OJSC Enel OGK-5

Consolidated Financial Statements
for the year ended 31 December 2010

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Independent Auditors' Report

To the Board of Directors of Open Joint-Stock Company Enel OGK-5

We have audited the accompanying consolidated financial statements of OJSC Enel OGK-5 (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.

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11 March 2011

OJSC Enel OGK-5
Consolidated Statement of Financial Position as at 31 December 2010
Thousands of Russian Roubles, unless otherwise stated

	Notes	31 December 2010	31 December 2009
ASSETS			
Non-current assets			
Property, plant and equipment	5	88,139,083	78,619,281
Intangible assets	6	698,296	309,594
Prepaid expense	7	284,479	334,025
Value added tax recoverable		10,250	365,359
Available-for-sale financial assets		86,590	63,653
Other non-current assets	8	826,243	2,023,230
Total non-current assets		**90,044,941**	**81,715,142**
Current assets			
Inventories	10	2,362,338	2,065,414
Trade and other receivables	9	7,551,523	6,760,030
Income tax receivable		86,385	182,203
Cash and cash equivalents	11	536,641	1,011,419
Total current assets		**10,536,887**	**10,019,066**
TOTAL ASSETS		**100,581,828**	**91,734,208**
EQUITY AND LIABILITIES			
Equity	12		
Share capital		35,371,898	35,371,898
Share premium		6,818,747	6,818,747
Treasury shares		(411,060)	(420,394)
Fair value reserve		54,215	32,621
Effective portion of changes in fair value of cash flow hedges	12	127,031	-
Retained earnings		22,981,996	19,265,940
Total equity attributable to equity holders of OJSC Enel OGK-5		**64,942,827**	**61,068,812**
Non-controlling interest		**28,153**	**49,303**
TOTAL EQUITY		**64,970,980**	**61,118,115**
Non-current liabilities			
Loans and borrowings	14	15,245,196	14,438,482
Deferred tax liabilities	13	6,385,023	6,398,802
Employee benefits	15	349,781	233,714
Provisions	18	897,389	488,037
Non-current derivative liabilities	22	245,794	-
Other non-current liabilities		435	563
Total non-current liabilities		**23,123,618**	**21,559,598**
Current liabilities			
Loans and borrowings	14	5,493,996	4,000,000
Current derivative liabilities	22	308,186	-
Trade and other payables	16	4,311,867	3,871,343
Other taxes payable	17	1,069,178	783,652
Provisions	18	1,304,003	401,500
Total current liabilities		**12,487,230**	**9,056,495**
Total liabilities		**35,610,848**	**30,616,093**
TOTAL EQUITY AND LIABILITIES		**100,581,828**	**91,734,208**

General Director — F. Viale
Chief Accountant — D.A. Polenov
11 March 2011

Thousands of Russian Roubles, unless otherwise stated

	Notes	For the year ended 31 December 2010	For the year ended 31 December 2009 (Adjusted)
Revenue	19	52,560,582	41,567,494
Operating expenses	20	(47,144,945)	(36,631,085)
Other operating income		232,772	149,202
Operating profit		**5,648,409**	**5,085,611**
Finance income	21	975,100	183,126
Finance costs	21	(2,023,843)	(979,335)
Share of profit of equity accounted investees (net of income tax)		-	(69,993)
Profit before income tax		**4,599,666**	**4,219,409**
Income tax expense	13	(904,915)	(1,019,132)
Profit for the year		**3,694,751**	**3,200,277**
Other comprehensive income			
Net change in fair value of available-for-sale financial assets (net of income tax)		21,594	30,751
Effective portion of changes in fair value of cash flow hedges (net of income tax)	12	127,031	-
Other comprehensive income for the period, net of income tax		**148,625**	**30,751**
Total comprehensive income for the year		**3,843,376**	**3,231,028**
Profit attributable to:			
Owners of OJSC Enel OGK-5		3,715,901	3,201,410
Non-controlling interest		(21,150)	(1,133)
Total comprehensive income attributable to:			
Owners of OJSC Enel OGK-5		3,864,526	3,232,161
Non-controlling interest		(21,150)	(1,133)
Earnings per ordinary share for profit attributable to the equity holders of OJSC Enel OGK-5 – basic and diluted (in Russian Roubles per share)	12	**0.1055**	**0.0912**

General Director — E. Viale
Chief Accountant — D.A. Polenov
11 March 2011

OJSC Enel OGK-5
Consolidated Statement of Cash Flows for the year ended 31 December 2010
Thousands of Russian Roubles, unless otherwise stated

	Note	For the year ended 31 December 2010	For the year ended 31 December 2009
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax		**4,599,666**	**4,219,409**
Adjustments for:			
Depreciation and amortisation	5, 6, 20	2,801,099	2,657,544
Loss on disposal of property, plant and equipment	20	639,646	176,871
Stock option plan expense	26	155	4,595
Impairment loss in respect of property, plant and equipment	5	654,972	-
Finance income	21	(975,100)	(183,126)
Finance costs	21	2,023,843	979,335
Loss on sale of trade receivables	20	9,258	8,765
Share of result of equity accounted investees		-	69,993
Adjustments for other non-cash transactions		(111,935)	(416,107)
		9,641,604	**7,517,279**
Decrease/(increase) in trade and other receivables		422,893	(2,011,842)
(Increase)/decrease in inventories		(292,896)	259,835
Increase in trade and other payables		820,338	903,042
Change in allowance for impairment of trade and other receivables	9	176,794	83,684
Change in allowance for inventory obsolescence	10	(4,028)	12,206
Increase in other provisions	18	1,357,813	73,739
Increase in taxes payable, other than income tax		285,526	293,530
Net cash inflow from operating activities before income tax paid		**12,408,044**	**7,131,473**
Income tax paid		(858,850)	(659,912)
Net cash from operating activities		**11,549,194**	**6,471,561**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment and other non-current assets		(14,122,726)	(17,214,624)
Interest received		60,282	97,571
Net cash used in investing activities		**(14,062,444)**	**(17,117,053)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from the issue of current loans and borrowings		-	11,307,421
Proceeds from the issue of non-current loans and borrowings		7,066,332	10,029,034
Repayment of current loans and borrowings		(4,000,000)	(9,307,856)
Payment of transaction costs related to loans and borrowings		(31,338)	(808,363)
Interest paid		(1,082,569)	(420,670)
Proceeds from disposal of investment		76,713	-
Proceeds from sale of treasury shares		9,334	-
Net cash from financing activities		**2,038,472**	**10,799,566**
Net (decrease)/increase in cash and cash equivalents		**(474,778)**	**154,074**
Cash and cash equivalents at 1 January		**1,011,419**	**857,345**
Cash and cash equivalents at 31 December	11	**536,641**	**1,011,419**

General Director — F. Viale
Chief Accountant — D.A. Polenov
11 March 2011

Thousands of Russian Roubles, unless otherwise stated

	Attributable to equity holders of OJSC Enel OGK-5							
	Share capital	Share premium	Treasury shares	Fair value reserve	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2009	**35,371,898**	**6,818,747**	**(749,239)**	**1,870**	**16,074,619**	**57,517,895**	**50,436**	**57,568,331**
Profit for the year	-	-	-	-	3,201,410	3,201,410	(1,133)	3,200,277
Other comprehensive income								
Net change in fair value of available-for-sale financial assets, net of tax	-	-	-	30,751	-	30,751	-	30,751
Total other comprehensive income	-	-	-	30,751	-	30,751	-	30,751
Total comprehensive income for the year	-	-	-	30,751	3,201,410	3,232,161	(1,133)	3,231,028
Transactions with owners, recorded directly in equity								
Share options exercised	-	-	328,845	-	(10,089)	318,756	-	318,756
Total transactions with owners	-	-	328,845	-	(10,089)	318,756	-	318,756
Balance at 31 December 2009	**35,371,898**	**6,818,747**	**(420,394)**	**32,621**	**19,265,940**	**61,068,812**	**49,303**	**61,118,115**

General Director — E. Viale
Chief Accountant — D.A. Polenov
11 March 2011

The notes on pages 10 to 42 are an integral part of these consolidated financial statements.

Thousands of Russian Roubles, unless otherwise stated

	Share capital	Share premium	Treasury shares	Fair value reserve	Hedge Reserve	Retained earnings	Total	Non-controlling interest	Total equity
	Attributable to equity holders of OJSC Enel OGK-5								
Balance at 1 January 2010	35,371,898	6,818,747	(420,394)	32,621	-	19,265,940	61,068,812	49,303	61,118,115
Profit for the year	-	-	-	-	-	3,715,901	3,715,901	(21,150)	3,694,751
Other comprehensive income									
Effective portion of changes in fair value of cash flow hedges, net of tax	-	-	-	-	127,031	-	127,031	-	127,031
Net change in fair value of available-for-sale financial assets, net of tax	-	-	-	21,594	-	-	21,594	-	21,594
Total other comprehensive income	-	-	-	21,594	127,031	-	148,625	-	148,625
Total comprehensive income for the year	-	-	-	21,594	127,031	3,715,901	3,864,526	(21,150)	3,843,376
Transactions with owners, recorded directly in equity									
Sales of treasury shares	-	-	9,334	-	-	-	9,334	-	9,334
Share options exercised	-	-	-	-	-	155	155	-	155
Total transactions with owners	-	-	9,334	-	-	155	9,489	-	9,489
Balance at 31 December 2010	35,371,898	6,818,747	(411,060)	54,215	127,031	22,981,996	64,942,827	28,153	64,970,980

General Director F. Viale
Chief Accountant D.A. Polenov
11 March 2011

The notes on pages 10 to 42 are an integral part of these consolidated financial statements.

1 BACKGROUND

(a) Organisation and operations

Open Joint-Stock Company Enel OGK-5 (the "Company", previously known as OJSC "The Fifth Generating Company of the Wholesale Electric Power Market") was established on 27 October 2004 within the framework of Russian electricity sector restructuring in accordance with the Resolution No. 1254-r adopted by the Government of the Russian Federation on 1 September 2003.

On 9 February 2007 the Board of Directors of RAO "UES of Russia" ("RAO UES") approved the change of its interest in the Company from 75.03% to 50% by disposing 8,853,757,803 ordinary non-documentary shares of the Company (25.03%) through the open auction sale.

The open auction for the sale of 25.03% of the Company shares owned by RAO UES was held on 6 June 2007. Enel Investment Holding B.V. won the auction. During 2007-2008 the stock of Enel Investment Holding B.V. increased several times and by the end of 2008 it was 55.86 %. In December 2009 as a result of option plan exercising the participation of Enel Investment Holding B.V. in the share capital of the Company increased up to 56.33%. Ultimate parent company is Enel S.p.A.

The Enel OGK-5 Group (the "Group") operates 4 State District Power Plants ("SDPP") and its principal activity is electricity and heat generation. The Company has:

- a wholly-owned subsidiary LLC "OGK-5 Finance";
- 60% interest subsidiary OJSC "Teploprogress". The State Property Committee of Sredneuralsk holds the remaining 40% ownership interest in OJSC "Teploprogress".

The Company is registered by the Lenin District Inspectorate of the Russian Federation Ministry of Taxation of Yekaterinburg, Sverdlovsk Region. The Company's office is located at bld. 1, 7, Pavlovskaya, 115093, Moscow, Russia.

(b) Relations with the State and its influence on the Group's activities

The Government of the Russian Federation, represented by the Federal Agency of Property Management, remains a party with a significant influence after the spin-off, owning 26.43% of shares of the Company.

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 NP "Administrator of trade system".

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 Note 24, the government's economic, social and other policies could have material effects on the operations of the Group.

(c) Russian business environment

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

2 BASIS OF PREPARATION

(a) Statement of compliance

These consolidated financial statements ("Financial Statements") have been prepared in accordance with International Financial Reporting Standard ("IFRS"). Each enterprise of the Group individually maintains its own books of accounts and prepares its statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation. The accompanying Financial Statements are based on the statutory records and adjusted and reclassified for the purpose of fair presentation in accordance with International Financial Reporting Standards ("IFRS").

(b) Basis of measurement

The consolidated 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.

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble ("RUB"), which is the Company's functional currency and the currency in which these financial statements are presented.

All financial information presented in RUB has been rounded to the nearest thousand.

(d) Use of judgments, estimates and assumptions

Management has made a number of judgments, estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated statements in conformity with IFRSs. Actual results may differ from those estimates.

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

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the financial statements is included in the following notes:

Note 5 – property, plant and equipment;

Note 9 – trade and other receivables;

Note 18 – provisions;

Note 24 (d) – tax contingency;

Note 19 – Revenues. 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.

(e) 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 the year ended 31 December 2009		
	As previously reported	**Change in presentation**	**As adjusted**
Revenues	43,505,408	(1,937,914)	41,567,494
Operating expenses	(38,568,999)	1,937,914	(36,631,085)

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.

3 SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The non-controlling interest has been presented as part of equity.

(ii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(iii) Transactions with non-controlling interest

The Group applies a policy of treating transactions with non-controlling interest as transactions with the owners in their capacity of owners. In case of acquisition of non-controlling interest, the difference between any consideration paid and the relevant share of the carrying value of net assets of the subsidiary acquired is recognised in equity.

(b) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments.

(c) Financial instruments

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

Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is classified as held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term.

Loans and receivables

Loans and receivables are 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 reporting date. These are classified as non-current assets. Loans and receivables are represented by trade receivables (Note 9), long-term loans issued (Note 8), bank deposits and bank bills of exchange.

Cash and cash equivalent comprises cash in hand and call deposits. Cash equivalents comprise short-term highly liquid investments that are readily convertible into cash and have a maturity of three months or less from the date of acquisition and are subject to insignificant changes in value.

Held-to-maturity investments

Held to maturity classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity.

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 other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date.

Regular purchases and sales of financial assets are recognised on the trade date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Held to maturity investments and loans and receivables are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are presented in the profit or loss within finance items (net), in the period in which they arise. Interest income from financial assets at fair value through profit or loss is recognised in the comprehensive income as part of finance income when the Group's right to receive payments is established.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the profit or loss as gains and losses from investment securities.

Dividends on available-for-sale equity instruments are recognised in the comprehensive income as part of other income when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, is removed from equity and recognised in the comprehensive income. Impairment losses recognised in the comprehensive income on equity instruments are not reversed through profit or loss.

Except for loans and receivables and available-for-sale investments, the Group did not have other financial assets in the year ended 31 December 2009 or the year ended 31 December 2010.

Derivative financial instruments, including hedge accounting

The Group holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

On initial designation of the derivative as the hedging instrument and hedged item, the Group formally documents the relationship between the hedging instrument and hedged item, including the risk management objectives and strategy in undertaking the hedge transaction and the hedged risk, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, of whether the hedging instruments are expected to be "highly effective" in offsetting the changes in the fair value or cash flows of the respective hedged items attributable to the hedged risk, and whether the actual results of each hedge are within range of 80-125 percent. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported profit or loss.

Derivatives are recognized initially at fair value; attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss.

When the hedged item is a non-financial asset, the amount accumulated in equity is included in the carrying amount of the asset when the asset is recognized. In other cases the amount accumulated in equity is reclassified to profit or loss in the same period than the hedged item affects profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the balance in equity is reclassified in profit or loss.

(d) Equity

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.

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 retained earnings.

Dividends

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

(e) Property, plant and equipment

(i) Recognition and measurement

Property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for their intended use, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within “other income” in profit or loss.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

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

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

● Electricity and heat generation	9 - 60 years;
● Electricity transmission	8 - 33 years;
● Heating networks	15 - 41 years;
● Other	6 - 63 years.

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

(f) Intangible assets

(i) Patents and licenses

Patents and licenses that are acquired by the Group are measured on initial recognition at cost at the acquisition date.

Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

(ii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on brands, is recognised in the profit or loss as incurred.

The amortization charge on all intangible assets with finite useful lives is accrued on a straight-line basis over their useful life starting from the month following the month in which the asset is available for use.

The amortization charge is recognised through profit or loss as an operating expense.

The useful life of intangible assets is 5 - 10 years.

(g) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Net realisable 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.

(h) Borrowings

Borrowings are recognised initially at their fair value. Fair value is determined using the prevailing market rate of interest for similar instruments, if significantly different from the transaction price. In subsequent periods, borrowing are stated at amortised cost using the effective interest rate; any difference between the fair value of the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss as an interest expense over the period of the debt obligation.

The Group capitalise borrowing costs in qualifying assets according to IAS 23 *Borrowing costs*.

(i) Employee benefits

(i) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and any unrecognised past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on investment grade bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the net total of any unrecognised past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realisable during the life of the plan, or on settlement of the plan liabilities.

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

Past service cost related to defined benefit pension plans is recognised as an expense on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits are already vested immediately following the introduction of, or changes to, a defined benefit plan, the Group recognizes past service cost immediately.

(ii) Share-based payment transactions

The share option plan allows Group employees to acquire shares of the Company. The grant date fair value of share-based payment awards granted to employees is recognised as an expense, over the period fair value of the options is measured at grant date and considers the period for which employees become unconditionally entitled to the options. The fair value of the options is then expensed between the grant date and the vesting date written into the share option contract. The fair value of the options is measured based on the Black-Scholes-Merton model, which takes into account the terms and conditions upon which the instruments were granted.

(j) Provisions

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

(i) Restructuring

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for (see Note 18).

(ii) Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract (see Note 18).

(k) Environmental obligations

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

(l) Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

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 original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised through profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised through profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

(ii) Non-financial assets

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

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

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 through 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.

(m) Revenue

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.

(n) Finance income and costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, and gains on hedging instruments that are recognised through profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group’s right to receive payment is established.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, foreign currency losses, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognised on financial assets, and impairment losses on financial assets other than trade receivables (see note 22). Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

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

(o) Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity, or in other comprehensive income.

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

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

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

(p) Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

(q) 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 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.

(r) New financial reporting standards

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.

4 DETERMINATION OF FAIR VALUES

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

(a) Investments in equity and debt securities

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

(b) Trade and other receivables

The fair value of trade and other receivables, excluding construction work in progress, 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.

(d) Derivatives

The fair value of forward exchange contracts is based on their quoted market price, if available. If a quoted market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using market rates.

The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and counterparty when appropriate.

Thousands of Russian Roubles, unless otherwise stated

5 PROPERTY, PLANT AND EQUIPMENT

	Heat and electricity generation	Electricity transmission	Heating networks	Other	Construction in progress	Total
Cost						
At 1 January 2010	**42,936,211**	**3,374,001**	**599,641**	**13,065,093**	**28,126,302**	**88,101,248**
Additions	1,484	-	-	216,948	13,350,438	13,568,870
Transfers from construction in progress	3,637,865	297,625	5,155	2,500,281	(6,440,926)	-
Disposals	(28,254)	(6,083)	-	(113,611)	(541,605)	(689,553)
Impairment loss	-	-	-	-	(654,972)	(654,972)
At 31 December 2010	**46,547,306**	**3,665,543**	**604,796**	**15,668,711**	**33,839,237**	**100,325,593**
Accumulated depreciation						
At 1 January 2010	**5,597,085**	**990,859**	**80,328**	**2,813,695**	**-**	**9,481,967**
Depreciation charge	1,569,703	310,015	17,178	855,083	-	2,751,979
Disposals	(5,148)	(2,527)	-	(39,761)	-	(47,436)
At 31 December 2010	**7,161,640**	**1,298,347**	**97,506**	**3,629,017**	**-**	**12,186,510**
Net book value at 1 January 2010	**37,339,126**	**2,383,142**	**519,313**	**10,251,398**	**28,126,302**	**78,619,281**
Net book value at 31 December 2010	**39,385,666**	**2,367,196**	**507,290**	**12,039,694**	**33,839,237**	**88,139,083**

	Heat and electricity generation	Electricity transmission	Heating networks	Other	Construction in progress	Total
Cost						
At 1 January 2009	**40,432,528**	**3,095,918**	**590,526**	**12,436,272**	**16,203,406**	**72,758,650**
Additions	1,057	40	-	92,739	15,448,856	15,542,692
Transfers from construction in progress	2,503,193	296,571	9,115	598,749	(3,407,628)	-
Disposals	(567)	(18,528)	-	(62,667)	(118,332)	(200,094)
At 31 December 2009	**42,936,211**	**3,374,001**	**599,641**	**13,065,093**	**28,126,302**	**88,101,248**
Accumulated depreciation						
At 1 January 2009	**4,045,634**	**714,612**	**63,644**	**2,064,454**	**-**	**6,888,344**
Depreciation charge	1,551,689	279,242	16,684	769,231	-	2,616,846
Disposals	(238)	(2,995)	-	(19,990)	-	(23,223)
At 31 December 2009	**5,597,085**	**990,859**	**80,328**	**2,813,695**	**-**	**9,481,967**
Net book value at 1 January 2009	**36,386,894**	**2,381,306**	**526,882**	**10,371,818**	**16,203,406**	**65,870,306**
Net book value at 31 December 2009	**37,339,126**	**2,383,142**	**519,313**	**10,251,398**	**28,126,302**	**78,619,281**

Group measures its property, plant and equipment at cost less accumulated depreciation and impairment losses.

Thousands of Russian Roubles, unless otherwise stated

At 31 December 2010 construction in progress includes prepayments for property, plant and equipment of RUB 6,828,482 thousand (31 December 2009: RUB 12,508,540 thousand).

The Group recognized an impairment loss in the amount of RUB 654,972 thousand in respect of prepayments made to a contractor with whom the Group cancelled construction contracts. The Group is currently involved in litigation with the contractor to recover the prepayments.

During the year ended 31 December 2010 the Group capitalized borrowing costs in the amount RUB 765,783 thousand into property, plant or equipment (31 December 2009: RUB 438,769 thousand). As at 31 December 2010 and 31 December 2009, no property, plant or equipment was pledged as collateral according to loan agreements.

(a) Operating leases

The assets transferred to the Group upon privatization did not include the land on which the Company's buildings and facilities are situated. The Group holds lease agreements in respect of these land plots with local governments.

The leases typically run for an initial period of 5 to 45 years with an option to renew the lease after that date. The lease payments are subject to regular reviews that may result in adjustments to reflect market conditions.

Non-cancellable operating lease rentals are payable for land plots as follows:

	31 December 2010	31 December 2009	31 December 2008
Not later than one year	28,176	25,269	17,722
Later than one year and not later than five years	64,474	88,355	60,720
Later than five years	29,783	10,149	10,814
Total	**122,433**	**123,773**	**89,256**

6 INTANGIBLE ASSETS

	Patents and licenses	Software	Total
Cost			
At 1 January 2010	**43,007**	**346,709**	**389,716**
Additions	29,552	408,270	437,822
At 31 December 2010	**72,559**	**754,979**	**827,538**
Accumulated amortisation			
At 1 January 2010	**8,849**	**71,273**	**80,122**
Amortisation charge	8,107	41,013	49,120
At 31 December 2010	**16,956**	**112,286**	**129,242**
Net book value at 1 January 2010	**34,158**	**275,436**	**309,594**
Net book value at 31 December 2010	**55,603**	**642,693**	**698,296**

Thousands of Russian Roubles, unless otherwise stated

	Patents and licenses	Software	Total
Cost			
At 1 January 2009	**7,503**	**80,073**	**87,576**
Additions	35,504	266,636	302,140
At 31 December 2009	**43,007**	**346,709**	**389,716**
Accumulated amortisation			
At 1 January 2009	**3,027**	**36,397**	**39,424**
Amortisation charge	5,822	34,876	40,698
At 31 December 2009	**8,849**	**71,273**	**80,122**
Net book value at 1 January 2009	**4,476**	**43,676**	**48,152**
Net book value at 31 December 2009	**34,158**	**275,436**	**309,594**

Intangible assets mostly represent the costs associated with SAP/R3 implementation.

7 PREPAID EXPENSE

Prepaid expense represents transaction costs paid to the Royal Bank of Scotland and European Investment Bank (2009: European Bank for Reconstruction and Development) for credit facilities provided but not yet utilised:

	31 December 2010	31 December 2009
Royal Bank of Scotland	259,528	318,128
EIB	24,951	-
EBRD	-	15,897
Total	**284,479**	**334,025**

8 OTHER NON-CURRENT ASSETS

	31 December 2010	31 December 2009
Prepayments issued to fuel suppliers	446,443	137,431
Value added tax deposit paid to customs	-	1,591,950
Long-term trade and other receivables	163,407	56,925
Other	216,393	236,924
Total	**826,243**	**2,023,230**

The amount of VAT deposit of RUB 1,591,950 thousand paid to the Baltic and Rostov Customs related to imported equipment for the Sredneuralskaya power station new combined cycle gas turbine construction which has been transferred from non-current into current trade and other receivables as the estimated time of VAT recovery is the first quarter of 2011.

Long-term trade and other receivables include the non-current portion of loans given to the Group’s employees.

Thousands of Russian Roubles, unless otherwise stated

9 TRADE AND OTHER RECEIVABLES

	31 December 2010	31 December 2009
Trade receivables (net of impairment allowance of RUB 448,209 thousand at 31 December 2010, RUB 194,094 thousand at 31 December 2009)	3,345,601	3,149,352
Interest receivable	1,184	1,334
Prepayments issued to suppliers	1,446,511	1,288,819
Value added tax recoverable	964,114	1,537,366
Value added tax deposit paid to customs	1,516,396	-
Other receivables (net of impairment allowance of RUB 4,609 thousand at 31 December 2010 and RUB 81,930 thousand at 31 December 2009)	277,717	783,159
Total	**7,551,523**	**6,760,030**

Management believes that the majority of customers, the balances of which are included in trade receivables, comprise a single class, as they bear the same characteristics. Those customers belong to the same wholesale market of electric power (NOREM), which is regulated by NP ATS (Non-commercial Partnership “Administrator of Trade System”).

Management has determined the provision for impairment of accounts receivable based on specific customer identification, customer payment trends, subsequent receipts and settlements and analysis of expected future cash flows. Management believes that the Group will be able to realize the net receivable amounts through direct collections and other non-cash settlements, and therefore the recorded values approximate their fair value.

During the year ended 31 December 2010 RUB 62,841 thousand of the Group’s total accounts receivable was settled via non-cash settlements (during the year ended 31 December 2009: RUB 185,768 thousand).

Other receivables are mainly represented by prepayments for insurance.

The Group does not hold any collateral as security.

The table below provides information about the changes in allowance for impairment of receivables:

	For the year ended 31 December 2010	For the year ended 31 December 2009
At 1 January	276,024	192,340
Accruals	290,324	83,684
Reversals	(101,393)	-
Write-offs	(12,137)	-
At 31 December	**452,818**	**276,024**

Thousands of Russian Roubles, unless otherwise stated

10 INVENTORIES

	31 December 2010	31 December 2009
Fuel supplies	1,326,309	1,375,874
Materials and supplies	543,291	300,986
Spare parts and other inventories	507,267	407,111
Total inventories	2,376,867	2,083,971
Less: Provisions for obsolescence of inventories	(14,529)	(18,557)
Total	**2,362,338**	**2,065,414**

As at 31 December 2010 and as at 31 December 2009 none of the inventories held were pledged as collateral according to loan agreements.

11 CASH AND CASH EQUIVALENTS

	31 December 2010	31 December 2009
Bank balances	102,785	85,890
Call deposits	433,856	925,529
Total	**536,641**	**1,011,419**

The currency of cash is the Russian Rouble, EUR and US dollar.

The Group's exposure to interest rate risk is disclosed in note 22.

12 EQUITY

(a) Share capital

The Group's share capital as at 31 December 2010 and 2009 was RUB 35,371,898 thousand comprising 35,371,898,370 ordinary shares with a par value of RUB 1.00. All shares authorised are issued and fully paid.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

(b) Treasury shares

The nominal value of treasury shares as at 31 December 2010 was RUB 156,223 thousand (as at 31 December 2009 – RUB 160,100 thousand).

(c) Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the investments are derecognised or impaired.

(d) Hedge reserve

The hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedger related to hedged transactions that have not yet occurred.

(e) Earnings per share

The calculation of earnings per share is based upon the profit for the year and the weighted average number of ordinary shares outstanding during the year, calculated as shown below. The dilutive potential of share-based payments is not considered as the effect is immaterial.

	For the year ended 31 December 2010	For the year ended 31 December 2009
Weighted average number of shares issued, in thousands	35,371,898	35,371,898
Adjustment for weighted average number of treasury shares, in thousands	(158,237)	(285,309)
Weighted average number of shares outstanding, in thousands	35,213,661	35,086,589
Profit attributable to shareholders of OJSC Enel OGK-5	3,715,901	3,201,410
Profit per share – basic and diluted (RUB per share)	0.1055	0.0912

13 INCOME TAXES

	For the year ended 31 December 2010	For the year ended 31 December 2009
Current income tax expense	954,668	532,536
Deferred tax (benefit)/expense	(49,753)	486,596
Total income tax expense	**904,915**	**1,019,132**

During the year ended 31 December 2010, the Group entities were subject to 20% income tax rate on taxable profits. This rate was used for the calculation of the deferred tax assets and liabilities.

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

A reconciliation of the theoretical income tax, calculated at the tax rate effective in the Russian Federation, to the amount of actual income tax expense recorded in the statement of comprehensive income, is as follows:

	For the year ended 31 December 2010		For the year ended 31 December 2009	
Profit before income tax	**4,599,666**	**100%**	**4,219,409**	**100%**
Income tax at applicable tax rate	(919,933)	20%	(843,882)	20%
Non-taxable income/(non-deductible expenses)	15,018	-	(175,250)	4%
	(904,915)	**20%**	**(1,019,132)**	**24%**

Thousands of Russian Roubles, unless otherwise stated

The tax effects of temporary differences that give rise to deferred taxation are presented below:

	1 January 2010	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2010
Tax effect of deductible temporary differences				
Trade and other receivables	146,940	37,281	-	184,221
Non-current loans and borrowings	15,507	46,130	-	61,637
Provisions	177,907	262,371	-	440,278
Employee benefits	46,743	23,213	-	69,956
Inventories	4,332	(4,332)	-	-
Other	32,530	86,961	-	119,491
Deferred tax assets	**423,959**	**451,624**	**-**	**875,583**
Tax effect of taxable temporary differences				
Property, plant and equipment	(6,681,314)	(323,889)	-	(7,005,203)
Inventories	-	(2,385)		(2,385)
Trade and other receivables	(65,243)	(25,937)	-	(91,180)
Other	(76,204)	(49,660)	(35,974)	(161,838)
Deferred tax liabilities	**(6,822,761)**	**(401,871)**	**(35,974)**	**(7,260,606)**
Net deferred tax liabilities	**(6,398,802)**	**49,753**	**(35,974)**	**(6,385,023)**

	1 January 2009	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2009
Tax effect of deductible temporary differences				
Trade and other receivables	189,697	(42,757)	-	146,940
Non-current loans and borrowings	-	15,507	-	15,507
Provisions	137,011	40,896	-	177,907
Employee benefits	88,836	(42,093)	-	46,743
Inventories	8,204	(3,872)	-	4,332
Other	79,908	(47,378)	-	32,530
Deferred tax assets	**503,656**	**(79,697)**	**-**	**423,959**
Tax effect of taxable temporary differences				
Property, plant and equipment	(6,391,756)	(289,558)	-	(6,681,314)
Trade and other receivables	(15,335)	(49,908)	-	(65,243)
Other	(1,083)	(67,433)	(7,688)	(76,204)
Deferred tax liabilities	**(6,408,174)**	**(406,899)**	**(7,688)**	**(6,822,761)**
Net deferred tax liabilities	**(5,904,518)**	**(486,596)**	**(7,688)**	**(6,398,802)**

Thousands of Russian Roubles, unless otherwise stated

14 LOANS AND BORROWINGS

	Currency	Maturity	31 December 2010		31 December 2009	
Non-current borrowings			Carrying value	Face value	Carrying value	Face value
Royal Bank of Scotland	EUR	2022	5,088,443	5,434,413	5,578,822	5,910,822
EBRD	EUR	2021	4,792,697	4,839,972	3,859,660	3,904,947
European Investment Bank	EUR	2025	1,364,056	1,371,325	-	-
Commercial papers	RUB	2013	4,000,000	4,000,000	-	-
Bonds	RUB	2011	-	-	5,000,000	5,000,000
Total non-current borrowings			**15,245,196**	**15,645,710**	**14,438,482**	**14,815,769**

	Currency	31 December 2010		31 December 2009	
Current borrowings and current portion of non-current borrowings		Carrying value	Face value	Carrying value	Face value
Bonds	RUB	5,000,000	5,000,000	-	-
Commercial papers	RUB	-	-	4,000,000	4,000,000
Current portion of non-current borrowings (Royal Bank of Scotland)	EUR	493,996	493,996	-	-
Total current borrowings		**5,493,996**	**5,493,996**	**4,000,000**	**4,000,000**

All the Group's borrowings are nominated either in EUR or in RUB. At the end of 2010 the interest rate varied from 4.33% to 5.04% for borrowings nominated in EUR and from 7.5% to 12.25% for borrowings nominated in RUB. All loans and borrowings are unsecured.

The bonds with a face value of RUB 5,000,000 thousand issued in October 2006 were reclassified to current borrowings as the maturity date is September 2011.

In June 2010 the Company issued non-convertible commercial papers with a face value of RUB 4,000,000 thousand and 3 year maturity period. The coupon rate for commercial papers was set at 7.5%. The coupon period is 182 days.

Total available credit facilities (not yet utilised) under agreements with the Royal Bank of Scotland and European Investment Bank is EUR 306,014 thousand.

15 EMPLOYEE BENEFITS

The tables below provide information about the employee benefit obligations and actuarial estimations used for the year ended 31 December 2010 and for the year ended 31 December 2009. Amounts recognised in the Group's consolidated statement of financial position are as follows:

	31 December 2010	31 December 2009
Present value of defined benefit obligation	1,581,716	1,398,466
Unrecognised actuarial losses	(730,674)	(531,528)
Unrecognised past service costs	(501,261)	(633,224)
Net pension liabilities in the statement of financial position	**349,781**	**233,714**

Thousands of Russian Roubles, unless otherwise stated

Amounts recognised in profit or loss are as follows:

	For the year ended 31 December 2010	For the year ended 31 December 2009
Current service cost	98,780	74,747
Interest cost	129,365	118,462
Amortisation of past service cost	92,118	120,588
Net actuarial loss recognised in the period	30,001	11,051
Curtailment gain	-	(18,631)
Total expense recognised in profit or loss	**350,264**	**306,217**

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

	For the year ended 31 December 2010	For the year ended 31 December 2009
Present value of defined benefit obligations at the beginning of year	**1,398,466**	**1,451,398**
Current service cost	98,780	74,747
Interest cost	129,365	118,462
Past service cost	(39,845)	11,146
Benefits paid	(234,197)	(516,685)
Actuarial loss on obligation	229,147	334,342
Curtailment effect	-	(74,944)
Present value of defined benefit obligation at the end of period	**1,581,716**	**1,398,466**

Principal actuarial assumptions are as follows:

	31 December 2010	31 December 2009
Nominal discount rate	7.75%	9.75%
Future salary increase	7.0%	8.8%
Future pensions increase and inflation rate	6.0%	6.5%

The mortality table that has been used is Russian Federation 1998. This table is typically used in similar actuarial valuations of other Russian companies.

The retirement table that has been used is a table based on the Company's statistics on retirements. The usage of such a table is reasonable as it represents company specific experience of employees' retirement rates.

Historical information

	31 December 2010	31 December 2009	31 December 2008	31 December 2007	31 December 2006
Present value of defined benefit obligation	1,581,716	1,398,466	1,451,398	1,214,960	1,222,179
Deficit in plan	1,581,716	1,398,466	1,451,398	1,214,960	1,222,179
Losses arising from experience adjustments on plan liabilities	(167,472)	(321,358)	(382,401)	(12,323)	(51,736)

Expected benefit payments under the schemes during the year ended 31 December 2011 are RUB 110,706 thousand.

Thousands of Russian Roubles, unless otherwise stated

16 TRADE AND OTHER PAYABLES

	31 December 2010	31 December 2009
Trade payables	3,078,880	3,029,531
Accrued liabilities and other payables	961,783	346,656
Interest payable	266,821	457,406
Advances received	-	33,265
Dividends payable	4,383	4,485
Total	**4,311,867**	**3,871,343**

Management believes that the majority of suppliers, balances of which are included into trade payables, comprise a single class, as they bear the same characteristics. Those suppliers are mainly providers of repair and maintenance services.

17 OTHER TAXES PAYABLE

	31 December 2010	31 December 2009
Value added tax	617,253	411,311
Property tax	180,902	178,133
Payroll taxes	13,423	13,418
Fines and interest	4,564	3,631
Other taxes	253,036	177,159
Total	**1,069,178**	**783,652**

18 PROVISIONS

	Restructuring	Onerous contract	Provision for legal claims	Other	Total
Balance at 1 January 2010	492,624	154,894	-	242,019	889,537
Provisions made during the period	139,286	487,002	760,000	259,581	1,645,869
Unwinding of discount	12,285	(58,243)	-	-	(45,958)
Provisions used during the period	(35,894)	(68,150)	-	(184,012)	(288,056)
Balance at 31 December 2010	**608,301**	**515,503**	**760,000**	**317,588**	**2,201,392**
Non-current	451,486	445,903	-	-	897,389
Current	156,815	69,600	760,000	317,588	1,304,003
Total	**608,301**	**515,503**	**760,000**	**317,588**	**2,201,392**

Thousands of Russian Roubles, unless otherwise stated

	Restructuring	Onerous contract	Other	Total
Balance at 1 January 2009	310,832	165,984	208,241	685,057
Provisions made during the period	230,340	-	359,355	589,695
Unwinding of discount	84,509	46,232	-	130,741
Provisions used during the period	(133,057)	(57,322)	(325,577)	(515,956)
Balance at 31 December 2009	**492,624**	**154,894**	**242,019**	**889,537**
Non-current	406,338	81,699	-	488,037
Current	86,286	73,195	242,019	401,500
Total	**492,624**	**154,894**	**242,019**	**889,537**

(a) Restructuring

In 2008 management approved a five-year headcount restructuring plan which is aimed at aligning the headcount/Megawatt ratio to the best international standards in the power sector, changing the quality mix of staff and decreasing the average age of employees.

These goals will be achieved through the optimization of processes and organizational structure, the centralization of staff functions and processes, the development of multi-skill competencies, the adoption of new IT platform (SAP/R3) and decommissioning of old units.

The provision is based on estimates of the staff reduction and average salaries.

In 2010 management revised the restructuring plan in respect of the number of redundancies for 2010-2013.

(b) Onerous contract

The onerous contract provision relates to future supplies to customers from the Caucasus region. The provision is based on estimates of fuel costs associated with electricity supplies. The Group expects the resulting outflow of economic benefits over the next six years.

(c) Provision for legal claims

Further to the change of ownership the Company decided to cancel certain contracts on the basis that they were signed on terms different from arm length’s market practices. The counter-parties of the cancelled agreements have filed court cases against the Company, trying to recover the lost benefits or seeking damages. The total provision made in 2010 in relation to these cases amounts to RUB 760,000 thousand which represents management’s best estimate of the obligation.

(d) Other

Other provisions include provision for annual bonus to employees and provision for unused vacation.

Thousands of Russian Roubles, unless otherwise stated

19 REVENUE

	For the year ended 31 December 2010	For the year ended 31 December 2009 (Adjusted)
Electricity	49,480,055	38,781,980
Heating	2,640,026	2,400,063
Water for heating network	211,976	225,261
Rent	62,385	62,800
Water circulation	57,274	37,306
Other	108,866	60,084
Total	**52,560,582**	**41,567,494**

20 OPERATING EXPENSES

	Note	For the year ended 31 December 2010	For the year ended 31 December 2009 (Adjusted)
Fuel cost		29,561,021	22,946,363
Purchased electricity		3,119,241	2,000,531
Employee benefits		3,087,093	3,085,677
Depreciation and amortisation of property, plant and equipment and intangible assets		2,801,099	2,657,544
Provisions	18	1,645,869	589,695
Repairs and technical maintenance		1,334,374	1,373,246
Taxes other than income tax and payroll taxes		827,023	803,959
Water usage		735,329	671,439
Fees to Trade System Administrator, Centre of financial settlements and System Operator		680,555	699,941
Impairment loss in respect of property, plant and equipment		654,972	-
Loss on disposal of property, plant and equipment		639,646	176,871
Advisory, legal and information services		530,375	450,635
Raw materials and supplies		189,059	203,181
Security		186,599	198,176
Allowance for impairment of trade and other receivables		176,794	83,684
Lease costs		122,140	127,957
Transport cost		98,333	106,451
Social expenses		33,418	32,590
Insurance		32,968	294,235
Loss on sale of trade receivable		9,258	8,765
Other		679,779	120,145
Total		**47,144,945**	**36,631,085**

Thousands of Russian Roubles, unless otherwise stated

Employee benefits expenses comprise the following:

	For the year ended 31 December 2010	For the year ended 31 December 2009
Wages and other benefits to employees and related taxes	2,896,040	2,904,378
Share option plan	155	4,595
Non-governmental pension fund expenses (Note 15)	190,898	176,704
Total	**3,087,093**	**3,085,677**

21 FINANCE INCOME AND FINANCE COSTS

	For the year ended 31 December 2010	For the year ended 31 December 2009
Interest income	66,458	96,924
Exchange differences	908,642	84,874
Other financial income	-	1,328
Finance income	**975,100**	**183,126**
Interest expense	(1,031,729)	(909,396)
Effect of discounting, net	(205,002)	(69,939)
Change in fair value of derivatives	(712,769)	-
Other financial expenses	(74,343)	-
Finance costs	**(2,023,843)**	**(979,335)**

Interest expense relates to financial liabilities measured at amortised cost.

Finance income arose from interest accrued on call deposits, maintained with commercial banks.

22 FINANCIAL INSTRUMENTS AND FINANCIAL RISKS

(a) Overview

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

- credit risk;
- liquidity risk;
- market risk.

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

The Group's activities expose it to a variety of financial risks, including the effects of changes in interest rates, forex risk and the collectability of receivables.

In the course of 2010 the Group implemented operating and financial risk assessment through the analysis of the main business processes and put in place internal control system on financial reporting.

(b) Credit risk

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

Thousands of Russian Roubles, unless otherwise stated

(i) Trade receivables

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

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

Majority of the Group's customers have been transacting with the Group for over several years, and losses have occurred infrequently. In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or legal entity, whether they are a wholesale, retail or end-user customer, geographic location, industry, aging profile, maturity and existence of previous financial difficulties.

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

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

(ii) Investments

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

(iii) Cash balances and deposits

The majority of cash balances and short-term deposits are held with reliable banks or financial institutions. The Group places funds in financial institutions characterized by a quite stable financial status.

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:

	31 December 2010	31 December 2009
Available-for-sale financial assets	86,590	63,653
Trade and other receivables	3,624,502	3,933,845
Cash and cash equivalents	536,641	1,011,419
Long-term trade and other receivables	163,407	56,925
Total	**4,411,140**	**5,065,842**

The aging of trade and other receivables at the reporting date was:

	31 December 2010		31 December 2009	
	Gross	Impairment allowance	Gross	Impairment allowance
Not past due	2,911,532	-	2,756,552	-
Past due for less than 3 months	286,034	9,225	885,754	27,944
Past due for 3 to 12 months	546,430	150,771	345,329	60,343
Past due for more than one year	333,324	292,822	222,234	187,737
Total	**4,077,320**	**452,818**	**4,209,869**	**276,024**

For the year ended 31 December 2010 the Group has revenues of RUB 27,496,190 thousand from transactions with a single external customer (2009: RUB 13,249,350 thousand).

Thousands of Russian Roubles, unless otherwise stated

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Prudent liquidity risk management includes maintaining sufficient cash and marketable securities, the availability of funding from an adequate amount of committed credit facilities, ability of the Group to fulfil the current obligations. In order to implement the main investment projects the Group have already attracted long-term financing for 12-15 years. The short term financing for not more than 1 year is attracted to cover the temporary cash shortage for operating activity. The given allocation of financial liabilities by terms enables to ensure that:

- at the required moment the Group has the needed amount of monetary funds in order to fulfill all required financial liabilities of the Group;
- at the required moment the Group will be able to redeem all its financial liabilities in full.

The following are the contractual maturities of financial liabilities, excluding estimated interest payments. It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

(i) Non-derivative financial liabilities

	Carrying amount	Contractual cash flows	Less than 1 year	1-5 years	More than 5 years
At 31 December 2010					
Bank loans	11,739,192	12,139,706	493,996	4,157,018	7,488,692
Commercial papers	4,000,000	4,000,000	-	4,000,000	-
Bonds	5,000,000	5,000,000	5,000,000	-	-
Trade and other payables	4,311,867	4,311,867	4,311,867	-	-
Total	**25,051,059**	**25,451,573**	**9,805,863**	**8,157,018**	**7,488,692**
At 31 December 2009					
Bank loans	9,438,482	9,815,769	-	3,203,415	6,612,354
Commercial papers	4,000,000	4,000,000	4,000,000	-	-
Bonds	5,000,000	5,000,000	-	5,000,000	-
Trade and other payables	3,871,343	3,871,343	3,871,343	-	-
Total	**22,309,825**	**22,687,112**	**7,871,343**	**8,203,415**	**6,612,354**

(ii) Derivative financial liabilities

	Carrying amount	Contractual cash flows	1 year	1-2 years	2-3 years	3-4 years	4-5 years
At 31 December 2010							
Interest rate swaps used for hedging	(245,794)	(1,143,641)	(303,208)	(291,904)	(230,504)	(184,425)	(133,600)
Forward exchange contracts:							
Outflow	(308,186)	(6,967,915)	(6,967,915)	-	-	-	-
Inflow		6,659,729	6,659,729	-	-	-	-
Total	**(553,980)**	**(1,451,827)**	**(611,394)**	**(291,904)**	**(230,504)**	**(184,425)**	**(133,600)**

In 2009 there were no interest rate swaps or forward exchange contracts.

(d) Market risk

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

Currency risk

The Group's exposure to foreign currency risk was as follows based on notional amounts:

	31 December 2010		31 December 2009	
	USD	**EUR**	**USD**	**EUR**
Bank loans	-	(11,739,192)	-	(9,438,482)
Trade and other payables	(77,602)	(755,995)	(336)	(165,643)
Gross exposure	**(77,602)**	**(12,495,187)**	**(336)**	**(9,604,125)**
Interest rate swaps used for hedging	-	11,353,069	-	-
Forward exchange contracts	-	6,967,915	-	-
Net exposure	**(77,602)**	**5,825,797**	**(336)**	**(9,604,125)**

The following significant exchange rates applied during the period:

RUB	Average rate		Reporting date spot rate	
	For the year ended 2010	**For the year ended 2009**	**31 December 2010**	**31 December 2009**
USD	30.3692	31.7231	30.4769	30.2442
EUR	40.2980	44.132	40.3331	43.3883

Sensitivity analysis

The Group's exposure to foreign currency risk is hedged, thus a strengthening of the Russian rouble against EUR at 31 December 2010 would have no significant effect on profit or loss.

A strengthening of the Russian rouble, as indicated below, against the USD and EUR at 31 December 2009 would have increased (decreased) profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2009, albeit that the reasonably possible foreign exchange rate variances were different, as indicated below.

Effect in thousands of Russian roubles

	Profit or loss
At 31 December 2009	
EUR (10 percent strengthening)	949,859
USD (10 percent strengthening)	2

A weakening of the Russian rouble against the above currencies at 31 December 2009 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Interest rate risk

The financing strategy of the Group envisages appropriate hedging against interest rate.

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

Thousands of Russian Roubles, unless otherwise stated

	Carrying amount	
	31 December 2010	**31 December 2009**
Fixed rate instruments		
Financial assets	433,856	925,529
Financial liabilities	(15,946,495)	(14,578,822)
	(15,512,639)	**(13,653,293)**
Variable rate instruments		
Financial liabilities	(4,792,697)	(3,859,660)
Gross exposure	**(4,792,697)**	**(3,859,660)**
Interest rate swaps used for hedging	5,080,800	-
Net exposure	**288,103**	**(3,859,660)**

Fair value sensitivity analysis for fixed rate instruments

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

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would not have increased (decreased) profit or loss because the Group uses the cross currency interest rate swaps to transform variable rate liability into fixed -rate liability.

(e) Fair value of financial instruments

Management believes that the fair value of the Group's financial assets and liabilities at 31 December 2010 approximates their carrying value.

Interest rates used for determining fair value

The interest rates used to discount estimated cash flows, where applicable, are based on the government yield curve at the reporting date plus an adequate credit spread, and were as follows:

	2010	**2009**
Derivatives	4.9% - 8.18%	-
Loans and borrowings	4.3% - 12.3%	6.2% - 12.3%

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)

Thousands of Russian Roubles, unless otherwise stated

	Level 1	Level 2	Level 3	Total
31 December 2010				
Available-for-sale financial assets	86,590	-	-	86,590
	86,590	**-**	**-**	**86,590**
Interest rate swaps used for hedging	-	245,794	-	245,794
Forward exchange contracts	-	308,186	-	308,186
	-	**553,980**	**-**	**553,980**

	Level 1	Level 2	Level 3	Total
31 December 2009				
Available-for-sale financial assets	63,653	-	-	63,653
	63,653	**-**	**-**	**63,653**

(f) Capital risk management

The following capital requirements have been established for joint stock companies by the legislation of Russian Federation:

- Share capital can not be lower than 1,000 minimum salaries on the date of company registration;
- If the share capital of the entity is greater than statutory net assets of the entity, such entity must decrease its share capital to the value not exceeding its net assets;
- If the minimum allowed share capital is greater than statutory net assets of the entity, such entity is subject to liquidation, if not rectified within 6 months after the year end.

As at 31 December 2010, the Group has been in compliance with the above share capital requirements.

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 for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

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

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

	31 December 2010	31 December 2009
Total borrowings (Note 14)	20,739,192	18,438,482
Less: Cash and cash equivalents (Note 11)	(536,641)	(1,011,419)
Net debt	20,202,551	17,427,063
Equity	64,942,827	61,068,812
Debt to equity ratio	**31.11%**	**28.54%**

23 COMMITMENTS

(a) Fuel commitments

The Group has entered into several long-term contracts for the supply of gas and coal that will be used in the ordinary course of the Group's activities. The pricing terms of these contracts are based on market prices.

The Group has entered into the contracts for the supply of gas for the needs of the Group's plants – Nevinnomysskaya SDPP, Konakovskaya SDPP and Sredneuralskaya SDPP.

(b) Capital commitments

Future capital expenditure for which contracts have been signed amounted to RUB 7,706,988 thousand at 31 December 2010 (at 31 December 2009: RUB 13,159,132 thousand).

24 CONTINGENCIES

(a) Political environment

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

(b) Insurance

The Group holds limited insurance policies in relation to its assets, operations, public liability or other insurable risks. Accordingly, the Group is exposed to those risks which are not covered by the existing insurance policies.

(c) Tax contingency

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

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

(d) Environmental matters

The Group and its predecessor 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. The Group periodically evaluate its obligations under environmental regulations.

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

Due to the attraction of financing for an investment project to construct a new combined cycle gas turbine unit with a capacity of 410 MW at Nevinnomysskaya SDPP, the Group undertook to follow EU environmental standards.

Thousands of Russian Roubles, unless otherwise stated

This circumstance significantly reduces the risks of the Company as well as the fact that the Company is a material subsidiary of the Enel Group, which pays special attention to environmental and safety matters.

25 RELATED PARTIES DISCLOSURES

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

In the normal course of business the Group enters into transactions with related parties.

Related parties include shareholders, directors, subsidiaries and enterprises controlled by the state.

Transactions with Enel Group

For the year ended 31 December 2010 the Group had the following transactions with Enel Group entities:

	For the year ended 31 December 2010	For the year ended 31 December 2009
Sale of electricity	866,354	933,739
Other revenue	3,544	8,729

As at 31 December 2010 the Group had the following balances with Enel Group entities:

	31 December 2010	31 December 2009
Trade and other receivables	6 127	63,254
Advances issued for capital construction	296,881	1,225,133
Trade and other payables	(431,755)	(113,983)

Transactions with state controlled entities

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

For the year ended 31 December 2010 the Group had the following transactions with state controlled entities:

	For the year ended 31 December 2010	For the year ended 31 December 2009
Sale of electricity	1,826,217	2,237,928
Sale of heat	249,892	210,558
Other revenue	31,519	104,551
Purchase of fuel	(12,298,587)	(8,745,580)
Purchase of raw materials and supplies	(1,312)	(4,417)
Purchase of property, plant and equipment	(2,646,893)	(528,422)
Other expenses	(1,014,660)	(1,914,310)
Finance income	-	-
Finance expense	-	(135,615)

As at 31 December 2010 the Group had the following balances with state controlled entities:

Thousands of Russian Roubles, unless otherwise stated

	31 December 2010	31 December 2009
Trade and other receivables (net of allowance for impairment of receivables)	2,042,114	2,411,300
Trade and other payables	(646,882)	(660,775)

Transactions with other related parties

Transactions with other related parties represent transactions with the pension fund of energy industry (NPF Electroenergetiki).

	For the year ended 31 December 2010	For the year ended 31 December 2009
Other sales	-	140
Other expense	218,240	597,000

As at 31 December 2010 and 2009 the Group had not balances with other related parties.

Transactions with key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

Total remuneration accrued to the members of the Board of Directors and Management Board For the year ended 31 December 2010 and 2009 was as follows:

	For the year ended 31 December 2010	For the year ended 31 December 2009
Remuneration	25,603	22,375

There were no loans provided to key management personnel during the year ended 31 December 2010.

At 31 December 2010 there were 11 members of the Board of Directors and 4 members of the Management Board.