WGC-3 Group

Interim consolidated financial statements

for the six months ended 30 June 2011
(unaudited)

WGC-3 Group

Interim consolidated financial statements

For the six months ended 30 June 2011

Contents

ERNST & YOUNG

Ernst & Young LLC
Sadovnicheskaya Nab., 77, bld. 1
Moscow, 115035, Russia
Tel: +7 (495) 705 9700
+7 (495) 755 9700
Fax: +7 (495) 755 9701
www.ey.com

ООО «Эрнст энд Янг»
Россия, 115035, Москва
Садовническая наб., 77, стр. 1
Тел: +7 (495) 705 9700
+7 (495) 755 9700
Факс: +7 (495) 755 9701
ОКПО: 59002827

Report on review of interim consolidated financial statements

To the shareholders and to the Board of Directors of Open Joint Stock Company Third Generation Company of the Wholesale Electricity Market (OJSC WGC-3)

Introduction

We have reviewed the accompanying interim consolidated financial statements of OJSC WGC-3 and its subsidiaries ("the Group"), comprising of the interim consolidated statement of financial position as at 30 June 2011 and the related interim consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of these interim consolidated financial statements in accordance with International Financial Reporting Standard IAS 34, *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on these interim consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim consolidated financial statements do not present fairly, in all material respects, the financial position of the Group as at 30 June 2011 and its financial performance and its cash flows for the six-month period then ended in accordance with IAS 34.

Ernst & Young LLC

5 September 2011

WGC-3 Group

Interim consolidated statement of financial position

as at 30 June 2011

(in thousands of Russian Roubles)

	Notes	30 June 2011	31 December 2010	1 January 2010
		Unaudited	Restated[1]	Restated[2]
Assets				
Non-current assets				
Property, plant and equipment	5	52,568,891	45,954,330	36,291,796
Intangible assets	6	79,639	78,455	61,908
Other non-current assets	8	2,655,701	2,351,150	16,174,896
Total non-current assets		**55,304,231**	**48,383,935**	**52,528,600**
Current assets				
Inventories	9	2,844,032	2,179,133	1,899,864
Accounts receivable and prepayments	10	4,967,291	4,918,339	4,188,359
Deposits and other financial assets	11	32,135,574	39,617,928	8,893
Current income tax prepayments		426,726	308,497	471,730
Cash and cash equivalents	12	4,887,298	3,263,202	51,154,043
Assets held for sale	8	-	504,594	958,291
Total current assets		**45,260,921**	**50,791,693**	**58,681,180**
Total assets		**100,565,152**	**99,175,628**	**111,209,780**
Equity and liabilities				
Equity				
Share capital	13	47,487,999	47,487,999	47,487,999
Share premium		63,136,744	63,136,744	63,136,744
Treasury shares	13	(7,947,303)	(7,947,303)	(7,947,303)
Other reserves		(8,307,651)	(8,279,378)	(8,316,871)
Retained earnings		(2,887,762)	(4,172,731)	10,485,159
Total equity		**91,482,027**	**90,225,331**	**104,845,728**
Non-current liabilities				
Deferred tax liabilities	14	2,374,789	2,483,832	2,306,969
Employee benefits	15	342,286	300,828	272,615
Other non-current liabilities	16	229,024	341	83
Total non-current liabilities		**2,946,099**	**2,785,001**	**2,579,667**
Current liabilities				
Accounts payable and accruals	17	3,034,457	3,256,110	2,046,140
Provisions	18	914,249	793,770	114,095
Taxes payable	19	2,188,320	2,115,416	1,624,150
Total current liabilities		**6,137,026**	**6,165,296**	**3,784,385**
Total liabilities		**9,083,125**	**8,950,297**	**6,364,052**
Total equity and liabilities		**100,565,152**	**99,175,628**	**111,209,780**

General Director — Alexander Nikulov

Chief Financial Officer — Andrey Gainanov

5 September 2011

1 Certain amounts shown here do not corresponds to the 2010 financial statements and reflect adjustments made as detailed in Note 2

2 Certain amounts shown here do not corresponds to the 2009 financial statements and reflect adjustments made as detailed in Note 2

The interim consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the interim consolidated financial statements set on pages 7 to 43.

WGC-3 Group

Interim consolidated statement of comprehensive income

for the six months ended 30 June 2011

(in thousands of Russian Roubles)

	Notes	For the six months ended 30 June 2011	For the six months ended 30 June 2010, Restated
		Unaudited	
Revenue			
Electricity		20,450,164	19,953,778
Heat		538,449	503,292
Other		276,277	644,131
Gross revenue		**21,264,890**	**21,101,201**
Operating expenses	20	(19,644,987)	(20,914,221)
Operating income	21	46,924	410,453
Results from operating activities		**1,666,827**	**597,433**
Finance income, net	22	916,332	730,784
Foreign exchange loss		(502,088)	(1,946,376)
Share of losses of equity investments	23	-	(103,110)
Profit/(loss) before income tax		**2,081,071**	**(721,269)**
Income tax (expense)/benefit	14	(496,102)	187,198
Profit/(loss) for the year		**1,584,969**	**(534,071)**
Other comprehensive income			
Net change in fair value of available-for-sale financial assets		(35,344)	28,485
Income tax benfit/(expense) on other comprehensive income	14	7,071	(5,697)
Other comprehensive (loss)/income, net of income tax		**(28,273)**	**22,788**
Total comprehensive income/(loss)		**1,556,696**	**(511,283)**
Earnings/(loss) per share, basic and diluted (in RUB per share)	24	0.0348	(0.0117)

The interim consolidated statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the interim consolidated financial statements set on pages 7 to 43.

WGC-3 Group

Interim consolidated interim statement of cash flows

for the six months ended 30 June 2011

(in thousands of Russian Roubles)

	Notes	For the six months ended 30 June 2011	For the six months ended 30 June 2010, Restated
		Unaudited	
Cash flows from operating activities			
Profit/(loss) before income tax		**2,081,071**	**(721,269)**
Adjustments for:			
Depreciation and amortization	20	949,964	916,477
Bad debt allowance of accounts receivable	20, 21	44,621	(153,632)
Impairment of investments	22	179,360	319,648
Effect from discounting of long-term receivables	22	30,045	(18,700)
Interest income	22	(1,140,433)	(1,032,122)
Foreign exchange loss		502,088	1,946,376
Loss/(gain) on disposal of property, plant and equipment		4,717	(9,931)
Share of loss of equity accounted investees		-	103,110
Tax provisions and other non-cash items		130,697	(82,496)
Operating cash flows before working capital changes and income tax paid		**2,782,130**	**1,267,461**
Working capital changes:			
Decrease in accounts receivable and prepayments		1,810,970	1,369,785
(Increase)/decrease in inventories		(655,113)	94,241
Decrease in other assets		-	19,976
(Decrease)/increase in accounts payable and accruals		(146,160)	151,970
Increase in taxes payable, other than income tax		78,164	342,064
Increase in other non-current liabilities		41,117	116,106
Income tax paid, net of refund		(721,563)	104,278
Net cash generated from operating activities		**3,189,545**	**3,465,881**
Cash flows from investing activities			
Purchase of property, plant and equipment and other non-current assets		(8,540,552)	(5,080,485)
Purchase of intangible assets	6	(28,437)	(12,187)
Purchase of investments in subsidiaries		(300,000)	-
Returned from/(contributed to) deposit accounts		7,140,937	(43,541,930)
Proceeds from sale of property, plant and equipment and other non-current assets		1,707	36,038
Interest received		274,521	338,159
Net cash used in investing activities		**(1,451,824)**	**(48,260,405)**
Cash flows from financing activities			
Dividends paid to the Group shareholders		-	(90,651)
Dividend paid to non-controlling interests		-	(986)
Net cash used in financing activities		**-**	**(91,637)**
Effect of exchange rate changes on cash and cash equivalents		(113,625)	(1,366,454)
Net increase/(decrease) in cash and cash equivalents		**1,624,096**	**(46,252,615)**
Cash and cash equivalents at the beginning of the year		**3,263,202**	**51,154,043**
Cash and cash equivalents at the end of the year	12	**4,887,298**	**4,901,428**

The interim consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the interim consolidated financial statements set on pages 7 to 43.

WGC-3 Group

Interim consolidated statement of changes in equity

for the six months ended 30 June 2011

(in thousands of Russian Roubles)

	Attributable to equity holders of the Group					
	Share capital	**Share premium**	**Treasury shares**	**Other reserves**	**Retained earnings**	**Total equity**
Balance at 1 January 2011, as previously reported	**47,487,999**	**63,136,744**	**(7,947,303)**	**(8,200,752)**	**(4,479,647)**	**89,997,041**
Acquisition of subsidiary under common control (Note 2)	-	-	-	-	62,982	62,982
Correction of error on translation reserve (Note 2)	-	-	-	(78,626)	78,626	-
Correction of error on income tax (Note 2)	-	-	-	-	165,308	165,308
Balance at 1 January 2011, restated	**47,487,999**	**63,136,744**	**(7,947,303)**	**(8,279,378)**	**(4,172,731)**	**90,225,331**
Total comprehensive income for the period						
Acquisition of HC CSKA under common control (Note 2)	-	-	-	-	(300,000)	(300,000)
Profit for the period	-	-	-	-	1,584,969	1,584,969
Other comprehensive income						
Net change in fair value of available-for-sale investments, net of tax	-	-	-	(28,273)	-	(28,273)
Total other comprehensive income	-	-	-	(28,273)	1,284,969	1,256,696
Total comprehensive income for the period	**-**	**-**	**-**	**(28,273)**	**1,284,969**	**1,256,696**
Balance at 30 June 2011, unaudited	**47,487,999**	**63,136,744**	**(7,947,303)**	**(8,307,651)**	**(2,887,762)**	**91,482,027**

The interim consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the interim consolidated financial statements set on pages 7 to 43.

WGC-3 Group

Interim consolidated statement of changes in equity (continued)

for the six months ended 30 June 2011

(in thousands of Russian Roubles)

	Attributable to equity holders of the Group					
	Share capital	**Share Premium**	**Treasury shares**	**Other reserves**	**Retained earnings**	**Total equity**
Balance at 1 January 2010, as previously reported	**47,487,999**	**63,136,744**	**(7,947,303)**	**(8,238,245)**	**10,394,863**	**104,834,058**
Acquisition of subsidiary under common control (Note 2)	-	-	-	-	11,670	11,670
Correction of error on translation reserve (Note 2)	-	-	-	(78,626)	78,626	-
Balance at 1 January 2010, restated	**47,487,999**	**63,136,744**	**(7,947,303)**	**(8,316,871)**	**10,485,159**	**104,845,728**
Total comprehensive (loss)/income for the period						
Loss for the year	-	-	-	-	(534,071)	(534,071)
Other comprehensive income						
Net change in fair value of available-for-sale investments, net of tax	-	-	-	22,788	-	22,788
Total other comprehensive income	-	-	-	22,788	-	22,788
Total comprehensive income/(loss) for the period	**-**	**-**	**-**	**22,788**	**(534,071)**	**(511,283)**
Balance at 30 June 2010, restated, unaudited	**47,487,999**	**63,136,744**	**(7,947,303)**	**(8,294,083)**	**9,951,088**	**104,334,445**

The interim consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the interim consolidated financial statements set on pages 7 to 43.

1. The Group and its operations

Open Joint Stock Company “Third Generation Company of the Wholesale Electricity Market” (OJSC “WGC-3”, or the “Group”) was established on 23 November 2004 within the framework of the Russian electricity sector restructuring in accordance with Resolution No. 1254-r adopted by the Russian Federation Government on 1 September 2003.

Branches

The WGC-3 Group (the “Group”) operates 7 power plants and its principal activity is electricity and heat generation. These SDPPs (state district power plants) are incorporated as production branches. The Group’s principal branches as at 30 June 2011 are Kostromskaya SDPP, Cherepetskaya SDPP, Pechorskaya SDPP, Kharanorskaya SDPP, Yuzhnouralskaya SDPP, Gusinooserskaya SDPP and Dzhubginskaya TPP.

Subsidiaries

The Group has 12 subsidiaries which are service, heating retail and coal-mining companies and operate in the regions where power plants are situated. All subsidiaries are 100% controlled and their income is mainly generated by intra-group operations.

Principal shareholders

As at 31 December 2010 the Group ultimate controlling party was the Group “MMC “Norilsk Nickel” (77.90% effective ownership).

On 23 March 2011 “MMC “Norilsk Nickel” exchanged ordinary registered shares of WGC-3 for the ordinary non-documentary shares of OJSC “Inter RAO UES” (“Inter RAO”) with a ratio of 35 shares of Inter RAO for 1 share of WGC-3. As a result Inter RAO became ultimate shareholder of the Group. As at 30 June 2011 Inter RAO owned 81.93% of the Group shares. The rest of the shares are held by individual and nominee holders (18.07%).

The Group is registered by the District Inspectorate of the Russian Federation Ministry of Taxation of Republic of Buryatiya. The Group’s ofice is located at bld. 25, Ermolaevsky lane, Moscow, 123001, Russia.

Operating environment

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

1. The Group and its operations (continued)

Relations with the state and current regulation

The Group's customer base includes a large number of entities controlled by or related to the state. Moreover, 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 Tariff Service ("FTS"), with respect to its wholesale energy sales, and by the Regional Energy Commissions ("RECs") or by the Regional Tariff Services ("RTSs"), with respect to its heat sales. The operations of all generating facilities are coordinated by OJSC "System Operator – the Central Despatch Unit of Unified Energy System" ("SO-CDU") in order to meet system requirements in an efficient manner. SO-CDU is controlled by the Government of the Russian Federation.

Tariffs which the Group may charge for sales of electricity and heat are calculated on the basis of normative documents, which regulate pricing in the field of heat and electricity. Tariffs are calculated in accordance with the "Cost-Plus" method of indexation. Costs are determined under the Regulations on Accounting and Reporting of the Russian Federation, a basis of accounting which significantly differs from International Financial Reporting Standards ("IFRS").

As described in Notes 26 and 27, the government's economic, social and other policies could have material effects on the operations of the Group.

2. Basis of preparation

Statement of compliance

These interim consolidated financial statements (the "Financial Statements") for the six months ended 30 June 2011 have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

Group's companies maintain their accounting records in Russian Roubles ("RUB") and prepare their statutory financial statements in accordance with the Federal Law on Accounting of the Russian Federation. The Financial Statements are based on the statutory records, with adjustments and reclassifications recorded for the purpose of fair presentation in accordance with International Financial Reporting Standards ("IFRS").

Restatement of comparative information

(a) Reclassification

Effective 1 Janury 2011 the Group started to present value added tax ("VAT") deductible from advances for capital expenditures within other non-current assets or accounts receivable and prepayments line of the consolidated statement of financial position depending on recoverability period. The comparative information as at 31 December 2010 has been reclassified to conform to the presentation as at 30 June 2011. As a result of this reclassification property, plant and equipment decreased by RUB 2,132,512 thousand, while other non-current assets and accounts receivable and prepayments increased by RUB 2,079,290 thousand and RUB 53,222 thousand, respectively, as at 31 December 2010.

2. Basis of preparation (continued)

Restatement of comparative information (continued)

(b) Purchases of subsidiaries from parties under common control

Purchases of subsidiaries from parties under common control are accounted for using the predecessor accounting method. Under this method the interim consolidated financial statements of the combined entity are presented as if the business had been combined from the beginning of the earliest period presented or, if later, the date when the combining entities were first brought under common control. The assets and liabilities of the subsidiary transferred under common control are at the predecessor entity carrying amounts. The predecessor entity is considered to be the highest reporting entity in which the subsidiary's IFRS financial information was consolidated. Related goodwill inherent in the predecessor entity's original acquisitions is also recordered in these interim consolidated financial statements. Any differences between the carrying amount of net assets, including the predecessor entity's goodwill, and the consideration for the acquisition is accounted for in the Financial Statements as an adjustment to the retained earnings within equity.

Accordinly, the prior period interim consolidated statement of financial position, interim consolidated income statement, interim consolidated statement of comprehensive income, interim consolidated statement of cash flows and interim consolidated statement of changes in equity are not the same as those previously presented and they have been accounted for using the predecessor's values method and retrospectively restated in all periods presented.

In January 2011 the LLC "Professional hockey club CSKA" was acquired from MK LLL "Sportivnie proekti", an entity controlled by "MMC "Norilsk Nickel", for a cash consideration of RUB 300 million.

	1 January 2010		31 December 2010	
	Before the restatement	**After the restatement**	**Before the restatement**	**After the restatement**
Total assets	111,169,298	111,209,780	98,931,706	99,010,320
Total liabilities	6,335,240	6,364,052	8,934,665	8,950,297

	For the six months ended 30 June 2010	
	Before the restatement	**After the restatement**
Revenue from operation	20,579,089	21,101,201
Net income for the period	(709,651)	(534,071)

(c) Correction of errors

In the course of preparation of these interim consolidated financial statements the following two prior period errors were identified:

(i) The Group identified that its investment in Plug Power (Note 8) was erroneously considered to be an associate of the Group. However, from the date of acquisition the Group had no significant influence over Plug Power and the investment should have been recognised initially as available for sale investment. The error was corrected by restating the comparative information in these interim consolidated financial statements. As a result, translation reserve within other reserves in equity decreased and retained earnings increased by RUB 78,626 thousand as at 1 January 2010, 30 June 2010 and 31 December 2011.

2. Basis of preparation (continued)

Restatement of comparative information (continued)

(c) Correction of errors (continued)

(ii) In prior periods the Group did not recognize changes in current income tax based on the amended tax return for 2008-2009 filed in the second half of 2010. Accordingly, prepayments for income tax as of 31 December 2010 and current income tax expense for the year then ended were understated by RUB 165,308 thousand. The error was corrected by restating the comparative information in these interim consolidated financial statements. There was no effect of correction of this error on the interim consolidated statement of comprehensive income for the six months ended 30 June 2010.

Basis of measurement

The Financial Statements are prepared on the historical cost basis except that financial investments classified as available-for-sale are stated at fair value.

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 Group’s entities and the currency in which these financial statements are presented. All financial information presented in RUB has been rounded to the nearest thousand.

Critical accounting estimates and assumptions

The Group makes estimates and judgements that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management’s experience and other factors, including expectations as to 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 recognized in the Financial Statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

(a) Provision for impairment of accounts receivable

Provision for impairment of accounts receivable is based on the Group's assessment of whether the collectibility of specific customer accounts deteriorated compared to prior estimates. If there is deterioration in a major customer’s creditworthiness or actual defaults are higher than the estimates, the actual results could differ from these estimates (see Notes 10, 27).

(b) Provision for impairment of other assets

At each reporting date the Group assesses whether there is any indication that the recoverable amount of the Group's assets has declined below the carrying value. The recoverable amount of property, plant and equipment 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 profit or loss in the period in which the reduction is identified. If conditions change and management determines that the value of an asset other than goodwill has increased, the impairment provision will be fully or partially reversed (see Note 5).

2. Basis of preparation (continued)

Critical accounting estimates and assumptions (continued)

(c) Retirement benefit obligation

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

(d) Tax contingencies

Russian tax legislation is subject to varying interpretations. The Group's uncertain tax positions (potential tax gains and losses) are reassessed by management at every reporting date. Liabilities are recorded for income tax positions that are determined by management based on the interpretation of current tax laws. Liabilities for penalties, interest and taxes other than on profit are recognized based on management's best estimates of the expenditure required to settle tax obligations at the reporting date.

(e) Useful lives of property, plant and equipment

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

(f) Revenue recognition

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

(g) Decommissioning liablility

The estimated costs of removing an item of PP&E and land rehabilitation are added to the cost of an item of PP&E. A provision is recognized based on the net present values for land restoration costs as soon as the obligation arises. Actual costs incurred in future periods could differ materially from the amounts provided. Additionally, future changes to environmental laws and regulations, life of ash dumps estimates and discount rates could affect the carrying amount of this provision.

3. Summary of significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these interim consolidated financial statements, and have been applied consistently by Group's entities.

Principles of consolidation

The Financial Statements comprise the financial statements of JSC WGC-3 and the financial statements of those entities whose operations are controlled by JSC WGC-3. Control is presumed to exist when JSC WGC-3 controls, directly or indirectly through subsidiaries, more than 50% of voting rights.

a) Subsidiaries

Subsidiaries are those entities over which the Group has the ability to control the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights.

Subsidiaries are fully consolidated from the date on which control is acquired by the Group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances and unrealized gains on transactions between Group's companies are eliminated. Unrealized losses are also eliminated unless the cost cannot be recovered.

b) Associates

An associate is an entity over which the Group exercises significant influence, but not control, through participation in financing and operating policy decisions, in which it normally owns between 20% and 50% of the voting equity. Associates are equity accounted for from the date significant influence commenced until the date that significant influence effectively ceased.

Investments in associates are carried at cost, including goodwill, as adjusted for the Group's share of post-acquisition changes in associate's retained earnings and other movements in reserves. The carrying value of investments in associates is reviewed on a regular basis and if any impairment in value has occurred, it is written down in the period in which these circumstances are identified.

The results of associates are equity accounted for based on their most recent financial statements.

When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest including any long-term investments, is reduced to zero, and the recognition of further losses is discontinued, except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Profits and losses resulting from transactions with associates are eliminated to the extent of the Group's interest in the relevant associates.

3. Summary of significant accounting policies (continued)

Assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is met only when sale is highly probable within one year from the date of classification and the asset or disposal group is available for immediate sale in its present condition and management has committed to the sale. The extension of the period required to complete a sale does not preclude an asset (or disposal group) from being classified as held for sale if the delay is caused by events or circumstances beyond the entity's control and there is sufficient evidence that the entity remains committed to its plan to sell the asset (or disposal group). Non-current assets and disposal groups classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

Foreign currency transactions

Monetary assets and liabilities, which are held by the Group's entities and denominated in foreign currencies at the reporting date, are translated into RUB at the exchange rates prevailing at that date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the interim consolidated statement of comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

As at 30 June 2011, the official rate of exchange, as determined by the Central Bank of the Russian Federation, between the RUB and the US Dollar ("USD") was RUB 28.08: USD 1.00 (31 December 2010: RUB 30.48: USD 1.00), between the RUB and EURO - RUB 40.39: EURO 1.00 (31 December 2010: RUB 43.33: EURO 1.00).

Property, plant and equipment

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

Renewals and improvements are capitalized and the assets replaced are retired. The costs of repair and maintenance are expensed as incurred. Gains and losses arising from the retirement of property, plant and equipment are included in the interim consolidated statement of comprehensive income as incurred.

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

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

Type of facility	Useful life, years
Electricity and heat generation	4-63
Electricity distribution	7-30
Heating networks	4-22
Other	8-10

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

3. Summary of significant accounting policies (continued)

Inventories

Inventories are valued at the lower of net realizable value and weighted average acquisition cost. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Provision is made for potential losses on obsolete or slow-moving inventories, taking into account their expected use and future realizable value.

Financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and accounts receivable, held-to-maturity and available-for-sale. The classification depends on the purpose for which the financial assets are required. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial asset is classified as at fair value through profit or loss where the financial asset is either held for trading or it is designated as at fair value through profit or loss.

Financial assets at fair value through profit or loss are stated at fair value, with any resulting gain or loss recognised in the interim consolidated statement of comprehensive income. The net gain or loss recognised in the interim consolidated statement of comprehensive income incorporates any dividend or interest earned on the financial asset.

(b) Loans and accounts receivable

Loans and accounts receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

(c) Held-to-maturity financial assets

Held to maturity financial assets are financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity other than loans and accounts receivable originated by the Group.

(d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. Available-for-sale financial assets mainly include investments in shares. The shares held by the Group are stated at their fair value. Gains and losses arising from changes in fair value are recognized in other reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognized directly in the interim consolidated statement of comprehensive income. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in other reserve is included in the interim consolidated statement of comprehensive income for the period. Dividends on available-for-sale equity instruments are recognized in the interim consolidated statement of comprehensive income when the Group’s right to receive the dividends is established.

3. Summary of significant accounting policies (continued)

Leases

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets subject to finance leases are capitalised as property, plant and equipment at the lower of fair value or present value of future minimum lease payments at the date of acquisition, with the related lease obligation recognised at the same value. Assets held under finance leases are depreciated over their estimated economic useful lives or over the term of the lease, if shorter. If there is reasonable certainty that the lessee will obtain ownership at the end of the lease term, the period of expected use is useful life of the asset.

Finance lease payments are allocated using the effective interest rate method, between the lease finance cost, which is included in finance costs, and the capital repayment, which reduces the related lease obligation to the lessor.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the interim consolidated statement of comprehensive income on a straight-line basis over the lease term.

Equity

(a) Ordinary shares

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

(b) Repurchase of share capital (treasury shares)

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to / from share premium.

(c) Dividends

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

Intangible assets

Intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortization and accumulated impairment losses.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

Type of intangible assets	Useful lives (in years)
Computer software	1-5
Licenses	1-5

3. Summary of significant accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, cash deposits and highly liquid investments with maturities of three months or less, which are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Deposits

Deposits include mainly deposits in various banks with maturity of more than three months. Interest earned on deposits is recognized on current basis using effective interest method.

Accounts receivable and prepayments

Accounts receivable are recorded inclusive of value added taxes. Trade accounts receivable are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method less provision for impairment. Such a bad debt allowance and write-off 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 accounts receivable. 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 market rate of interest for similar borrowers at the date of origination of the accounts receivable. The primary factors that the Group considers whether a receivable is impaired is its overdue status and reliability of related collateral, if any. The following other principal criteria are also 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 by its financial information that the Group obtains;
- the counterparty considers bankruptcy or a financial reorganisation;
- there is 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.

Value added tax on purchases and sales

Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of the accounts receivable from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognized in the interim consolidated statement of financial position on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of accounts receivable, the impairment loss is recorded for the gross amount of the debtor, including VAT.

Income tax

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

3. Summary of significant accounting policies (continued)

Deferred income tax

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

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

Deferred tax is not provided for the undistributed earnings of subsidiaries, as the Group requires profits to be reinvested.

Accounts payable and accruals.

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

Impairment

(a) Financial assets

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

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

3. Summary of significant accounting policies (continued)

Impairment (continued)

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

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

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

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

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

(b) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

3. Summary of significant accounting policies (continued)

Impairment (continued)

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

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Debt

Debt is recognized initially at its fair value. If it is significantly different from the transaction price, fair value is determined using the prevailing market interest rate for a similar instrument. In subsequent periods, debt is stated at amortized cost using the effective interest rate method; any difference between the fair value at initial recognition (net of transaction costs) and the redemption amount is recognized in the interim consolidated statement of comprehensive income as an interest expense over the period of the debt obligation.

Employee 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 offers various post-employment, long-term and jubilee benefits to its employees which are of a defined benefit nature. The defined benefit obligations and costs are assessed using the projected unit credit method. The present value of the obligations are determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits associated with the operations of the plan will be paid, and that have terms to maturity approximating the terms of the related liabilities.

Actuarial gains and losses arising from changes in actuarial estimations and exceeding 10% of the obligations are charged or credited to the interim consolidated statement of operations over the average remaining service lives of employees starting from the next reporting period.

Provisions

Provisions are recorded where there is a present obligation, the payment is probable and reliable estimates can be made.

Environmental obligations

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

3. Summary of significant accounting policies (continued)

Revenue recognition

Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer of electricity and heat or non-utility goods and services. Revenue is measured at the fair value of the consideration received or receivable. When the fair value of consideration received cannot be measured reliably, the revenue is measured at the fair value of the goods or services sold/provided. Revenue is stated net of value added tax. The Group presents electricity purchases entered into to support a delivery of non-regulated bilateral contracts net within revenue.

Social expenditure

To the extent that the Group's contributions to social programs benefit the community at large without creating constructive obligation to provide such benefits in the future and are not restricted to the Group's employees, they are recognized in the interim consolidated statement of comprehensive income as incurred.

Interest

Interest income and expense are recognized in the interim consolidated statement of comprehensive income for all debt instruments on an accrual basis using the effective rate of interest method. Interest income includes nominal interest and amortized discount and premium. When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognized based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount. In respect of borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009, the Group capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset.

Fair values

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

(a) Investments in equity securities

The fair value of available-for-sale financial assets is determined by reference to their quoted bid price at the reporting date.

(b) Trade and other receivables

The fair value of non-current trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

(c) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

Earnings per share

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

3. Summary of significant accounting policies (continued)

Segment reporting

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

New financial reporting standards and interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 30 June 2011, and have not been applied in preparing these Financial Statements. Of these pronouncements, potentially the following will have an impact on the Group’s operations. The Group plans to adopt these pronouncements when they become effective.

- IFRS 9 *Financial Instruments Part 1*: Classification and Measurement (issued in November 2009, effective for annual periods beginning on or after 1 January 2013, with earlier application permitted);
- *Disclosures – Transfers of Financial Assets* – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011);
- *Recovery of Underlying Assets* – Amendments to IAS 12 (issued in December 2010 and effective for annual periods beginning on or after 1 January 2012);
- IFRS 10 *Consolidated Financial Statements* (issued in May 2011, effective for annual periods beginning on or after 1 January 2013 with earlier application permitted).
- IFRS 11 *Joint Arrangements* (issued in May 2011, effective for annual periods beginning on or after 1 January 2013, with earlier application permitted).
- IFRS 12 *Disclosure of Interests in Other Entities* (issued in May 2011, effective for annual periods beginning on or after 1 January 2013, with earlier application permitted).
- IFRS 13 *Fair Value Measurement* (issued in May 2011, effective for annual periods beginning on or after 1 January 2013, with earlier application permitted).
- IAS 1 *Financial Statement Presentation* – Amendment (issued in June 2011, effective for annual periods beginning on or after 1 July 2012). These amendments clarify the presentation requirements for components of other comprehensive income.
- IAS 19 *Employee Benefits* – Amendment (issued in June 2011, effective for annual periods beginning on or after 1 July 2013). The amendments improve the recognition and disclosure requirements for defined benefit plans.

The Group is currently assessing the impact of the standards on its financial statements.

4. Related parties

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions for the six months ended 30 June 2011 and for the six months ended 30 June 2010 or had significant balances outstanding at 30 June 2011 and at 30 June 2010 are detailed below.

Parent and parent's subsidiaries

The Group had the following significant transactions with parent (Group Inter RAO in 2011 and Group "MMC "Norilsk Nickel" in 2010) and its subsidiaries:

	For the six months ended 30 June 2011	For the six months ended 30 June 2010
Sales	892,094	-
Purchases	72,910	834,659

The Group had the following significant balances with the parent and its subsidiaries as at 30 June 2011 and 31 December 2010:

	30 June 2011	31 December 2010
Accounts receivable and prepayments	167,313	513
Accounts payable and accruals	7,408	-

State-controlled entities

In the normal course of business the Group enters into transactions with other entities under government control. Prices for natural gas, electricity and heat are based on tariffs set by FST and RST. Taxes are charged and paid under the Russian tax legislation.

The Group had the following significant transactions with state-controlled entities related to the group through Inter RAO:

	For the six months ended 30 June 2011
Sales	332,869
Purchases	2,461,708

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

	30 June 2011
Accounts receivable and prepayments	325,877
Accounts payable and accruals	375,847

Transactions with key management and close family members

Total remuneration in the form of salary and bonuses paid to the members of the Board of Directors and Management Board for the period ended 30 June 2011 was RUB 104,768 thousand (for the period ended 30 June 2010 – RUB 63,038 thousand).

5. Property, plant and equipment

	Electricity and heat generation	Electricity transmission	Heating networks	Construction in progress	Other	Total
Cost						
Opening balance as at 31 December 2010, restated	**31,594,389**	**4,130,898**	**998,381**	**26,060,750**	**8,610,861**	**71,395,279**
Additions	-	-	-	7,345,798	227,404	7,573,202
Transfers	152,662	20,949	2,413	(256,986)	80,962	-
Disposals	(11,474)	-	-	(23,967)	(17,653)	(53,094)
Closing balance as at 30 June 2011	**31,735,577**	**4,151,847**	**1,000,794**	**33,125,595**	**8,901,574**	**78,915,387**
Accumulated depreciation (including impairment)						
Opening balance as at 31 December 2010, restated	**(15,486,664)**	**(2,785,075)**	**(574,007)**	**-**	**(6,595,203)**	**(25,440,949)**
Charge for the year	(584,710)	(49,825)	(21,584)	-	(266,592)	(922,711)
Disposals	4,850	-	-	-	12,314	17,164
Closing balance as at 30 June 2011	**(16,066,524)**	**(2,834,900)**	**(595,591)**	**-**	**(6,849,481)**	**(26,346,496)**
Net book value as at 30 June 2011	**15,669,053**	**1,316,947**	**405,203**	**33,125,595**	**2,052,093**	**52,568,891**
Net book value as at 31 December 2010, restated	**16,107,725**	**1,345,823**	**424,374**	**26,060,750**	**2,015,658**	**45,954,330**

	Electricity and heat generation	Electricity transmission	Heating networks	Construction in progress	Other	Total
Cost						
Opening balance as at 1 January 2010, restated	**30,975,785**	**4,088,335**	**977,739**	**16,212,814**	**7,940,137**	**60,194,810**
Additions	-	-	-	4,436,533	29,819	4,466,352
Transfers	135,846	18,245	-	(295,583)	141,492	-
Disposals	(73,576)	(83)	-	(5,441)	(28,839)	(107,939)
Closing balance as at 30 June 2010 (unadited)	**31,038,055**	**4,106,497**	**977,739**	**20,348,323**	**8,082,609**	**64,553,223**
Accumulated depreciation (including impairment)						
Opening balance as at 1 January 2010, restated	**(14,446,065)**	**(2,734,850)**	**(532,276)**	**-**	**(6,189,823)**	**(23,903,014)**
Charge for the year	(589,794)	(52,292)	(22,186)	-	(242,548)	(906,820)
Disposals	34,226	76	-	-	19,402	53,704
Closing balance as at 30 June 2010 (unadited)	**(15,001,633)**	**(2,787,066)**	**(554,462)**	**-**	**(6,412,969)**	**(24,756,130)**
Net book value as at 30 June 2010 (unadited)	**16,036,422**	**1,319,431**	**423,277**	**20,348,323**	**1,669,640**	**39,797,093**
Net book value as at 1 January 2010, restated	**16,529,720**	**1,353,485**	**445,463**	**16,212,814**	**1,750,314**	**36,291,796**

At 30 June 2011 construction in progress includes advance prepayments for property, plant and equipment of RUB 12,140,441 thousand (31 December 2010: RUB 11,847,286 thousand).

The assets transferred to the Group upon privatization did not include the land on which the Group's buildings and facilities are situated. The Group has the right to purchase this land (except for the land at Moscow) upon application to the state registration body or to formalize the right for rent after the right expiry date, which is 1 January 2012.

5. Property, plant and equipment (continued)

Impairment

The impairment provision included in accumulated depreciation balance as at 30 June 2011 is nil (31 December 2010 RUB 6,821 thousand).

Operating leases

The Group leases a number of land areas owned by local governments under operating lease. Land lease payments are determined by lease agreements.

Non-cancellable operating lease rentals are payable as follows:

	30 June 2011	31 December 2010
Not later than one year	50,789	50,378
Than one year but not later than five years	166,563	164,342
Later than five years	1,110,160	903,135
Total	**1,327,512**	**1,117,855**

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

6. Intangible assets

	Computer software	Licenses	Total
Cost			
Balance at 1 January 2010	62,241	20,264	82,505
Additions	12,484	981	13,465
Disposals	(1,278)	-	(1,278)
Balance at 30 June 2010	**73,447**	**21,245**	**94,692**
Amortisation			
Balance at 1 January 2010	(19,174)	(1,423)	(20,597)
Amortisation for the period	(9,025)	(632)	(9,657)
Balance at 30 June 2010	**(28,199)**	**(2,055)**	**(30,254)**
Carrying amounts			
At 1 January 2010	**43,067**	**18,841**	**61,908**
At 30 June 2010	**45,248**	**19,190**	**64,438**

	Computer software	Licenses	Total
Cost			
Balance at 1 January 2011	95,875	24,932	120,807
Additions	17,049	11,388	28,437
Balance at 30 June 2011	**112,924**	**36,320**	**149,244**
Amortisation			
Balance at 1 January 2011	(39,158)	(3,194)	(42,352)
Amortisation for the period	(16,965)	(10,288)	(27,253)
Balance at 30 June 2011	**(56,123)**	**(13,482)**	**(69,605)**
Carrying amounts			
At 1 January 2011	**56,717**	**21,738**	**78,455**
At 30 June 2011	**56,801**	**22,838**	**79,639**

7. Acquisitions of subsidiary

On 27 December 2010 the Group obtained control over a coal mining company ROC LLC by acquiring 100% of the company's shares for RUB 140 million. The resulting control over ROC LLC's enables the Group to optimise its production process through access to coal resources. Fair value assessment of the net assets acquired was not completed prior to the publication of annual financial statements for the year ended 31 December 2010 and the Group applied provisional accounting for the acquisition. In May 2011 the Group made an assessment of the fair value of net assets acquired. Their identifiable net assets acquired are stated below based on their fair values:

	Fair values
Non-current assets	112,205
Current assets	38,309
Non-current liabilities	(10,865)
Current liabilites	(730)
Fair value of net assets acquired	**138,919**
Total consideration paid	140,000
Difference	**1,081**

The difference between consideration paid and the fair values of assets and liabilities assumed acquired is not considered significant and no goodwill was recognised.

8. Other non-current assets

	30 June 2011	**31 December 2010**	**31 December 2009**
		Restated	**Restated**
Available-for-sale investments	426,609	188,105	142,221
Accounts receivable	233,707	83,146	123,977
Value added tax	1,995,385	2,079,899	1,883,803
Investment in equity accounted investees	-	-	14,023,501
Other	-	-	1,394
Total	**2,655,701**	**2,351,150**	**16,174,896**

The available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of other categories of financial assets. The available-for-sale financial assets mainly comprise marketable and non-marketable securities.

The available-for-sale investment as of 30 June 2011 includes investment in Plug Power in total amount of RUB 278,158 thousand which was previously accounted for as asset helf for sale in the amount of RUB 504,594 thousand as of 31 December 2010. The available-for-sales investment in Plug Power was reclassified from held-for-sale following the decision of new ultimate parent of the Group not dispose the investment in Plug Power. As a result of impairment analysis RUB 179,360 thousand of loss related to decrease of fair value of Plug Power shares and RUB 47,076 thousand of foreign exchange losses were recognised in interim consolidated statement of comprehensive income for the six months ended 30 June 2011 (Note 22). In May 2011 the share of the Group in Plug Power was diluted from 33.7% as of 31 December 2010 to 19.7% as of 30 June 2011.

9. Inventories

	30 June 2011 Unadited	31 December 2010 Restated	31 December 2009 Restated
Fuel supplies	2,116,427	1,671,573	1,336,940
Materials and supplies	395,958	217,276	257,274
Other inventories	331,647	290,284	305,650
Total	**2,844,032**	**2,179,133**	**1,899,864**

The above inventory balances are recorded net of obsolescence provision of RUB 45,515 thousand and RUB 55,302 thousand as at 30 June 2011 and 31 December 2010 respectively.

Also the Group has a minimal balance of inventories in the amount RUB 462,206 thousand (as at 31 December 2010: RUB 376,860 thousand), mostly represented by fuel and spare parts.

10. Accounts receivable and prepayments

	30 June 2011 Unadited	31 December 2010 Restated	31 December 2009 Restated
Trade accounts receivable (net of impairment provision for accounts receivable of RUB 966,663 thousand as at 30 June 2011, RUB 922,797 thousand as at 31 December 2010 and RUB 609,453 thousand as at 31 December 2009)	2,552,036	1,801,902	2,006,893
Advances to suppliers(net of impairment provision for advances to suppliers of RUB 68,193 thousand as at 30 June 2011, RUB 68,233 thousand as at 31 December 2010 and RUB 68,744 thousand as at 31 December 2009)	235,639	601,472	1,022,983
Value added tax recoverable	1,123,048	749,814	769,523
Interest and other accounts receivable (net of impairment provision for other accounts receivable of RUB 204,964 thousand as at 30 June 2011, RUB 220,180 thousand as at 31 December 2010 and RUB 239,665 thousand as at 31 December 2009)	1,056,568	1,765,151	388,960
Total	**4,967,291**	**4,918,339**	**4,188,359**

The majority of accounts receivables and prepayments are denominated in RUB.

11. Deposits and other financial assets

Name of bank	Currency	Type	Interest rate, %	30 June 2011 (foreign currency)	30 June 2011	31 December 2010 (foreign currency)	31 December 2010	31 December 2009
						Restated	Restated	Restated
VTB Bank	RUB	Deposit	6.10-7.40		-	-	8,415,145	7,500
VTB Bank	USD	Deposit	3.35-8.50	115,173	3,233,574	200,805	6,119,904	-
VTB Bank	EUR	Deposit	7.25		-	59,229	2,388,879	-
Svyaz-bank	RUB	Deposit	4.50-7.60	-	14,487,000	-	7,060,000	-
Rosselhozbank	RUB	Deposit	4.30-6.90	-	14,415,000	-	7,734,000	-
Rosbank	RUB	Deposit	6.15-8.10			-	7,900,000	-
Sberbank	RUB	Promis-sory note	8.50-8.60	-	-	-	-	1,393
Total					**32,135,574**		**39,617,928**	**8,893**

According to the contracts the deposit repayment can be exercised at any time at 3-5 days notice. Deposit periods are from three to twelve months and interest rates are fixed for a certain period.

For the six months ended 30 June 2011 interest income on deposits amounted to RUB 1,140,433 thousand (for the six months ended 30 June 2010: RUB 1,032,122 thousand).

The Group's deposits in banks and other financial assets are short-term and their carrying amount approximates the fair value.

12. Cash and cash equivalents

	30 June 2011		31 December 2010		31 December 2009	
	RUB ’000	Foreign currency ’000	RUB ’000	Foreign currency ’000	RUB ’000	Foreign currency ’000
			Restated		Restated	
Cash nominated in:						
RUB	4,086,959	-	520,803	-	6,354,704	
USD	173	6	373,630	12,260	538,775	17,814
EUR	166	4	218,670	5,422	15,337	354
GBR	-		99	2	111	2
Term deposits with original maturity of less than three months:						
RUB	800,000		2,150,000			
USD	-		-		24,069,582	795,841
EUR	-		-		20,175,534	464,999
Total	**4,887,298**		**3,263,202**		**51,154,043**	

13. Equity

Share capital

(Number of shares unless otherwise stated)	**Ordinary shares 30 June 2011**	**Ordinary shares 31 December 2010**	**Ordinary shares 31 December 2009**
Issued shares	47,487,999,252	47,487,999,252	47,487,999,252
Par value (in RUB)	1.00	1.00	1.00

Treasury shares

As at 30 June 2011 and 31 December 2010 the number of treasury shares amounted to 1,966,180,818 shares comprising 4.14% of issued shares. Tresuary shares do not have voting rights.

Dividends

In accordance with Russian legislation the Group's distributable reserves are limited to the balance of retained earnings as recorded in the Group's statutory financial statements prepared in accordance with Russian Accounting Principles. No dividends were declared or proposed based on six months 2011 results.

14. Income tax

Income tax expense	**For the six months ended 30 June 2011**	**For the six months ended 30 June 2010**
Current income tax (expense)/benefit	(598,074)	72,117
Deferred income tax benefit	101,972	115,081
Total income tax (expense)/benefit	**(496,102)**	**187,198**

During six month ended 30 June 2011 the Group's entities were subject to the 20% income tax rate on taxable profits. In accordance with Russian tax legislation, tax losses in different Group's companies may not be offset against taxable profits of other Group's companies.

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

	For the six months ended 30 June 2011	**For the six months ended 30 June 2010**
Profit/(loss) before tax	**2,081,071**	**(721,269)**
Theoretical income tax (expense)/benefit using the appropriate statutory tax rate of 20%	(416,214)	144,254
Deferred tax asset on share in losses of associates previously unrecognised	-	(20,622)
Tax effect of items which are not deductible or taxable for taxation purposes:		
Tax effect of foreign exchange	(52,418)	66,243
Tax effect of non-deductible employee benefits	(33,677)	-
Other non-deductible and non-taxable items, net	6,207	(2,677)
Total income tax (expense)/benefit	**(496,102)**	**187,198**

14. Income tax (continued)

Deferred income tax

Differences between IFRS and Russian statutory taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and their tax bases. At 30 June 2011 deferred tax assets and liabilities are measured at 20%, the rate applicable when the temporary differences will reverse.

Deferred tax liabilities

	31 December 2010	Movement for six month period recognized in profit or loss	30 June 2011
Property, plant and equipment	(2,791,136)	20,464	(2,770,672)
Total	**(2,791,136)**	**20,464**	**(2,770,672)**

Deferred tax assets

	31 December 2010	Movement for six month period recognized in profit or loss	Movement for six month period recognized in other comprehensive income	30 June 2011
Provisions	109,881	45,805	-	155,686
Available-for-sale investments	76,845	64,943	-	141,788
Accounts payable	79,483	(34,945)	-	44,538
Inventories	33,200	6,426	-	39,626
Accounts receivable including provision for impairment	11,143	(782)	-	10,361
Long-term available-for-sale investments	(3,248)	61	7,071	3,884
Total	**307,304**	**81,508**	**7,071**	**395,883**
Net deferred tax liabilities	**(2,483,832)**	**101,972**	**7,071**	**(2,374,789)**

Deferred tax assets have not been recognised in respect of share in losses of associates because it is not probable that future taxable profit will be available against which the Group can utilise the benefits there from.

Deferred tax liabilities

	31 December 2009	Movement for six month period recognized in profit or loss	30 June 2010
Property, plant and equipment	(2,393,860)	50,778	(2,343,082)
Total	**(2,393,860)**	**50,778**	**(2,343,082)**

14. Income tax (continued)

Deferred income tax (continued)

Deferred tax assets

	31 December 2009	Movement for six month period recognized in profit or loss	Movement for six month period recognized in other comprehensive income	30 June 2010
Assets held for sale	(13,893)	63,858	-	49,965
Accounts payable	64,515	(5,690)	-	58,825
Inventories	17,862	11,078	-	28,940
Accounts receivable including provision for impairment	12,346	(5,014)	-	7,332
Long-term available-for-sale investments	6,061	71	(5,697)	435
Total	**86,891**	**64,303**	**(5,697)**	**145,497**
Net deferred tax liabilities	**(2,306,969)**	**115,081**	**(5,697)**	**(2,197,585)**

15. Employee benefits

The Group provides various long-term and post employment benefits including lump sum payments upon retirement and jubilee benefits to active employees and others. Additionally, the Group provides quarterly financial support payments of a defined benefit nature to its former employees, who have reached the age of the state old age pension.

Amounts recognized in the consolidated statement of financial position:

	30 June 2011	31 December 2010	31 December 2009
Present value of defined benefit obligations (DBO)	556,687	527,240	425,602
Present value of unfunded obligations	556,687	527,240	425,602
Unrecognized net actuarial loss	(129,843)	(136,217)	(51,517)
Unrecognized past service cost	(84,558)	(90,195)	(101,470)
Net liability in statement of financial position	**342,286**	**300,828**	**272,615**

Amounts recognized in the interim consolidated statement of comprehensive income:

	For the six months ended 30 June 2011	For the six months ended 30 June 2010
Immediate recognition of vested prior service cost	-	-
Interest cost	21,411	19,348
Current service cost	14,970	13,890
Amortization of past service cost	5,637	5,638
Settlement gain	-	-
Recognized actuarial (gain)/loss	6,374	684
Total	**48,392**	**39,560**

15. Employee benefits (continued)

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

	For the six months ended 30 June 2011	For the six months ended 30 June 2010
Defined benefit obligations at the beginning of the year	527,240	425,602
Past service (credit)/cost	-	-
Interest cost	21,411	19,348
Current service cost	14,970	13,890
Actuarial loss/(gain)	-	-
Benefits paid	(6,934)	(9,537)
Curtailment	-	-
Defined benefit obligations at the end of the year	**556,687**	**449,303**

Principal actuarial estimations are as follows:

	30 June 2011	31 December 2010	31 December 2009
Discount rate	8.00	8.00	9.00
Salary increase	7.50	7.50	8.00
Financial support benefits increase	6.00	6.00	6.50
Inflation	6.00	6.00	6.50

Reconciliation of the interim consolidated statement of financial position:

	30 June 2011	31 December 2010	31 December 2009
Net liability at the beginning of the year	300,828	272,615	207,934
Net expense recognised in the statement of comprehensive income	48,392	58,765	82,459
Benefits paid	(6,934)	(30,552)	(17,778)
Net liability at the end of the year	**342,286**	**300,828**	**272,615**

Experience adjustments:

	For the six months ended 30 June 2011	For the six months ended 30 June 2010
Present value of defined benefit obligations	556,687	449,303
Deficit in plan	556,687	449,303

Sensitivity of defined benefit obligation to changes in assumptions:

	Increase	Effect on DBO
Discount	+1.00%	-8.39%
Salary growth	+1.00%	4.53%

Historical information:

	2010	2009	2008	2007	2006
Present value of the defined benefit obligation	527,240	425,602	368,244	278,729	416,721
Deficit in the plan	527,240	425,602	368,244	278,729	416,721
Experience adjustments arising on plan liabilities	(226,412)	(152,987)	(160,310)	(128,631)	(176,176)

16. Other non-current liabilities

	30 June 2011	31 December 2010 Restated	31 December 2009 Restated
Decommissioning liability	229,024	-	
Other non-current liabities	-	341	83
Total	**229,024**	**341**	**83**

The Group has recognised an obligation to restore lands used for ash dumps and lands under coal extraction on expiration in the amount of RUB 229 million, which is included in other non-current liabilities with a corresponding increase in property plant and equipment. The discount rate used to calculate the net present value of the future cash outflows relating to the land recultivation was 7.92% at 30 June 2011.

17. Accounts payable and accruals

	30 June 2011	31 December 2010 Restated	31 December 2009 Restated
Trade accounts payable	2,489,130	2,472,341	1,298,882
Accrued liabilities and other accounts payable	495,093	710,164	611,594
Dividends payable	647	701	95,329
Advances from customers	49,587	72,904	40,335
Total	**3,034,457**	**3,256,110**	**2,046,140**

18. Provisions

Movements in provision for liability and charges are as follows:

	Note	Tax risks	Legal claims	Total
At 1 January 2010		**38,668**	**75,427**	**114,095**
Reversal of provision	21	(38,668)	(63,383)	(102,051)
At 30 June 2010		**-**	**12,044**	**12,044**

	Note	Tax risks	Legal claims	Total
At 1 January 2011		**774,103**	**19,667**	**793,770**
Additions charged to profit or loss	20	109,798	10,681	120,479
At 30 June 2011		**883,901**	**30,348**	**914,249**

Tax risks and legal claims provisions were classified as current liabilities because the Group does not have any rights to defer settlements beyond one year.

Tax risks

The Group has disputes with the tax authorities based on the results of the tax audit for 2008 and 2009 years in relation to the water tax accrual. Management assessed, based on their interpretation of the relevant tax legislation that it is probable that certain tax positions taken by the Group would not be sustained, if challenged by the tax authorities. Accordingly, the Group recognised a provision for the water tax disputes and the related penalties and interest in the total amount of RUB 883,901 thousand.The Group also assessed possible risk related to water tax underpayment up to the amount of RUB 1,345,000 thousand.

19. Taxes payable

	30 June 2011	31 December 2010	31 December 2009
Value added tax	1,968,169	1,726,780	1,195,697
Unified social tax	80,469	37,663	21,954
Property tax	72,723	72,434	70,615
Land tax	18,536	21,364	18,994
Water usage tax	351	217,040	128,901
Income tax	97	2,849	163,191
Other taxes	47,975	37,286	24,798
Total	**2,188,320**	**2,115,416**	**1,624,150**

20. Operating expenses

	Notes	For the six months ended 30 June 2011	For the six months ended 30 June 2010
Fuel		(11,624,815)	(9,977,422)
Employee benefits		(2,524,822)	(2,177,135)
Purchased electricity		(1,260,488)	(4,231,277)
Depreciation and amortization	5, 6	(949,964)	(916,477)
Fees to trade system administrator, system operator		(392,677)	(342,514)
Raw materials and supplies		(387,178)	(379,736)
Transportation of gas		(385,377)	(338,536)
Water usage expenses		(349,985)	(117,802)
Sponsorship expenses		(283,428)	(724,080)
Repairs and maintenance		(270,405)	(229,348)
Taxes other than income tax		(237,226)	(806,233)
Transportation services		(174,382)	(33,759)
Security services		(130,851)	(110,014)
Change in provisions	18	(120,479)	-
Insurance cost		(99,557)	(97,414)
Rent		(56,732)	(48,406)
Change in impairment provision for acounts receivable		(44,621)	-
Consulting, legal and audit services		(43,720)	(47,593)
Safety arrangement costs		(30,627)	(22,722)
Charity expenses		(24,073)	(17,048)
Social overhead costs		(20,387)	(46,147)
Telecommunication services		(18,801)	(19,516)
Business trip expenses		(16,221)	(18,990)
Annual general shareholders meeting expenses		-	(15,391)
Other		(198,171)	(196,661)
Total operation expenses		**(19,644,987)**	**(20,914,221)**

Employee benefits expenses comprise the following:

	For the six months ended 30 June 2011	For the six months ended 30 June 2010
Salaries and wages, payroll taxes	(2,387,526)	(2,077,010)
Financial aid to employees and pensioners	(94,331)	(69,771)
Non-governmental pension fund and defined benefits	(42,965)	(30,354)
Employee benefits	**(2,524,822)**	**(2,177,135)**

21. Operating income

	Notes	For the six months ended 30 June 2011	For the six months ended 30 June 2010
Reversal of provision for impairment of accouns receivable		-	153,632
Reversal of tax and legal claims provisions	18	-	102,051
Reversal of inventory impairment provision		9,786	-
VAT refund		-	96,039
Fines, penalties and legal proceedings		8,804	22,737
Reimbursement of losses on capacity supply agreement		-	18,111
Gain on disposal of property, plant and equipment		8,447	9,931
Accounts payable write off		4,925	-
Reimbursement of electristy expenses		2,317	-
Reimbursement of losses of rates difference		2,111	-
Other operating income		10,534	7,952
Total		**46,924**	**410,453**

22. Finance income, net

	Notes	For the six months ended 30 June 2011	For the six months ended 30 June 2010
Interest income on bank deposits		1,140,433	1,032,122
Impairment of asset held for sale		-	(319,292)
Impairment of available-for-sale investments		(179,360)	(356)
Effect from discounting of long-term receivables		(30,045)	18,700
Other, net		(14,696)	(390)
Total		**916,332**	**730,784**

23. Share of losses of equity investments

Equity investments in associated company accounted for using the equity method were comprised of the investment in OJSC RUSIA Petroleum Company (RUSIA Petroleum)

	RUSIA Petroleum
Balance at 1 January 2010	14,023,502
Share of loss of equity accounted investment for six month ended 30 June 2010	(103,110)
Impairment of investment in associate	(13,920,392)
Net liability in statement of financial position	**-**

On 20 October 2008 the Group acquired 25% (minus one share) of RUSIA Petroleum which holds a licence for Kovyktinskoe gas condensate field, one of the most strategically important gas fields in Russia with estimated gas resources in excess of 2 trillion cubic metres.

In 2010, TNK-BP, the majority shareholder of RUSIA Petroleum, requested an immediate repayment of loans which it issued to RUSIA Petroleum, amounting to RUB 11,871,749 thousand. Subsequently, RUSIA Petroleum filed for its bankruptcy due to inability to repay its debts. According to a court decision, in June 2010 a monitoring procedure was introduced in respect of RUSIA Petroleum in accordance with the Russian law on bankruptcy.

23. Share of losses of equity investments (continued)

On 19 October 2010 the court issued a decision to approve the bankruptcy of RUSIA Petroleum. Assets of RUSIA Petroleum were sold through public sale to OJSC Gazprom. The Group may partially recover the value of the investment in the future but currently the management cannot reliably assess the exact amounts that would be recovered.

As a result, the Group recognized the impairment loss in the amount of the full value of investment of RUB 13,920,392 thousand in fourth quarter of 2010.

24. Earnings per share

	For the six months ended 30 June 2011	For the six months ended 30 June 2010
Profit/(loss) attributable to the shareholders of JSC WGC-3 (thousands of RUB)	1,584,969	(534,071)
Weighted average number of ordinary shares issued (thousands of shares)	45,521,818	45,521,818
Earnings/(losses) per share, basic and diluted (in RUB per share)	**0.0348**	**(0.0117)**

25. Commitments

Capital commitments

Future capital expenditure for which contracts have been signed amounted to RUB 31,318,334 thousand at 30 June 2011 (at 31 December 2010: RUB 36,227,950 thousand).

In connection with the entry into force of Resolution No. 89 of the RF Government dated 24 February 2010 “On Certain Issues relating to the Organization of the Long-Term Consumption of Power on a Competitive Basis on the Wholesale Market for Electricity (Capacity)”, Resolution No. 238 of the RF Government dated 13 April 2010 “On Determining the Pricing Parameters for Trading in Capacity on the Wholesale Market for Electricity (Capacity) in the Transitional Period”, and also Instruction No. 1334-r of the Government dated 11 August 2010 “On Approving the List of Generating Assets which Shall be Used to Supply Capacity under Contracts on the Provision of Capacity”, the non-profit partnership Market Council developed a contractual framework jointly with participants on the wholesale market for the sale of the capacity of new generating assets, which are built in accordance with the investment programs of suppliers and approved by the Government of the Russian Federation within the scope of the approval of the comprehensive investment program of OAO RAO UES of Russia.

In accordance with this contractual framework, the suppliers will conclude an agency agreement with CJSC CFS (Center of Financial Settlements) OJSC ATS (Administrator of Trading System of Wholesale Electricity Market), NPP Market Council and OJSC SO-CDU (System Operator the Central Despatch Unit of UnifiedEnergy System) on the sale of invested capacity. To discharge this contract, CJSC CFS, at the instructions and on behalf of the supplier, will conclude contracts with all the buyers of electricity (capacity) on the provision of capacity.

On 1 November 2010 the Group concluded the Agency Agreement with CJSC CFS, OJSC ATS, NPP Market Council and OJSC SO-CDU, in accordance with which CJSC CFS undertakes to conclude contracts on the provision of capacity on behalf of the Group.

25. Commitments (continued)

Capital commitments (continued)

In December 2010 CJSC CFS concluded on the Group's behalf contracts on the provision of capacity, scheduled for the commissioning of generating assets with a total capacity of 2,220.72 MWt. Pursuant to the terms and conditions of the Agency Agreement, if the Group violates the timeframe for commissioning the generating assets, or fails to deliver sufficient capacity, the Group should pay a forfeit to the Agent, the size of which depends on the extent of the delay in the commissioning of the generating asset, the amount of the capacity that was not delivered and the price of this capacity under a long-term capacity contract. The Management of the Group does not expect to default or fail on fulfilment of the above obligations under the contracts on the provision of capacity.

26. Contingencies

Political environment

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

Insurance

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

Legal proceedings

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

Tax contingencies

Russian tax, currency and customs legislation is subject to varying interpretation, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities, in particular the way of accounting for tax purposes of tariff imbalance, water tax, deductibility of certain expenses and property received in the course of reorganisation. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years proceeding the year of review. Under certain circumstances review may cover longer periods.

As at 30 June 2011 management believes that its interpretation of the relevant legislation is appropriate and the Group's tax currency and customs positions will be sustained except for tax provision and possible risks disclosed at Note 18. Where management believes it is probable that a position cannot be sustained, an appropriate amount has been accrued for in these Financial Statements.

26. Contingencies (continued)

Tax contingencies (continued)

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

Environmental matters

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

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

27. Financial instruments and financial risks

Financial risk factors

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

Credit risk

Credit risk is the risk of financial loss for the Group in the case of non-fulfilment by the contractor the obligations on the financial instrument under the particular contract.

Trade accounts receivable

Financial assets, which potentially subject the Group to concentrations of credit risk, consist principally of trade accounts receivable. Although collection of accounts receivable could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provision for impairment of accounts receivable already recorded.

Credit risk is managed on a Group basis. For wholesale customers there is no independent rating and, therefore, Group assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. The bad debt allowance and write-off of accounts receivable are, therefore, calculated based on analysis of collectibility.

Investments

The Group limits its exposure to credit risk by only investing in liquid securities and only with counterparties that have a reliable credit rating. Management does not expect any counterparty to fail to meet its obligations. The cash has been deposited in the financial institutions with no more than minimal exposure to the default risk at the time of deposit opening.

27. Financial instruments and financial risks (continued)

Exposure to credit risk

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

Narrative	Rating	Rating agency	Currency	30 June 2011	31 December 2010
Accounts receivable					
CJSC Center of financial settlements	unrated	-	RUB	657,345	840,056
OJSC Mosenergosbyt energy retail company	unrated	-	RUB	117,625	-
OJSC Dagestanskaya energy retail company	unrated	-	RUB	100,068	28,888
OJSC Tulaenergosbyt energy retail company	unrated	-	RUB	96,933	-
OJSC Chelyabenergosbyt energy retail company	unrated	-	RUB	88,296	-
OJSC Buryatenergosbyt energy retail company	unrated	-	RUB	82,340	-
OJSC Komi energy retail company	unrated	-	RUB	61,411	113,796
OJSC Nizhegorodskaya energy retail company	unrated	-	RUB	49,860	233,236
OJSC Omskenergosbyt energy retail company	unrated	-	RUB	44,362	-
OJSC RUSAL Kandalaksha Aluminium Smelter	unrated	-	RUB	40,651	5,660
Other trade accounts receivable				1,213,145	580,266
Other accounts receivable				1,056,568	1,765,151
Total accounts receivable				**3,608,604**	**3,567,053**
Deposits and other financial assets					
VTB bank	BBB/negative/A-3	S&P	RUB	-	8,415,145
VTB bank	BBB/negative/A-3	S&P	USD	3,233,574	6,119,904
VTB bank	BBB/negative/A-3	S&P	EUR	-	2,388,879
Svyaz-bank	BB/stable	Fitch	RUB	14,487,000	7,060,000
Rosselhozbank	BBB/stable	Fitch	RUB	14,415,000	7,734,000
Rosbank	BB+/positive/B	S&P	RUB	-	7,900,000
Total deposits and other financial assets				**32,135,574**	**39,617,928**
Cash and cash equivalents					
VTB bank	BBB/negative/A-3	S&P	RUB	21,538	8,437
Sberbank	BBB/stable	Fitch	USD	173	373,630
Sberbank	BBB/stable	Fitch	RUB	4,618,674	638,639
Sberbank	BBB/stable	Fitch	EUR	166	218,670
Rosbank	BB+/positive/B	S&P	RUB	51,899	84,514
Svyaz-bank	BB/stable	Fitch	RUB	9	-
Gazprombank	BB/positive/B	S&P	GBP	-	99
Gazprombank	BB/positive/B	S&P	RUB	99,533	92,152
Transcreditbank	BB/stable/B	S&P	RUB	14,881	17,307
Rosselhozbank	BBB/stable	Fitch	RUB	-	1,600,000
Chelyabinvestbank	A	raexpert	RUB	-	25,045
Eurofinance Mosnarbank	B+/positive	Fitch	RUB	2,899	34,863
Alfabank	BB-/stable/B	S&P	RUB	55,938	111,135
Other	-	-	RUB	21,588	58,711
Total cash and cash equivalents				**4,887,298**	**3,263,202**

27. Financial instruments and financial risks (continued)

Impairment losses

The aging of accounts receivable at the reporting date was:

	Gross 30 June 2011	Impairment 30 June 2011	Gross 31 December 2010	Impairment 31 December 2010
Not past due	3,293,618	-	3,463,507	-
Past due 0-180 days	353,345	(59,986)	338,885	(261,426)
Past due 181-365 days	246,524	(224,897)	246,741	(220,654)
Past due more than 365 days	886,744	(886,744)	660,897	(660,897)
Total	**4,780,231**	**(1,171,627)**	**4,710,030**	**(1,142,977)**

Movement in the impairment provision is disclosed below:

	For the six months ended 30 June 2011	For the six months ended 30 June 2010
As at 1 January	1,142,977	849,118
Write-off	(15,971)	(157,569)
Reversal of provision	(112,027)	-
Accrued provision	156,648	4,643
As at 30 June	**1,171,627**	**696,192**

Management has determined the impairment provision and write-off of accounts receivable based on specific customer identification, customer payment trends, subsequent receipts and settlements and analyses of expected future cash flows.

The Group has the following overdue balances of accounts receivable which are not considered impaired as at 30 June 2011:

	30 June 2011	31 December 2010
Overdue period		
Less than 180 days	293,359	77,459
More than 180 days but less than 365 days	21,628	26,087
Over 365 days	-	-
	314,987	**103,546**

Management believes that Group entities will be able to realize the net receivable amount through direct collections and other non-cash settlements, and therefore the recorded value of accounts receivable approximates their fair value.

27. Financial instruments and financial risks (continued)

Impairment losses (continued)

Guarantees received

Guaranties received as at 30 June 2011 for engineering, procurement and construction agreements relate to energy unit construction at Kharanorskaya SDPP and Chrepetskaya SDPP, construction of the Power complex Yugnouralskaya SDPP-2 and reconstruction and power unit restoration at Gusinoozerskaya SDPP:

			Amount	
Guarantor	**Creditor**	**Maturity date**	**Currency EUR**	**Equivalent in RUB, th.**
Alfabank	CJSC “Atomstroyexport”	31.10.2012	-	59,260
Alfabank	CJSC “Atomstroyexport”	31.10.2012	11,575,838	467,513
Alfabank	CJSC “Atomstroyexport”	31.10.2012	38,432,432	1,552,171
Alfabank	CJSC “Atomstroyexport”	28.11.2014	-	1,183,275
Alfabank	CJSC “Atomstroyexport”	28.11.2014	17,441,146	704,396
Alfabank	CJSC “Atomstroyexport”	31.10.2012	-	551,146
Alfabank	CJSC “Atomstroyexport”	31.10.2012	-	220,939
Alfabank	CJSC “Atomstroyexport”	31.10.2012	-	953,948
Nomosbank	OJSC “Urals Power Engineering Company”	14.10.2011	-	2,089
Nomosbank	OJSC “Urals Power Engineering Company”	26.12.2011	-	10,642
	OJSC “Engineering center UES”	16.01.2012	-	1,711
	OJSC “Engineering center UES”	31.08.2011	-	5,133
Gazprombank	OJSC “Technopromexport”	03.08.2013	-	1,552,087
Gazprombank	OJSC “Technopromexport”	03.08.2013	-	1,552,087
Gazprombank	OJSC “Technopromexport”	03.05.2013	-	1,241,669
Gazprombank	OJSC “Technopromexport”	03.08.2013	-	1,819,296
Gazprombank	OJSC “Technopromexport”	03.08.2013	-	1,111,326
Gazprombank	OJSC “Technopromexport”	03.11.2013	-	1,241,669
VTB bank	CJSC “Enegiya-servise”	14.02.2012	-	839,363
VTB bank	CJSC “Enegiya-servise”	14.02.2012	-	167,640
VTB bank	CJSC “Enegiya-servise”	14.02.2012	-	819
VTB bank	CJSC “Enegiya-servise”	14.02.2012	-	79,562
VTB bank	CJSC “Enegiya-servise”	14.02.2012	-	118,014
VTB bank	CJSC “Enegiya-servise”	14.02.2012	-	3,210
VTB bank	CJSC “Enegiya-servise”	15.01.2014	-	566,424
VTB bank	CJSC “Enegiya-servise”	14.02.2012	-	69,555
Total			**67,449,416**	**16,074,944**

Collateral received

Collateral received as at 30 June 2011 for projecting, supply and construction agreements relate to energy unit construction at Kharanorskaya SDPP

Pledger	**Maturity date**	**Currency**	**Amount**
OJSC “Energoproject”	16.05.2011	RUB	40,638
OJSC “Energoproject”	16.05.2011	RUB	29,456
OJSC “Technopromexport”	-	RUB	1,007,258
Total			**1,077,352**

27. Financial instruments and financial risks (continued)

Interest rate risk

The Group's operating profits and cash flows from operating activities are largely not dependent on the changes in market interest rates. At 30 June 2011 the Group has significant short-term interest-bearing assets. The interest rates on these assets are fixed; these are disclosed in Note 11. They are not exposed to significant interest rate risk through market value fluctuations as the interest-bearing assets are short-term.

The Group has no interest-bearing short-term borrowings exposed to interest rate risk through market value fluctuations.

Interest rate risk is monitored by the Board of Directors who approves the maximum acceptable level of weighted average borrowing cost for a certain period (usually a quarter).

Currency risk

Power and heat produced by the Group is sold on the internal market of Russian Federation with prices fixed in the currency of Russian Federation. Hence, the Group's net exposure to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group's entities is remote. The financial condition of the Group, its liquidity, financing sources and the results of activities do not considerably depend on currency rates as the Group activities are planned to be performed in such a way that its assets and liabilities be denominated in the national currency. Moreover, the Group does not plan to perform activities on the outer market. That is why the influence of foreign currency rates fluctuations on the financial position of the Group is estimated as insignificant.

However, the Group is exposed to foreign exchange risk arising from deposit balances (see Note 12) and liabilities denominated in US dollars and Euro. Foreign currency contracts are presented below:

Contractual foreign currency obligations	**30 June 2011**	**31 December 2010**
EUR, thousands	124,551	136,147
USD, thousands	75,888	9

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

In thousands of Russian Roubles	**At 30 June 2011 Impact on profit or loss**	**At 31 December 2010 Impact on profit or loss**
US Dollar strengthening by 10%	323,357	611,990
US Dollar weakening by 10%	(323,357)	(611,990)

The exposure was calculated only for deposits denominated in currencies other than the functional currency of the respective entity of the Group.

27. Financial instruments and financial risks (continued)

Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and the availability of funding from an adequate amount of committed credit facilities.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the interim consolidated statement of financial position to the particular maturity date. The amounts disclosed in the table are the contractual and legal undiscounted cash flows. Balances due within 6 months equal their carrying balances, as the impact of discounting is not significant.

Narrative	Less than 1 year, carrying amount
At 30 June 2011	
Trade and other accounts payable	2,984,870
At 31 December 2010	
Trade and other accounts payable	3,183,206

Capital risk management

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

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

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

Taking into consideration the absence of borrowings as at 30 June 2011 and the significant amount of short-term bank deposits the Group is not exposed to the capital risk at 30 June 2011.

Fair value of financial instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

27. Financial instruments and financial risks (continued)

Fair value of financial instruments (continued)

Available-for-sale investments are recognised in the statement of financial position at their fair value. Fair values were determined based on quoted market prices except for insignificant investment securities available-for-sale for which there were no available external independent market price quotations.

The carrying value less impairment provision for trade receivables as well as accounts payable and accruals is assumed to approximate their fair values due to their short-term nature.

The Group's deposits in banks are short-term and their carrying amount approximates fair value.

The maximum exposure for each risk is limited to the fair value of each class of financial instrument.

Fair value hierarchy

All financial assets are stated at fair value and fall into Level 1 category in the fair value hierarchy.

28. Events subsequent to the reporting date

In a two-stage tender the Group selected Quartz—New Technologies engineering company, a member of INTER RAO Group, as the general contractor for Dzhubginskaya TPP construction project in Tuapsinsky District of Krasnodar Krai. The contract will come into effect upon its approval according to applicable corporate procedures.