WGC-3 GROUP
CONSOLIDATED FINANCIAL STATEMENTS
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)
FOR THE YEAR ENDED 31 December 2010

CONTENTS

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Independent Auditors' Report

To the Board of Directors of Open Joint Stock Company Third Generating Company of the Wholesale Electricity Market (OJSC WGC-3).

We have audited the accompanying consolidated financial statements of OJSC WGC-3 (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

ZAO KPMG

ZAO KPMG

14 April 2011

Consolidated Statement of Financial Position as at 31 December 2010

(in thousands of Russian Roubles)

	Notes	31 December 2010	31 December 2009
ASSETS			
Non-current assets			
Property, plant and equipment	5	48 077 301	38 160 994
Intangible assets	6	78 455	60 630
Investments in equity accounted investees	8	-	14 023 501
Other non-current assets	9	271 860	275 107
Total non-current assets		**48 427 616**	**52 520 232**
Current assets			
Inventories	10	2 153 541	1 887 763
Accounts receivable and prepayments	11	4 854 035	4 176 544
Deposits and other financial assets	12	39 617 928	8 893
Current income tax prepayments		143 189	471 730
Cash and cash equivalents	13	3 230 803	51 145 845
Assets held for sale	14	504 594	958 291
Total current assets		**50 504 090**	**58 649 066**
TOTAL ASSETS		**98 931 706**	**111 169 298**
EQUITY AND LIABILITIES			
Equity			
Share capital	15	47 487 999	47 487 999
Share premium		63 136 744	63 136 744
Treasury shares	15	(7 947 303)	(7 947 303)
Other reserves		(8 200 752)	(8 238 245)
Retained earnings		(4 479 647)	10 394 863
Total equity		**89 997 041**	**104 834 058**
Non-current liabilities			
Deferred tax liabilities	16	2 483 832	2 306 969
Employee benefits	17	300 828	272 615
Other non-current liabilities		341	-
Total non-current liabilities		**2 785 001**	**2 579 584**
Current liabilities			
Accounts payable and accruals	18	3 240 478	2 017 411
Provisions	19	793 770	114 095
Taxes payable	20	2 115 416	1 624 150
Total current liabilities		**6 149 664**	**3 755 656**
Total liabilities		**8 934 665**	**6 335 240**
TOTAL EQUITY AND LIABILITIES		**98 931 706**	**111 169 298**

General Director — Vladimir Kolmogorov

Chief Financial Officer — Andrey Gainanov

14 April 2011

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set on pages 9 to 38

(in thousands of Russian Roubles)

	Notes	For year ended 31 December 2010	For the year ended 31 December 2009
Revenue			
Electricity		36 447 702	35 119 247
Heat		902 974	766 078
Other		274 192	258 628
Gross revenue		**37 624 868**	**36 143 953**
Operating expenses	21	(38 034 579)	(34 096 811)
Impairment loss reversed in respect of property, plant and equipment	5	104 700	1 950 373
Other operating income	22	185 939	329 372
Results from operating activities		**(119 072)**	**4 326 887**
Income from investing activities	23	2 633 948	3 095 801
Loss on investing activities	24	(460 928)	(186 891)
Finance income/(costs), net	25	1 776	(20 283)
Foreign exchange loss		(2 152 227)	(710 355)
Impairment of investments in associate	8	(13 920 392)	-
Share of loss of equity accounted investees	8	(103 109)	(1 234 760)
(Loss)/profit before income tax		**(14 120 004)**	**5 270 399**
Income tax expense	16	(754 506)	(974 336)
(Loss)/profit for the year		**(14 874 510)**	**4 296 063**
Other comprehensive income			
Foreign currency translation differences for foreign operations		-	98 282
Net change in fair value of available-for-sale financial assets		46 866	48 752
Income tax on other comprehensive income	16	(9 373)	(29 407)
Other comprehensive income, net of income tax		**37 493**	**117 627**
Total comprehensive (loss)/income		**(14 837 017)**	**4 413 690**
(Loss)/earnings per share, basic and diluted (in RUB per share)	26	**(0.327)**	**0.094**

The consolidated statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set on pages 9 to 38

(in thousands of Russian Roubles)

	Notes	For year ended 31 December 2010	For year ended 31 December 2009
CASH FLOWS FROM OPERATING ACTIVITIES:			
(Loss)/profit before income tax		**(14 120 004)**	**5 270 399**
Adjustments for:			
Depreciation and amortization	21	1 867 393	1 687 248
Bad debt allowance of accounts receivable	21	309 163	183 932
Income from investing activities	23	(2 079)	(1 524 341)
Loss on investing activities	24	460 928	186 891
Finance (income)/costs, net	25	(1 776)	20 283
Interest income	23	(2 631 869)	(1 571 460)
Foreign exchange loss		2 152 227	710 355
Loss/(gain) on disposal of property, plant and equipment	21,22	109 876	(39 424)
Impairment reversed in respect of property, plant and equipment reversed during the year	5	(104 700)	(1 950 373)
Impairment of investments in associate		13 920 392	-
Share of loss of equity accounted investees		103 109	1 234 760
Tax provisions and other non-cash items		912 935	8 993
Operating cash flows before working capital changes and income tax paid		**2 975 595**	**4 217 263**
Working capital changes:			
Decrease/(increase) in accounts receivable and prepayments		2 045 121	(605 963)
(Increase)/decrease in inventories		(288 158)	998 891
Decrease in other assets		3 170	1 761
(Decrease) /increase in accounts payable and accruals		(130 648)	183 254
Increase in taxes payable, other than income tax		659 074	858 942
Increase in other non-current liabilities		28 554	47 820
Income tax paid, net of refund		(426 282)	(1 373 288)
Net cash generated from operating activities		**4 866 426**	**4 328 680**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment and other non-current assets		(12 288 927)	(8 935 066)
Purchase of intangible assets	6	(39 580)	(22 962)
Deposited to banks		(40 012 210)	40 430 865
Proceeds from sale of property, plant and equipment and other non-current assets		66 838	36 229
Purchases of investments		(140 000)	(209 941)
Proceeds from sale of investments		-	2 966 380
Interest received		1 381 436	2 935 297
Net cash (used in)/generated from investing activities		**(51 032 443)**	**37 200 802**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Sale of treasury shares		-	7 389
Dividend paid to non-controlling interests		-	(5 418)
Net cash generated from financing activities		**-**	**1 971**
Effect of exchange rate changes on cash and cash equivalents		(1 749 025)	(3 824 442)
Net (decrease)/increase in cash and cash equivalents		**(47 915 042)**	**37 707 011**
Cash and cash equivalents at the beginning of the year		**51 145 845**	**13 438 834**
Cash and cash equivalents at the end of the year	13	**3 230 803**	**51 145 845**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set on pages 9 to 38

(in thousands of Russian Roubles)

	Attributable to equity holders of the Company					
	Share capital	**Share Premium**	**Treasury shares**	**Other reserves**	**Retained earnings**	**Total equity**
Balance at 1 January 2009	**47 487 999**	**63 228 766**	**(8 046 714)**	**(8 355 872)**	**6 098 800**	**100 412 979**
Total comprehensive income for the year						
Profit for the year	-	-	-	-	4 296 063	4 296 063
Other comprehensive income						
Net change in fair value of available-for-sale financial assets, net of tax	-	-	-	39 002	-	39 002
Foreign currency translation differences for foreign operations	-	-	-	78 625	-	78 625
Total other comprehensive income	-	-	-	117 627	-	117 627
Total comprehensive income for the year	**-**	**-**	**-**	**117 627**	**4 296 063**	**4 413 690**
Transactions with owners, recorded directly in equity						
Sale of treasury shares (Note 15)	-	(92 022)	99 411	-	-	7 389
Total transactions with owners	**-**	**(92 022)**	**99 411**	**-**	**-**	**7 389**
Balance at 31 December 2009	**47 487 999**	**63 136 744**	**(7 947 303)**	**(8 238 245)**	**10 394 863**	**104 834 058**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set on pages 9 to 38

WGC-3 Group
Consolidated Statement of Changes in Equity for the year ended 31 December 2010
(in thousands of Russian Roubles)

	Attributable to equity holders of the Company					
	Share capital	**Share Premium**	**Treasury shares**	**Other reserves**	**Retained earnings**	**Total equity**
Balance at 1 January 2010	**47 487 999**	**63 136 744**	**(7 947 303)**	**(8 238 245)**	**10 394 863**	**104 834 058**
Total comprehensive (loss)/income for the year						
Loss for the year	-	-	-	-	(14 874 510)	(14 874 510)
Other comprehensive income						
Net change in fair value of available-for-sale financial assets, net of tax	-	-	-	37 493	-	37 493
Total other comprehensive income	**-**	**-**	**-**	37 493	-	37 493
Total comprehensive loss for the year	**-**	**-**	**-**	**37 493**	**(14 874 510)**	**(14 837 017)**
Transactions with owners, recorded directly in equity						
Sale of treasury shares (Note 15)	-	-	-	-	-	-
Total transactions with owners	**-**	**-**	**-**	**-**	**-**	**-**
Balance at 31 December 2010	**47 487 999**	**63 136 744**	**(7 947 303)**	**(8 200 752)**	**(4 479 647)**	**89 997 041**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set on pages 9 to 38

1 The Group and its operations

Open Joint Stock Company "Third Generation Company of the Wholesale Electricity Market" (OJSC "WGC-3", or the "Company") 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 31 December 2010 are Kostromskaya SDPP, Cherepetskaya SDPP, Pechorskaya SDPP, Kharanorskaya SDPP, Yuzhnouralskaya SDPP, Gusinooserskaya SDPP and Dzhubginskaya TPP.

Subsidiaries. The Company has 14 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 Company's ultimate controlling party is the Group "MMC "Norilsk Nickel" (77.90% effective ownership). The rest of the shares are held by individual and nominee holders (22.10%).

The Company is registered by the District Inspectorate of the RF Ministry of Taxation of Republic of Buryatiya. The Company'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 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.

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 28 and 29, the government's economic, social and other policies could have material effects on the operations of the Group.

(in thousands of Russian Roubles)

2 Basis of preparation

Statement of compliance. These consolidated financial statements ("Financial Statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Group 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. These Financial Statements are based on the statutory records, with adjustments and reclassifications recorded for the purpose of fair presentation in accordance with IFRS.

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

	For year ended 31 December 2009		
	As previously reported	**Change in presentation**	**As adjusted**
Electricity revenues	38 372 274	(3 253 027)	35 119 247
Operating expenses	(37 349 838)	3 253 027	(34 096 811)

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

Basis of measurement The financial statements are prepared on the historical cost basis except that derivative financial instruments, investments at fair value through profit or loss, 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.

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 31 December 2010, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group’s operations. The Group plans to adopt these pronouncements when they become effective.

• Revised IAS 24 *Related Party Disclosures (2009)* introduces an exemption from the basic disclosure requirements in relation to related party disclosures and outstanding balances, including commitments, for government-related entities. Additionally, the standard has been revised to simplify some of the presentation guidance that was previously non-reciprocal. The revised standard is to be applied retrospectively for annual periods beginning on or after 1 January 2011. The Group has not yet determined the potential effect of the amendment.

• IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in several phases and is intended to replace International Financial Reporting Standard IAS 39 Financial Instruments: Recognition and Measurement once the project is completed by the end of 2010. The first phase of IFRS 9 was issued in November 2009 and relates to the recognition and measurement of financial assets. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have an impact on Group’s consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued.

• Various *Improvements* to IFRSs have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2011. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

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 collectability of specific customer accounts deteriorated compared to prior estimates. If there is a deterioration in a major customer's creditworthiness or actual defaults are higher than the estimates, the actual results could differ from these estimates (see Notes 11, 29).

(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).

(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) Accounting for leases

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

(g) 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.

3 Summary of significant accounting policies

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

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 Company 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 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.

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

Foreign currency transactions. Monetary assets and liabilities, which are held by the Group 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 statement of comprehensive income.

As at 31 December 2010, 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 30.4769: USD 1.00 (31 December 2009: RUB 30.2442: USD 1.00), between the RUB and EURO - RUB 40.3331: EURO 1.00 (31 December 2009: RUB 43.3883: EURO 1.00).

Foreign operations. The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to rouble at exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to rouble at exchange rates at the dates of the transactions. Foreign currency differences are recognised in the foreign currency translation reserve (translation reserve, or FCTR). When a foreign operation is disposed of, in part or in full, the relevant amount in the FCTR is transferred to profit or loss as part of the profit or loss on disposal. When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and are presented in the FCTR.

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 cost of repair and maintenance are expensed as incurred. Gains and losses arising from the retirement of property, plant and equipment are included in the 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.

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.
A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling or repurchasing in the near future; or
- it is a part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Financial assets at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in the consolidated statement of comprehensive income. The net gain or loss recognised in the 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.

(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 listed and unlisted shares. Listed shares held by the Group that are traded in an active market are stated at their market value. Gains and losses arising from changes in fair value are recognized in the investments revaluation 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 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 the investment revaluation reserve is included in the consolidated statement of comprehensive income for the period. Dividends on available-for-sale equity instruments are recognized in the consolidated statement of comprehensive income when the Group's right to receive the dividends is established. Investments in unlisted shares that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recorded at management's estimate of fair value.

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 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 and are presented as a deduction from total equity. 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 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

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.

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 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 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.

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 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 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, and only insignificant dividends are expected to be declared from future profits of the subsidiaries. Neither these future profits nor the related taxes are recognized in these financial statements.

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 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.

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”).

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 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 has also operated a combination of defined benefit and defined contribution plans until December 2007, in respect of which it had contracts with a non-governmental pension fund. The Board of Directors at their meeting of 28 December 2007 has taken the decision to curtail the defined benefit part of the plan which affected the liability recognized in the statement of financial position. The defined benefit pension plans are no longer included in calculation of the liability, but 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 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.

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 statement of comprehensive income as incurred.

Interest. Interest income and expense are recognized in the 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. This fair value is determined for disclosure purposes.

(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 Company by the weighted average number of ordinary shares outstanding during the reporting period.

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.

4 Related parties

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

Parent and parent's subsidiaries

The Group had the following significant transactions with the Group "MMC "Norilsk Nickel":

(in thousands of Russian Roubles)

	For year ended 31 December 2010	For year ended 31 December 2009
Sale of "MMC "Norilsk Nickel" shares	-	2 966 380
Purchases	834 659	909 049

The Group had Accounts receivable balance of RUB 513 thousand with the parent's subsidiaries as at 31 December 2010 (as at 31 December 2009: nill).

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 31 December 2010 was RUB 161 366 thousand (for the period ended 31 December 2009 – RUB 197 935 thousand).

5 Property, plant and equipment

Cost	**Electricity and heat generation**	**Electricity transmission**	**Heating networks**	**Construction in progress**	**Other**	**Total**
Opening balance as at 1 January 2009	**30 461 018**	**4 005 865**	**951 295**	**10 583 504**	**7 541 753**	**53 543 435**
Additions	48 005	-	6 484	8 582 298	4 783	8 641 570
Transfers	477 335	83 396	19 960	(1 054 150)	473 459	-
Disposals	(10 573)	(926)	-	(22 550)	(86 948)	(120 997)
Closing balance as at 31 December 2009	**30 975 785**	**4 088 335**	**977 739**	**18 089 102**	**7 933 047**	**62 064 008**
Accumulated depreciation (including impairment)						
Opening balance as at 1 January 2009	**(14 972 531)**	**(2 796 226)**	**(524 067)**	**(104 038)**	**(5 859 260)**	**(24 256 122)**
Charge for the year	(1 079 086)	(93 879)	(40 789)	-	(459 138)	(1 672 892)
Transfers	(4 448)	(439)	-	18 669	(13 782)	-
Disposals	5 209	839	-	124	69 455	75 627
Reversal of impairment	1 604 791	154 855	32 580	85 245	72 902	1 950 373
Closing balance as at 31 December 2009	**(14 446 065)**	**(2 734 850)**	**(532 276)**	**-**	**(6 189 823)**	**(23 903 014)**
Net book value as at 31 December 2009	**16 529 720**	**1 353 485**	**445 463**	**18 089 102**	**1 743 224**	**38 160 994**
Net book value as at 1 January 2009	**15 488 487**	**1 209 639**	**427 228**	**10 479 466**	**1 682 493**	**29 287 313**

Cost	**Electricity and heat generation**	**Electricity transmission**	**Heating networks**	**Construction in progress**	**Other**	**Total**
Opening balance as at 1 January 2010	**30 975 785**	**4 088 335**	**977 739**	**18 089 102**	**7 933 047**	**62 064 008**
Additions	-	-	-	11 780 828	59 695	11 840 523
Transfers	741 668	148 392	20 642	(1 654 946)	744 244	-
Disposals	(123 064)	(105 829)	-	(21 723)	(135 665)	(386 282)
Closing balance as at 31 December 2010	**31 594 389**	**4 130 898**	**998 381**	**28 193 261**	**8 601 321**	**73 518 250**

(in thousands of Russian Roubles)

Accumulated depreciation (including impairment)						
Opening balance as at 1 January 2010	**(14 446 065)**	**(2 734 850)**	**(532 276)**	**-**	**(6 189 823)**	**(23 903 014)**
Charge for the year	(1 189 364)	(104 908)	(44 785)	-	(506 581)	(1 845 638)
Disposals	57 500	47 022	-	-	98 481	203 003
Reversal of impairment	91 265	7 661	3 054	-	2 720	104 700
Closing balance as at 31 December 2010	**(15 486 664)**	**(2 785 075)**	**(574 007)**	**-**	**(6 595 203)**	**(25 440 949)**
Net book value as at 31 December 2010	**16 107 725**	**1 345 823**	**424 374**	**28 193 261**	**2 006 118**	**48 077 301**
Net book value as at 1 January 2010	**16 529 720**	**1 353 485**	**445 463**	**18 089 102**	**1 743 224**	**38 160 994**

At 31 December 2010 construction in progress includes advance prepayments for property, plant and equipment of RUB 13 979 798 thousand (31 December 2009: RUB 12 300 111 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.

Impairment

The impairment provision included in accumulated depreciation balance as at 31 December 2010, 31 December 2009 and 31 December 2008 is RUB 6 821 thousand, RUB 113 895 thousand and RUB 2 069 339 thousand, accordingly.

As a result of impairment test performed as at 31 December 2009, management reversed previously recognized impairment loss in the total amount of RUB 1 950 373 thousand related to Gusinooserskaya SDPP in the amount of RUB 1 842 622 thousand and Pechorskaya SDPP in the amount of RUB 107 751 thousand.

As at 31 December 2010 the Group performed impairment test in accordance with IAS 36 by comparing the recoverable amount of each cash generating unit to its net book value. Management considered that power stations (SDPP) being the company's branches, represent cash generating units (CGU). The recoverable amount was determined based on value in use, calculated by discounting the estimated future cash flows using the following assumptions:

- *Regulated electricity tariffs* annual increase was estimated by the management as set by Federal Tariff Service (FTS) and Regional Energy Committees (REC) for Pechorskaya SDPP for 2011, and for other plants providing electricity under Households contracts. Management assumed that the electricity tariffs will increase at the growth rate of fuel costs for the whole forecasted period. The forecasted growth rates of fuel prices were based on the forecast of the Ministry of Economic Development (till 2013) and the Ministry of Energy (till 2020);
- *Unregulated Electricity Wholesale Price.* Management assumed that unregulated wholesale prices would increase in line with the growth in fuel costs for a marginal plant in the region;
- *Capacity prices* were projected in reliance with capacity auctions results and subsequent Governments measures on capacity prices containment.
- *Gas, coal and fuel oil prices* assumed to grow in line with the rates by the "Agency of electricity balances forecasts";
- *Electricity volumes on unregulated market* changes were assumed based on electricity demand change in the particular region and forecast of capacity commissioning and decommissioning (committed and started as at the date of the impairment test);
- *Weighted average cost of capital* of 11.5% was applied for discounting future operating cash flows generated by the Group for all cash generating units;
- *The forecasted period* was set till the year 2020 and growth rate of 3.5% for terminal value calculation.

Management estimated the sensitivity of CGUs recoverable amounts to the 1% change in the WACC as a key assumption on which management has based its determination of CGU value-in-use and summarized the results below:

(in thousands of Russian Roubles)

CGU	WACC - 1 percent point	WACC +1 percent point
	Value in use deviation, %	
Gusinoozerskaya SDPP	22%	-17%
Kostromskaya SDPP	17%	-13%
Pechorskaya SDPP	25%	-19%
Kharanorskaya SDPP	17%	-13%
Cherepetskaya SDPP	28%	-21%
Yuzhnouralskaya SDPP	40%	-30%

If WACC was 1 percent point higher or lower with all other variables held constant neither additional impairment reversal nor loss would have been recognized.

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:

	31 December 2010	**31 December 2009**
Not later than one year	50 378	23 382
Later than one year and not later than five years	164 342	83 328
Later than five years	903 135	760 458
Total	**1 117 855**	**867 168**

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

Cost	**Computer software**	**Licenses**	**Total**
Balance at 1 January 2010	60 963	20 264	81 227
Additions	34 912	4 668	39 580
Balance at 31 December 2010	95 875	24 932	120 807
Amortisation			
Balance at 1 January 2010	(19 174)	(1 423)	(20 597)
Amortisation for the year	(19 984)	(1 771)	(21 755)
Balance at 31 December 2010	(39 158)	(3 194)	(42 352)
Carrying amounts			
At 1 January 2010	**41 789**	**18 841**	**60 630**
At 31 December 2010	**56 717**	**21 738**	**78 455**

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 has not yet been executed. For the purpose of recognition of this transaction in these Financial Statement's, the Group has applied provisional accounting. The assessment of fair value of the net assets acquired will be performed within one year after the acquisition date. The identifiable net assets acquired are stated below based on their statutory book values:

(in thousands of Russian Roubles)

	31 December 2010
Non-current assets	96 163
Current assets	38 309
Current liabilities	730
Net identifiable assets, liabilities and contingent liabilities	**133 742**
Total consideration paid	140 000
Difference	**6 258**

As the fair value assessment has not been performed at the reporting date the goodwill has not been recognised as a result of the acquisition. The difference between consideration paid and net assets acquired was recognised as loss on investment activities in the Statement of Comprehensive Income.

8 Investments in equity accounted investees

Equity investments in associated company accounted for using the equity method are comprised of the investment in RUSIA Petroleum:

	RUSIA Petroleum
Balance at 1 January 2009	14 023 501
Share of loss of equity accounted investees	(103 109)
Impairment of investments in associate	(13 920 392)
Balance at 31 December 2010	**-**

On 20 October 2008 the Group acquired 25% (minus one share) of OJSC RUSIA Petroleum Company (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, the general director of 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.

On 19 October 2010 the court issued a decision to approve the bankruptcy of RUSIA Petroleum. Assets of the company 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 will 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.

9 Other non-current assets

	31 December 2010	31 December 2009
Available-for-sale investments	188 105	142 221
Accounts receivable	83 146	123 977
Value added tax	609	7 515
Other non-current assets	-	1 394
Total	**271 860**	**275 107**

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.

(in thousands of Russian Roubles)

10 Inventories

	31 December 2010	31 December 2009
Fuel supplies	1 671 573	1 336 940
Materials and supplies	217 276	257 274
Other inventories	264 692	293 549
Total	**2 153 541**	**1 887 763**

The above inventory balances are recorded net of an obsolescence provision of RUB 55 302 thousand and RUB 130 718 thousand as at 31 December 2010 and 31 December 2009 respectively.

11 Accounts receivable and prepayments

	31 December 2010	31 December 2009
Trade accounts receivable (net of impairment provision for accounts receivable of RUB 922 797 thousand as at 31 December 2010 and RUB 609 453 thousand as at 31 December 2009)	1 801 902	1 995 261
Advances to suppliers (net of impairment provision for advances to suppliers of RUB 68 233 thousand as at 31 December 2010 and RUB 68 744 thousand as at 31 December 2009)	601 472	1 022 983
Value added tax recoverable	696 593	769 340
Interest and other accounts receivable (net of impairment provision for other accounts receivable of RUB 220 180 thousand as at 31 December 2010 and RUB 239 665 thousand as at 31 December 2009)	1 754 068	388 960
Total	**4 854 035**	**4 176 544**

The foreign exchange gain from accounts receivable comprised RUB 165 thousand during the year ended 31 December 2010 (during the year ended 31 December 2009: RUB 27 742 thousand).

12 Deposits and other financial assets

Name of bank	Currency	Type	Interest rate, %	31 December 2010 (foreign currency)	31 December 2010	31 December 2009
VTB Bank	RUB	Deposit	6.10-7.40	-	8 415 145	7 500
VTB Bank	USD	Deposit	8.50	200 805	6 119 904	-
VTB Bank	EUR	Deposit	7.25	59 229	2 388 879	-
Svyaz-bank	RUB	Deposit	6.24-7.60	-	7 060 000	-
Rosselhozbank	RUB	Deposit	5.80-6.90	-	7 734 000	-
Rosbank	RUB	Deposit	6.15-8.10	-	7 900 000	-
Sberbank	RUB	Promissory notes	8.50-8.60	-	-	1 393
Total					**39 617 928**	**8 893**

(in thousands of Russian Roubles)

As at 31 December 2010 cash held in deposits amounted to RUB 39 617 928 thousand.

According to the contracts denominated in Russian roubles the deposit repayment can be exercised at any time at 3-10 days notice. In accordance with the OJSC “VTB Bank” contracts denominated in foreign currencies the Group is required not to demand a refund of all or part of deposits prior to maturity date. Deposit periods are from six to twelve months and interest rates are fixed for a certain period.

For the year ended 31 December 2010 interest income on deposits and promissory notes amounted to RUB 2 540 672 thousand (for the year ended 31 December 2009: RUB 1 525 961 thousand).

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

The foreign exchange loss from deposits and other financial assets comprised RUB 403 175 thousand for the year ended 31 December 2010 (for the year ended 31 December 2009: RUB 3 086 818 thousand).

13 Cash and cash equivalents

	31 December 2010		31 December 2009	
	RUB’000	**Foreign currency ’ 000**	**RUB’000**	**Foreign currency ’ 000**
Cash nominated in:				
RUB	488 404	-	6 346 506	-
USD	373 630	12 260	538 775	17 814
EUR	218 670	5 422	15 337	354
GBR	99	2	111	2
Term deposits with original maturity of less than three months:				
USD	-	-	24 069 582	795 841
EUR	-	-	20 175 534	464 999
RUB	2 150 000	-	-	-
Total	**3 230 803**		**51 145 845**	

For the year ended 31 December 2010 the foreign exchange loss from cash equivalents and transactions with cash comprised RUB 1 749 025 thousand (for the year ended 31 December 2009: RUB 3 824 442 thousand).

14 Assets held for sale

During 2009 an investment in associated company Plug Power was classified as asset held for sale following the decision of the Group’s management to sell shares in Plug Power. Efforts to sell the Plug Power shares have commenced, and a sale was expected by 30 June 2010. However, the period required to complete the sale was extended due to the circumstances beyond the management’s control. The Group management nevertheless remains committed to its plan to sell the asset.

Plug Power shares valued at lower of carrying amount (RUB 958 291 thousand) and market price (RUB 504 594 thousand). An impairment loss recognized during the years ended 31 December 2010 and 31 December 2009 comprised RUB 453 698 thousand and RUB 186 292 thousand respectively (Note 24).

15 Equity

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

(in thousands of Russian Roubles)

Treasury shares. As at 31 December 2010 the number of treasury shares amounted to 1 966 180 818 shares comprising 4.14% of issued shares.

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

16 Income tax

Income tax expense	**For year ended 31 December 2010**	**For year ended 31 December 2009**
Current income tax expense	(587 016)	(617 659)
Deferred income tax expense	(167 490)	(356 677)
Total income tax expense	**(754 506)**	**(974 336)**

During the year ended 31 December 2010 the Group entities were subject to the 20% income tax rate on taxable profits. In accordance with Russian tax legislation, tax losses in different Group companies may not be offset against taxable profits of other Group companies.

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

	For year ended 31 December 2010	**For year ended 31 December 2009**
(Loss)/profit before tax	(14 120 004)	5 270 399
Theoretical income tax benefit/(expense)	2 824 001	(1 054 080)
Unrecognised deferred tax asset on impairment of investments in associate	(2 784 078)	-
Unrecognised deferred tax asset on share of loss of equity accounted investees	(20 622)	(198 343)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Taxes (underprovided)/overprovided in prior years	(406 306)	615 203
Non-deductible sponsorship expenses	(128 005)	(172 599)
Effect of changes in provisions	(26 054)	6 309
Penalties for water tax	(19 748)	-
Effect of changes in pension liabilities	(5 643)	(12 936)
Other non-deductible and non-taxable items, net	(188 051)	(157 890)
Total income tax expense	**(754 506)**	**(974 336)**

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 31 December 2010 deferred tax assets and liabilities are measured at 20%, the rate applicable when the temporary differences will reverse.

Deferred tax liabilities

	31 December 2009	**Movement for the year recognized in profit or loss**	**Movement for the year recognized in the statement of comprehensive income**	**31 December 2010**
Property, plant and equipment	(2 393 860)	(397 276)	-	(2 791 136)
Foreign currency translation differences	(19 657)	-	-	(19 657)
Long-term available-for-sale investments	6 061	64	(9 373)	(3 248)
Total	**(2 407 456)**	**(397 212)**	**(9 373)**	**(2 814 041)**

(in thousands of Russian Roubles)

Deferred tax assets

	31 December 2009	Movement for the year recognized in profit or loss	Movement for the year recognized in the statement of comprehensive income	31 December 2010
Provision for water tax claims	-	109 881	-	109 881
Accounts payable	64 515	14 968	-	79 483
Inventories	17 862	15 338	-	33 200
Accounts receivable including provision for impairment	12 346	(1 203)	-	11 143
Assets held for sale	5 764	90 738	-	96 502
Total	**100 487**	**229 722**	**-**	**330 209**
Net deferred tax liabilities	**(2 306 969)**	**(167 490)**	**(9 373)**	**(2 483 832)**

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 2008	Movement for the year recognized in profit or loss	Movement for the year recognized in the statement of comprehensive income	31 December 2009
Property, plant and equipment	(2 094 467)	(299 393)	-	(2 393 860)
Foreign currency translation differences	-	-	(19 657)	(19 657)
Investments in associates	(80 103)	80 103	-	-
Accounts payable	(1 205)	1 205	-	-
Other	(500)	500	-	-
Total	**(2 176 275)**	**(217 585)**	**(19 657)**	**(2 413 517)**

Deferred tax assets

	31 December 2009	Movement for the year recognized in profit or loss	Movement for the year recognized in the statement of comprehensive income	31 December 2009
Accounts payable	46 666	17 849	-	64 515
Inventories	8 476	9 386	-	17 862
Accounts receivable including provision for impairment	5 729	6 617	-	12 346
Long-term available-for-sale investments	21 435	(5 624)	(9 750)	6 061
Assets held for sale	-	5 764	-	5 764
Financial assets at fair value through profit or loss	173 084	(173 084)	-	-
Total	**255 390**	**(139 092)**	**(9 750)**	**106 548**
Net deferred tax liabilities	**(1 920 885)**	**(356 677)**	**(29 407)**	**(2 306 969)**

(in thousands of Russian Roubles)

17 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:

	31 December 2010	31 December 2009
Present value of defined benefit obligations (DBO)	**527 240**	**425 602**
Present value of unfunded obligations	527 240	425 602
Unrecognized net actuarial loss	(136 217)	(51 516)
Unrecognized past service cost	(90 195)	(101 470)
Net liability in statement of financial position	**300 828**	**272 615**

Amounts recognized in the consolidated statement of comprehensive income:

	For year ended 31 December 2010	For year ended 31 December 2009
Immediate recognition of vested prior service cost	(8 532)	(17 835)
Interest cost	38 315	33 685
Current service cost	30 799	29 823
Amortization of past service cost	11 275	11 275
Settlement gain	-	-
Recognized actuarial (gain)/loss	(13 092)	25 511
Total	**58 765**	**82 459**

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

	For year ended 31 December 2010	For year ended 31 December 2009
Defined benefit obligations at the beginning of the year	425 602	368 244
Past service (credit)/ cost	(8 532)	(17 834)
Interest cost	38 315	33 685
Current service cost	30 799	29 823
Actuarial loss/ (gain)	71 608	29 462
Benefits paid	(30 552)	(17 778)
Curtailment	-	-
Defined benefit obligations at the end of the year	**527 240**	**425 602**

Principal actuarial estimations are as follows:

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

Reconciliation of the statement of financial position:

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

(in thousands of Russian Roubles)

Experience adjustments:

	For year ended 31 December 2010	For year ended 31 December 2009
Present value of defined benefit obligations	527 240	425 602
Deficit in plan	527 240	425 602
Losses arising from experience adjustments on plan liabilities	(72 305)	(43 920)

Sensitivity of defined benefit obligation to changes in assumptions:

	Increase	Effect on DBO 2009
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)

18 Accounts payable and accruals

	31 December 2010	31 December 2009
Trade accounts payable	2 472 341	1 270 153
Accrued liabilities and other accounts payable	694 532	611 594
Dividends payable	701	95 329
Advances from customers	72 904	40 335
Total	**3 240 478**	**2 017 411**

19 Provisions

Movements in provision for liability and charges are as follows:

	Note	Tax Risks	Legal claims	Total
At 1 January 2009		**38 668**	**75 427**	**114 095**
Additions charged to profit or loss	21	774 103	13 009	787 112
Reversal of provision	21	(38 668)	(68 769)	(107 437)
At 31 December 2010		**774 103**	**19 667**	**793 770**

All of the above 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 774 103 thousand.

(in thousands of Russian Roubles)

20 Taxes payable

	31 December 2010	31 December 2009
Value added tax	1 726 780	1 195 697
Income tax	2 849	163 191
Water usage tax	217 040	128 901
Property tax	72 434	70 615
Unified social tax	37 663	21 954
Land tax	21 364	18 994
Other taxes	37 286	24 798
Total	**2 115 416**	**1 624 150**

21 Operating expenses

	Notes	For year ended 31 December 2010	For year ended 31 December 2009
Fuel		(20 939 812)	(16 380 669)
Employee benefits		(4 310 241)	(3 927 744)
Purchased electricity		(3 105 799)	(6 026 473)
Depreciation and amortization	5, 6	(1 867 393)	(1 687 248)
Taxes other than income tax		(1 321 312)	(903 012)
Raw materials and supplies		(853 711)	(739 050)
Transportation of gas		(718 928)	(625 663)
Transmission fees		(682 138)	(699 223)
Change in provisions	19	(679 675)	31 525
Sponsorship expenses		(640 025)	(862 993)
Repairs and maintenance		(565 287)	(582 255)
Change in impairment provision for acounts receivable		(309 163)	(183 931)
Water usage expenses		(260 669)	(130 846)
Security services		(226 908)	(184 925)
Insurance cost		(195 195)	(58 036)
Non-recoverable VAT		(123 488)	(172 432)
Loss on disposal of property, plant and equipment		(109 876)	-
Rent		(101 547)	(83 159)
Transportation services		(99 227)	(56 863)
Social overhead costs		(92 340)	(49 046)
Charity expenses		(89 443)	(60 464)
Consulting, legal and audit services		(87 486)	(148 854)
Write-down of inventories		(53 615)	(23 134)
Safety arrangement costs		(50 731)	(45 155)
Telecommunication services		(42 228)	(39 119)
Business trip expenses		(40 523)	(25 015)
Loss on disposal of inventories		(17 115)	(16 511)
Annual general shareholders meeting expenses		(15 625)	(26 099)
Bank services		(9 671)	(8 431)
Other expenses		(425 408)	(381 986)
Total operation expenses		**(38 034 579)**	**(34 096 811)**

Employee benefits expenses comprise the following:

	For year ended 31 December 2010	For year ended 31 December 2009
Salaries and wages, payroll taxes	(4 108 063)	(3 718 754)
Financial aid to employees and pensioners	(173 563)	(141 095)
Non-governmental pension fund and DB plan expenses	(28 615)	(67 895)
Employee benefits	**(4 310 241)**	**(3 927 744)**

(in thousands of Russian Roubles)

22 Other operating income

	Notes	For year ended 31 December 2010	For year ended 31 December 2009
VAT refund		96 039	31 100
Fines, penalties and legal proceedings		30 961	33 200
Accounts payable write off		29 790	4 011
Reimbursement of losses on capacity supply agreement		7 441	107 359
Surplus of assets		3 572	46 673
Reversal of inventory impairment provision		-	53 874
Gain on disposal of property, plant and equipment		-	39 424
Other operating income		18 136	13 731
Total		**185 939**	**329 372**

23 Income from investing activities

	Notes	For year ended 31 December 2010	For year ended 31 December 2009
Interest income on bank deposits		2 540 672	1 525 961
Interest income on bank account contracts		90 720	45 414
Other interest income		477	85
Gain on disposal of financial assets at fair value through profit or loss	12	-	1 519 344
Other		2 079	4 997
Total		**2 633 948**	**3 095 801**

24 Loss on investing activities

	Notes	For year ended 31 December 2010	For year ended 31 December 2009
Impairment of asset held for sale	14	(453 698)	(186 292)
Impairment of available-for-sale investments		(7 230)	(599)
Total		**(460 928)**	**(186 891)**

25 Finance (costs) / income

	For year ended 31 December 2010	For year ended 31 December 2009
Discounting effect	1 776	(19 171)
Interest expense	-	(1 112)
Total	**1 776**	**(20 283)**

26 (Loss)/earnings per share

	For year ended 31 December 2010	For year ended 31 December 2009
(Loss)/Profit attributable to the shareholders of JSC WGC-3 (thousands of RUB)	(14 874 510)	4 296 063
Weighted average number of ordinary shares issued (thousands of shares)	45 521 818	45 518 388
(Loss)/Earnings per share, basic and diluted (in RUB per share)	**(0.327)**	**0.094**

27 Commitments

Capital commitments. Future capital expenditure for which contracts have been signed amounted to RUB 36 227 950 thousand at 31 December 2010 (at 31 December 2009: RUB 45 952 895 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, on 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.

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.

28 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 31 December 2010 management believes that its interpretation of the relevant legislation is appropriate and the Group's tax currency and customs positions will be sustained. Where management believes it is probable that a position cannot be sustained, an appropriate amount has been accrued for in these Financial Statements.

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 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 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.

29 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, changes in interest rates, and the collectability 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 collectability.

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 account opening.

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:

(in thousands of Russian Roubles)

Narrative	Rating	Rating agency	Currency	31 December 2010	31 December 2009
Accounts receivable					
CJSC Center of financial settlements	unrated	-	RUB	840 056	831 331
OJSC Nizhegorodskaya energy retail company	unrated	-	RUB	233 236	1 736
OJSC Voronezhskaya energy retail company	unrated	-	RUB	120 000	-
OJSC Komi energy retail company	unrated	-	RUB	113 796	570 252
OJSC Energosbyt Rostovenergo energy retail company	unrated	-	RUB	50 491	120 975
OJSC Dagestanskaya energy retail company	unrated	-	RUB	28 888	7 556
OJSC Volgogradenergosbyt energy retail company	unrated	-	RUB	24 062	-
OJSC Kolskaya energy retail company	unrated	-	RUB	11 275	-
OJSC Sibenergotrade energy retail company	unrated	-	RUB	7 449	7 819
OJSC Krasnoyarskenergosbyt energy retail company	unrated	-	RUB	6 369	77
Other trade accounts receivable				366 280	455 515
Other accounts receivable				1 754 068	388 960
Total accounts receivable				**3 555 970**	**2 384 221**
Deposits and other financial assets					
VTB bank	BBB/negative/A-3	S&P	RUB	8 415 145	7 500
VTB bank	BBB/negative/A-3	S&P	USD	6 119 904	-
VTB bank	BBB/negative/A-3	S&P	EUR	2 388 879	-
Svyaz-bank	BB/stable	Fitch	RUB	7 060 000	-
Rosselhozbank	BBB/stable	Fitch	RUB	7 734 000	-
Rosbank	BB+/positive	S&P	RUB	7 900 000	-
Sberbank	BBB/stable	Fitch	RUB	-	1 393
Total deposits and other financial assets				**39 617 928**	**8 893**
Cash and cash equivalents					
VTB bank	BBB/negative/A-3	S&P	EUR	-	20 187 005
VTB bank	BBB/negative/A-3	S&P	RUB	8 437	3 102
VTB bank	BBB/negative/A-3	S&P	USD	-	22
Sberbank	BBB/stable	Fitch	USD	373 630	24 606 541
Sberbank	BBB/stable	Fitch	RUB	638 639	6 222 845
Sberbank	BBB/stable	Fitch	EUR	218 670	3 648
Rosbank	BB+/positive	S&P	RUB	84 514	13 222
Gazprombank	BB/positive/B	S&P	USD	-	1 794
Gazprombank	BB/positive/B	S&P	EUR	-	218
Gazprombank	BB/positive/B	S&P	GBP	99	111
Gazprombank	BB/positive/B	S&P	RUB	92 152	-
Transcreditbank	BB/stable/B	S&P	RUB	17 307	11 214
Rosselhozbank	BBB/stable	Fitch	RUB	1 600 000	-
Chelyabinvestbank	A	raexpert	RUB	25 045	-
Eurofinance Mosnarbank	B+/positive	Fitch	RUB	34 863	6 451
Alfabank	BB-/ stable /B	S&P	RUB	111 135	80 896
Other	-	-	RUB	26 312	8 776
Total cash and cash equivalents				**3 230 803**	**51 145 845**

(in thousands of Russian Roubles)

Impairment losses

The aging of accounts receivable at the reporting date was:

	Gross 2010	Impairment 2010	Gross 2009	Impairment 2009
Not past due	3 452 424	-	1 613 119	-
Past due 0-180 days	338 885	(261 426)	610 282	(108 329)
Past due 181-365 days	246 741	(220 654)	304 106	(109 942)
Past due more than 365 days	660 897	(660 897)	705 832	(630 847)
Total	**4 698 947**	**(1 142 977)**	**3 233 339**	**(849 118)**

Movement of the impairment provision is shown in the table below:

	For year ended 31 December 2010	For year ended 31 December 2009
As at 1 January	849 118	902 741
Write-off	(15 815)	(234 921)
Reversal of provision	(179 765)	(281)
Accrued provision	489 439	181 579
As at 31 December	**1 142 977**	**849 118**

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 31 December 2010:

Overdue period	For year ended 31 December 2010	For year ended 31 December 2009
Less than 180 days	77 459	501 953
More than 180 days but less than 365 days	26 087	194 164
Over 365 days	-	74 985
As at 31 December	**103 546**	**771 102**

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.

Guarantees received

Guaranties received as at 31 December 2010 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	-	94 382
Alfabank	CJSC "Atomstroyexport"	31.10.2012	38 432 432	1 550 099
Alfabank	CJSC "Atomstroyexport"	28.11.2014	-	1 183 275
Alfabank	CJSC "Atomstroyexport"	28.11.2014	17 441 146	703 455
Alfabank	CJSC "Atomstroyexport"	31.10.2012	-	551 146
Alfabank	CJSC "Atomstroyexport"	31.10.2012	-	240 278
Alfabank	CJSC "Atomstroyexport"	31.10.2012	-	953 948
Rosbank	CJSC "Energoproject"	01.05.2011	-	435 055
Rosbank	CJSC "Energoproject"	01.05.2011	-	228 324
Rosbank	CJSC "Energoproject"	31.05.2011	-	304 350
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	-	2 911 316
Gazprombank	OJSC "Technopromexport"	03.08.2013	-	1 862 504

Guarantor	Creditor	Maturity date	Currency EUR	Amount Equivalent in RUB
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"	14.02.2012	-	69 555
Total			**55 873 578**	**17 883 807**

Collateral received

Collateral received as at 31 December 2010 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	43 470
OJSC "Energoproject"	16.05.2011	RUB	29 456
OJSC "Technopromexport"	-	RUB	1 651 385
Total			**1 724 311**

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 31 December 2010 the Group has significant short-term interest-bearing assets. The interest rates on these assets are fixed; these are disclosed in Note 12. 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 approve 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 entities is kept at minimum level. 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	31 December 2010
EUR, thousands	136 147
USD, thousands	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 entities, with all other variables held constant:

In thousands of Russian Roubles	At 31 December 2010 Impact on profit or loss
US Dollar strengthening by 10%	611 990
US Dollar weakening by 10%	(611 990)
Euro strengthening by 10%	238 888
Euro weakening by 10%	(238 888)

(in thousands of Russian Roubles)

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

Other price risk. The Group has limited exposure to equity price risk. Transactions in equity products are monitored and authorized by the Board of Directors.

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 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 12 months equal their carrying balances, as the impact of discounting is not significant.

Narrative	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
At 31 December 2010				
Trade and other accounts payable	3 167 574	-	-	-
At 31 December 2009				
Trade and other accounts payable	1 977 076	-	-	-

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 31 December 2010 and the significant amount of short-term bank deposits the Group is not exposed to the capital risk at 31 December 2010.

Financial instruments by category. For the purposes of measurement, IAS 39, Financial Instruments: Recognition and Measurement, classifies financial assets into the following categories: (a) loans and accounts receivable; (b) available-for-sale financial assets. The following table provides a reconciliation of classes of financial assets with these measurement categories as at 31 December 2010 and 31 December 2009:

	Loans and accounts receivable	Held- to- maturity financial assets	Financial assets at fair value through profit or loss	Available-for-sale financial assets
31 December 2010				
Assets as per statement of financial position				
Deposits and other financial assets	39 617 928	-	-	-
Accounts receivable	3 555 970	-	-	-
Other non-current assets	83 146	-	-	188 105
Total	**43 257 044**	**-**	**-**	**188 105**

(in thousands of Russian Roubles)

	Loans and accounts receivable	Held- to- maturity financial assets	Financial assets at fair value through profit or loss	Available-for-sale financial assets
31 December 2009				
Assets as per statement of financial position				
Deposits and other financial assets	8 893	-	-	-
Accounts receivable	2 384 221	-	-	-
Other non-current assets	123 977	-	-	142 221
Total	**2 517 091**	**-**	**-**	**142 221**

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.

Financial assets at fair value through profit or loss and 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 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. The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

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

	Level 1	Level 2	Level 3	Total
31 December 2010				
Investments	188 105	-	-	188 105
	188 105	**-**	**-**	**188 105**
31 December 2010				
Investments	142 221	-	-	142 221
	142 221	**-**	**-**	**142 221**

30 Events subsequent to the reporting date

On 29 December 2010 the Board of Directors of MMC Norilsk Nickel approved a transaction on the termination of the participation of Group MMC "Norilsk Nickel in OJSC "WGC-3" through the disposal of ordinary registered shares of OJSC WGC-3 in exchange for the ordinary registered non-documentary shares at a swap ratio of 35 shares of INTER RAO for 1 share of WGC-3. On 23 March 2011the share register of the Company was updated. As a result of this transaction, INTER RAO has obtained a 79.24% share in the equity of the Company and has become the parent of the Group.