investments** | | **48 310** | **20 010** |

## Note 8. Other Non-Current Assets

| | 30 September 2010 | 31 December 2009 |
|---|---|---|
| Long-term receivables (interest free) | 492 452 | 472 203 |
| Promissory notes | 12 278 | 10 083 |
| **Total financial receivables** | **504 730** | **482 286** |
| Intangible assets | 41 088 | - |
| VAT in prepayments on capital construction | 96 600 | 155 555 |
| **Total other non-current assets** | **642 418** | **637 841** |

## Note 9. Cash and Cash Equivalents

| | 30 September 2010 | 31 December 2009 |
|---|---|---|
| Promissory notes with maturing less three month | 36 800 | 61 400 |
| Cash in bank and in hand in RUB (effective interest rate: 0%) | 328 353 | 275 417 |
| Foreign currency accounts (primarily EUR) | 71 577 | 242 757 |
| **Total cash and cash equivalents** | **436 730** | **579 574** |

## Note 10. Short-term Investments

| | Currency | 30 September 2010 | 31 December 2009 |
|---|---|---|---|
| Equity shares in OJSC "Inter RAO UES" | RUB | - | 445 881 |
| KIT Finance (promissory notes) | RUB | - | 95 985 |
| CJSC "Energoinvest" (loan issued) | RUB | 45 273 | 45 273 |
| Gazenergoprombank (promissory notes) | RUB | - | 7 095 |
| OJSC "Baltinvestbank" (promissory notes) | RUB | - | 1 461 |
| OJSC "Sobinbank" (promissory notes) | RUB | 81 000 | - |
| OJSC "Evrofinans Mosnarbank" (promissory notes) | RUB | 61 077 | - |
| OJSC "Alfabank" (promissory notes) | RUB | 843 | - |
| **Total short-term investments** | | **188 193** | **595 695** |

## Note 11. Accounts Receivable and Prepayments

| | 30 September 2010 | 31 December 2009 |
|---|---|---|
| Trade receivables, net of provision for impairment of RUB 361 998 thousand (31 December 2009: RUB 374 676 thousand) | 6 384 378 | 5 371 666 |
| Other receivables, net of provision for impairment of RUB 102 990 thousand (31 December 2009: RUB 112 790 thousand) | 117 865 | 39 792 |
| **Total financial receivables** | **6 502 243** | **5 411 458** |

| | | |
|---|---:|---:|
| Value-added tax receivables | 1 649 718 | 3 656 693 |
| Advances to suppliers | 171 546 | 939 330 |
| Other taxes receivable | 976 024 | 16 358 |
| **Total accounts receivable and prepayments** | **9 299 531** | **10 023 839** |

**Note 12. Inventories**

| | 30 September 2010 | 31 December 2009 |
|---|---:|---:|
| Fuel supplies | 1 698 728 | 1 360 013 |
| Spare parts | 465 523 | 415 575 |
| Raw materials and other supplies | 413 917 | 367 622 |
| **Total inventories** | **2 578 168** | **2 143 210** |

As at 30 September 2010 raw materials and other supplies are recorded net of provision for impairment in the amount of RUB 6 367 thousand (31 December 2009: RUB 6 367 thousand).

**Note 13. Long-term Borrowings**

| | Currency | Effective interest rate | Maturity | 30 September 2010 | 31 December 2009 |
|---|---|---:|---:|---:|---:|
| Long-term bonds | RUB | 16.99% | 2014 | 5 000 000 | 5 000 000 |
| Long-term bonds | RUB | 8.5% | 2014 | 1 068 644 | 921 939 |
| NORDIC investment bank | Euro | EURIBOR + 3% | 2014 | 667 930 | 901 142 |
| European Bank for Reconstruction and Development | Euro | EURIBOR + 2.75% | 2010 | - | 173 551 |
| Nordic environment finance corporation | Euro | EURIBOR + 2.00% | 2015 | 93 034 | 119 319 |
| OJSC “AB Rossiya” | RUB | 5-7.5% | 2011, 2013 | 1 200 000 | - |
| OJSC “TransCreditBank” | RUB | 6.95% | 2012 | 3 800 000 | 2 700 000 |
| LLC “Barclays Bank” | RUB | 6.9% | 2013 | 1 000 000 | - |
| OJSC “Bank VTB North-West” | RUB | 6.95-7.1% | 2012 | 3 497 100 | - |
| OJSC “Sberbank” | RUB | 8.5% | 2013 | 1 300 000 | - |
| CJSC “Unicreditbank” | | 6.8% | | 1 124 505 | |
| | | | | **18 751 213** | **9 815 951** |
| Less: current portion | | | | | |
| Long-term bonds | | | | (5 000 000) | - |
| NORDIC investment bank | | | | (190 837) | (200 254) |
| European Bank for Reconstruction and Development | | | | (20 675) | (173 551) |
| Nordic environment finance corporation | | | | - | (21 695) |
| **Total long-term borrowings** | | | | **13 539 701** | **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 bond a put date in 2011.

On March 2007, the Group issued 4 000 000 bonds at a nominal value of RUB 1 000 per bond, with the coupon rate of 7.75%, maturing in 2014. As a result of the offer Group did not redeemed any issued bonds, therefore the total amount of bonds outstanding as at 30 September 2010 was equal to 1 143 503 with coupon rate of 8.5%. The fair value of these bonds (including the current portion) was estimated by management on the basis of future contracted cash flows and marketable interest rates on similar instruments applicable to the Group as at 30 September 2010.

## Note 14. Short-Term Borrowings and Current Portion of Long-Term Borrowings

| Name of lender | Currency | Effective interest rate | 30 September 2010 | 31 December 2009 |
|---|---|---|---|---|
| OJSC "Bank VTB North-West" | RUB | 3.5-11.7% | 648 100 | 500 000 |
| OJSC "Alfabank" | RUB | 12.15-17.5% | - | 1 230 000 |
| CJSC "Gazenergoprombank" | RUB | 7.75% | - | 1 200 000 |
| OJSC "AB Rossiya" | RUB | 5-7.75% | - | 250 000 |
| CJSC "Unicreditbank" | RUB | 11% | - | 1 300 000 |
| OJSC "Baltinvestbank" | RUB | 11% | - | 742 250 |
| Long-term bonds | RUB | 16.99% | 5 000 000 | - |
| Nordic environment finance corporation | Euro | EURIBOR+2.00% | - | 21 695 |
| European Bank for Reconstruction and Development | Euro | EURIBOR+2.75% | 20 675 | 173 551 |
| NORDIC investment bank | Euro | EURIBOR+3% | 190 837 | 200 254 |
| **Total short-Term Borrowings** | | | **5 859 612** | **5 617 750** |

## Note 15. Accounts Payable and Accrued Liabilities

| | 30 September 2010 | 31 December 2009 |
|---|---|---|
| Trade accounts payable | 3 736 633 | 2 792 198 |
| Accounts payable for capital construction | 3 039 099 | 5 416 898 |
| Accrued liabilities and other payables | 315 066 | 434 731 |
| Interest accrued on loans | 231 358 | 77 365 |
| **Total financial payables** | **7 322 156** | **8 721 192** |
| Advances from customers | 1 007 787 | 882 848 |
| Employee benefits | 252 019 | 151 427 |
| Accrued liabilities of related parties (for dividends) | 168 314 | - |
| **Total accounts payable and accrued liabilities** | **8 750 276** | **9 755 467** |

## Note 16. Other Taxes Payable

| | 30 September 2010 | 31 December 2009 |
|---|---|---|
| Property tax | 147 718 | 157 914 |
| Water usage tax | 15 558 | 67 419 |
| Employee taxes | 63 876 | 1 367 |
| VAT provision, related penalties and late payment interest | 281 866 | 347 947 |
| Other taxes | 90 337 | 77 712 |
| **Total taxes Payable** | **599 355** | **652 359** |

## Note 17. Tax Provision

Following the results of a tax inspection of the Company for the period from 25 March 2005 to 31 December 2006 finalised in March 2009, management recorded a provision in respect of additional taxes, penalties and late payment interest as presented below:

| | Income tax payable | Taxes other than on income, and penalties | Total |
|---|---|---|---|
| **Carrying value at 31 December 2009** | **120 136** | **209 916** | **330 052** |
| Charged to profit or losses | - | - | - |
| **Carrying value at 30 September 2010** | **120 136** | **209 916** | **330 052** |

## Note 18. Operating Expenses, net

| | Nine months ended 30 September 2010 | Nine months ended 30 September 2009 |
|---|---|---|
| Fuel | 14 676 050 | 9 929 248 |
| Employee benefits | 4 378 500 | 3 889 399 |
| Electricity and heat purchases | 5 786 036 | 2 516 541 |
| Depreciation | 2 448 554 | 2 056 001 |
| Repairs and maintenance | 1 345 716 | 1 204 132 |
| Water usage expenses | 1 494 950 | 1 402 274 |
| Heat distribution | 348 936 | 860 771 |
| Taxes other than income tax | 771 652 | 754 589 |
| Dispatcher's fees | 477 724 | 449 965 |
| Security services | 241 067 | 244 218 |
| Consulting, legal and audit services | 208 041 | 214 835 |
| Lease expenses | 360 639 | 202 835 |
| Insurance cost | 165 395 | 165 005 |
| Transportation services | 184 208 | 147 051 |
| Telecommunication services | 81 574 | 97 039 |
| Penalties and fines | 161 004 | 105 492 |
| Commission fees | 127 340 | 112 754 |
| Gain from property plant and equipment received as compensation | - | (1 374 560) |
| Other operating income | (235 298) | (301 152) |
| Other operating expenses | 656 747 | 534 298 |
| **Total operating expenses, net** | **33 678 835** | **23 210 735** |

**Note 19. Finance income, net**

| | **Nine months ended 30 September 2010** | **Nine months ended 30 September 2009** |
|---|---|---|
| Interest expense | 101 751 | 453 704 |
| Interest income | (7 353) | (185 448) |
| Effect of discounting | 146 094 | (24 904) |
| **Finance income, net** | **240 492** | **243 352** |

**Note 20.Subsequent Events**

***New borrowings***

In October 2010, the Group concluded the loan agreement and received the loan from OJSC "Alfabank" for the total amount of RUB 2 000 000 thousand with the maturity date of 31 August 2015 and annual interest rate of 6.8%.

***Repayment of loans***

For the period from 1 October till 24 November 2010 the Group repaid loans for the total amount of RUB 5 044 410 thousand.