Joint Stock Company
Territorial Generating Company №1
and its subsidiaries

Brief Intermediate Consolidated Financial Statements
prepared in accordance with
International Financial Reporting Standards
for THREE MONTHS ended 31 March 2011

(in thousands of Russian Roubles)

	Notes	31 March 2011	31 December 2010
ASSETS			
Non-current assets			
Property, plant and equipment	6	100 331 617	99 019 521
Long-term investments	7	48 310	48 310
Deferred tax assets		577 818	592 472
Other non-current assets	8	531 879	592 174
Total non-current assets		**101 489 624**	**100 252 477**
Current assets			
Cash and cash equivalents	9	219 503	277 218
Short-term investments	10	254 909	6 201
Accounts receivable and prepayments	11	19 238 266	10 762 658
Inventories	12	2 267 131	2 538 368
Total current assets		**21 979 809**	**13 584 445**
Assets held for sale		-	184 324
TOTAL ASSETS		**123 469 433**	**114 021 246**
EQUITY AND LIABILITIES			
Equity			
Share capital	13	38 543 414	38 543 414
Share premium		22 913 678	22 913 678
Merger reserve		(6 086 949)	(6 086 949)
Fair value reserve		-	-
Retained earnings		24 713 412	20 075 786
Equity attributable to the shareholders of TGC-1		**80 083 555**	**75 445 929**
Non-controlling interest		(139 900)	(141 705)
TOTAL EQUITY		**79 943 655**	**75 304 224**
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities		6 014 745	5 897 255
Long-term borrowings	14	17 419 178	16 294 201
Post-employment benefits obligations		921 378	891 661
Total non-current liabilities		**24 355 301**	**23 083 117**
Current liabilities			
Short-term borrowings and current portion of long-term borrowings	15	8 142 131	6 905 720
Accounts payable and accrued liabilities	16	6 889 954	7 711 142
Current income tax payable		218 445	444 950
Other taxes payable	17	3 919 947	572 093
Total current liabilities		**19 170 477**	**15 633 905**
TOTAL LIABILITIES		**43 525 778**	**38 717 022**
TOTAL EQUITY AND LIABILITIES		**123 469 433**	**114 021 246**

General Director Filippov A.N.

Chief Accountant Stanishevskaya R.V.

(in thousands of Russian Roubles)

	Notes	Three months ended 31 March 2011	Three months ended 31 March 2010
Revenue			
Sales of electricity		10 860 293	7 850 233
Sales of heat		10 255 445	9 467 521
Other sales		59 596	130 534
Total revenue		**21 175 334**	**17 448 288**
Operating expenses, net	18	(16 075 883)	(13 645 983)
Total operating expenses		**(16 075 883)**	**(13 645 983)**
Operating profit		**5 099 451**	**3 802 305**
Finance income	19	1 954	93 073
Finance costs	19	(182 410)	(247 121)
Finance costs, net		**(180 456)**	**(154 048)**
Profit before income tax		**4 918 995**	**3 648 257**
Income tax charge		(279 564)	(611 550)
Profit for the year		**4 639 431**	**3 036 707**
Other comprehensive income			
Net change in fair value of available-for-sale investments	10	-	(201 815)
Income tax on other comprehensive income		-	40 363
Other comprehensive income for the year, net of tax		**-**	**(161 452)**
Total comprehensive income for the year, net of tax		**4 639 431**	**2 875 255**
Profit for the year attributable to:			
Shareholders of TGC-1		4 637 626	3 036 707
Non-controlling interests		1 805	-
Profit for the year		**4 639 431**	**3 036 707**
Total comprehensive income attributable to:			
Shareholders of TGC-1		4 637 626	2 875 255
Non-controlling interests		1 805	-
Total comprehensive income		**4 639 431**	**2 875 255**

(in thousands of Russian Roubles)

	Three months ended 31 March 2011	Three months ended 31 March 2010
Cash flows from operating activities		
Profit before income tax	4 918 995	3 648 257
Adjustments to non-cash items	1 272 804	850 233
Operating cash flows before working capital changes	**6 191 799**	**4 498 490**
Capital changes	(5 377 596)	(1 711 159)
Cash generated from operations	**814 203**	**2 787 331**
Income tax paid and interest paid	(686 197)	(488 756)
Total cash generated from operations	**128 006**	**2 298 575**
Net cash used in investing activities	**(2 550 659)**	**(3 590 539)**
Net cash (used in)/from financing activities	**2 364 938**	**1 550 622**
Net (decrease)/increase in cash and cash equivalents	**(57 715)**	**258 658**
Cash and cash equivalents at the beginning of the period	**277 218**	**579 574**
Cash and cash equivalents at the end of the period	**219 503**	**838 232**

(in thousands of Russian Roubles)

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

(in thousands of Russian Roubles)

Comprehensive income									
Profit/(loss)						4 637 626	**4 637 626**	**1 805**	**4 639 431**
Other comprehensive income	-	-	-	-	-	-	**-**	**-**	**-**
Net change in fair value of available-for-sale investments	-	-	-	-	-	-	**-**	**-**	**-**
Income tax on other comprehensive income	-	-	-	-	-	-	**-**	**-**	**-**
Total other comprehensive income	-	-	-	-	-	-	**-**	**-**	-
Total comprehensive income	**-**	**_**	**-**	**-**	-	**4 637 626**	**4 637 626**	**1 805**	**4 639 431**
Balance at 31 March 2011	**38 543 414**	**-**	**22 913 678**	**(6 086 949)**	**-**	**24 713 412**	**80 083 555**	**(139 900)**	**79 943 655**

Note 1. The Group and its operations

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

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

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

Operating environment

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

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

Relations with the State and current regulation

As at 31 March 2011 the Group is controlled by Gazprom Group (51.79%) via its subsidiary LLC “Gazprom energoholding”. Other significant shareholder of the Group as at 31 March 2011 is Fortum Power and Heat Oy (25.7%). Gazprom Group, in its turn, is controlled by the Russian Federation; therefore, the Russian Government is the ultimate controlling party of the Group as at 31 March 2010 and 2009.

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

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

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

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

Financial condition

As at 31 March 2011, the Group's current liabilities exceeded its current assets by RUB 2 809 332 (as at 31 March 2010 the Group's current liabilities exceeded its current assets by RUB 609 914 thousand). Management plans to find the necessary financial resources to increase its current assets.

Note 2. Basis of preparation

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) under the historical cost convention except as described below. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

The Group maintains its own books of accounts and prepares its statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation (RAR). These consolidated financial statements are based on the statutory records and adjusted and reclassified for the purpose of fair presentation in accordance with IFRS.

Functional and presentation currency

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

Going concern

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

Note 3. Critical Accounting Estimates and assumption

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

Provision for impairment of property, plant and equipment

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

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

Useful lives of property, plant and equipment

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

Recoverability of accounts receivable

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

Note 4. Summary of significant accounting polices

Principles of consolidation

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

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

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

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

Foreign currency

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

As at 31 March 2011, the official rate of exchange, as determined by the Central Bank of the Russian Federation, between the Russian Rouble and the US Dollar ("USD") was RUB 28.4290 (31 December 2010 RUB 30.4769: USD 1), between the Russian Rouble and Euro: RUB 40.0223 (31 December 2010 RUB 40.3331: EURO 1).

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

Property, plant and equipment

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

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

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the difference is recognized as an expense (impairment loss) in the profit or losses. An impairment loss recognized in prior periods is reversed if there has been a positive change in the estimates used to determine an asset's recoverable amount.

(in thousands of Russian Roubles)

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

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

Depreciation of property, plant and equipment is calculated on a straight-line basis over the estimated useful life of the asset when it is available for use. Depreciation commences on the date of acquisition, or in respect of internally constructed assets, from the time the asset is completed and ready for use.

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

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

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

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

Cash and cash equivalents

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

Inventories

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

Value added tax on purchases and sales

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

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

Accounts receivable

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

Group considers whether a receivable is impaired is its overdue status and realizability of related collateral, if any. The following are the other principal criteria used to determine whether there is objective evidence that an impairment loss has occurred:

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

Prepayments

Prepayments are carried at cost less any provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after more than one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other prepayments offset when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognized in profit or loss.

Classification, recognition and measurement of financial assets

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

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term.

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

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

Classification of financial liabilities

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

Initial recognition of financial instruments

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

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

Derecognition of financial assets

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

Accounts payable and accrued liabilities

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

Borrowings

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

Non-controlling interest

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

Provisions for liabilities and charges

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

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

Pension and post-employment benefits

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

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

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

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

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

Income tax

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

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

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

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

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

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

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

Revenue recognition

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

Operating lease

Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or losses on a straight-line basis over the period of the lease. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

Equity

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

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

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

Environmental liabilities

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

Earnings per share

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

Segment reporting

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

Seasonality

Demand for electricity and heat is influenced by both the seasons of the year and the relative severity of the weather. Revenues from sales of heat are concentrated within the months of October to March. A similar, although less intense, concentration of electricity sales occurs within the same period. The seasonality of electricity and heat production has a corresponding impact on the usage of fuel and the purchase of power.

Furthermore, during the periods of lower production from April to September, there is an increase in the expenditures on repairs and maintenance. This seasonality does not impact the revenue or cost recognition policies of the Group.

Borrowing costs

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

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

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

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

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

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

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

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

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2010, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective.

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

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

(in thousands of Russian Roubles)

Note 6. Property, Plant and Equipment

Cost	Production buildings	Hydrotechnical buildings	Generating equipment	Heating networks	Construction in progress	Other	Total
Balance as at 31 December 2010	**17 576 894**	**16 644 373**	**28 521 382**	**31 453 991**	**31 415 949**	**20 414 722**	**146 027 311**
Effect of reclassifications	(70 180)	-	2 727 367	(186 256)	-	(2 470 931)	-
Balance as at 31 December 2010 including reclassifications	**17 506 714**	**16 644 373**	**31 248 749**	**31 267 735**	**31 415 949**	**17 943 791**	**146 027 311**
Additions	14 587	-	1 189	554	2 316 732	11 644	2 344 706
Transfers	14 941	-	102 472	49 324	(780 462)	613 725	--
Disposals	(28 956)	-	(3 289)	-	(49 757)	(3 574)	(85 576)
Balance as at 31 March 2011	**17 507 286**	**16 644 373**	**31 349 121**	**31 317 613**	**32 902 462**	**18 565 586**	**148 286 441**
Accumulated depreciation							
Balance as at 31 December 2010	**(5 271 431)**	**(6 972 277)**	**(8 083 841)**	**(15 244 018)**	**(46 946)**	**(11 389 277)**	**(47 007 790)**
Effect of reclassifications	1 083	-	(2 433 404)	31 747	-	2 400 574	-
Balance as at 31 December 2010 including reclassifications	**(5 270 348)**	**(6 972 277)**	**(10 517 245)**	**(15 212 271)**	**(46 946)**	**(8 988 703)**	**(47 007 790)**
Charge for the year	(187 245)_	(69 447)	(276 491)	(224 910)	-	(200 803)	(958 896)
Disposals	6 251	-	2 511	-	-	3 100	11 862
Balance as at 31 March 2011	**(5 451 342)**	**(7 041 724)**	**(10 791 225)**	**(15 437 181)**	**(46 946)**	**(9 186 406)**	**(47 954 824)**
Net book value as at 31 December 2010 including reclassifications	**12 305 463**	**9 672 096**	**20 437 541**	**16 209 973**	**31 369 003**	**9 025 445**	**99 019 521**
Net book value as at 31 March 2011	**12 055 944**	**9 602 649**	**20 557 896**	**15 880 432**	**32 855 516**	**9 379 180**	**100 331 617**

(in thousands of Russian Roubles)

Cost	Production buildings	Hydrotechnical buildings	Generating equipment	Heating networks	Construction in progress	Other	Total
Balance as at 31 December 2009	**15 028 980**	**16 632 842**	**19 071 275**	**30 269 991**	**34 727 285**	**17 933 131**	**133 663 504**
Additions	-	-	1 721	-	2 804 171	19 669	2 825 561
Transfers	3 089	-	16 347	458 992	(692 467)	214 039	-
Disposals	(650)	-	(10 446)	(87 515)	(43 287)	(127 455)	(269 353)
Balance as at 31 March 2010	**15 031 419**	**16 632 842**	**19 078 897**	**30 641 468**	**36 795 702**	**18 039 384**	**136 219 712**

Balance as at 31 December 2009	**(4 789 906)**	**(6 499 637)**	**(7 398 212)**	**(18 963 038)**	**(56 439)**	**(10 993 634)**	**(48 700 866)**
Charge for the year	(176 653)	(119 362)	(174 154)	(168 126)	-	(178 899)	(817 194)
Disposals	171	-	10 005	69 474	-	97 106	176 756
Balance as at 31 March 2010	**(4 966 388)**	**(6 618 999)**	**(7 562 361)**	**(19 061 690)**	**(56 439)**	**(11 075 427)**	**(49 341 304)**
Net book value as at 31 December 2009	**10 239 074**	**10 133 205**	**11 673 063**	**11 306 953**	**34 670 846**	**6 939 497**	**84 962 638**
Net book value as at 31 March 2010	**10 065 031**	**10 013 843**	**11 516 536**	**11 579 778**	**36 739 263**	**6 963 957**	**86 878 408**

(in thousands of Russian Roubles)

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

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

As at 31 March 2011 the advances given to contractors, which amounted to RUB 3 327 647 thousand, net of VAT (as at 31 December 2010: 2 749 378 RUB thousand), are recognized within construction in progress balance. The respective input VAT is recognized within other non-current assets balance (see Note 8) and within accounts receivable and prepayments (see Note 11).

As at 31 March 2011 The Group has no property, plant and equipment pledged as collateral according to loan agreements (as at 31 December 2010 The Group had no property, plant and equipment pledged as collateral according to loan agreements).

Total amount of capitalized interests for three months ended 31 March 2011 is RUB 368 741 thousand (for the year ended 31 December 2010: RUB 1 893 917 thousand).

Note 7. Long-term Investments

	31 March 2011	31 December 2010
Investments in OJSC “Hibinskaya TK”	48 300	48 300
Other	10	10
Total investments	**48 310**	**48 310**

Note 8. Other Non-Current Assets

	31 March 2011	31 December 2010
Long-term receivables (interest free)	5 579	7 479
Loan issued	27 097	24 003
Promissory notes	24 999	8 892
Total financial receivables		**40 374**
Intangible assets	411 858	458 420
VAT in prepayments on capital construction	62 346	93 380
Total other non-current assets	**531 879**	**592 174**

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

Note 9. Cash and Cash Equivalents

	31 March 2011	31 December 2010
Cash in bank and in hand in RUB	125 008	179 629
Foreign currency accounts in Euro	94 495	97 589
Total cash and cash equivalents	**219 503**	**277 218**

Note 10. Short-term Investments

	31 March 2011	31 December 2010
Banks promissory notes	247 909	-
Loan issued	7 000	6 201
Total short-term investments	**254 909**	**6 201**

As at 31 December 2010 the shares of OJSC “Inter RAO UES” were sold for the total amount of RUB 456 477 thousand. As the result of this transaction the fair value reserve previously recognized in other comprehensive income for the total amount of RUB 201 815 thousand was reclassified to other operating income. The financial result of RUB 212 411 thousand was reflected as a gain from disposal of investments (see Note 18).

(in thousands of Russian Roubles)

Note 11. Accounts Receivable and Prepayments

	31 March 2011	31 December 2010
Trade receivables, net of provision for impairment of RUB 473 369 thousand (31 December 2010: RUB 476 029 thousand)	15 659 325	9 157 203
Other receivables, net of provision for impairment of RUB 30 400 thousand (31 December 2010: RUB 30 400 thousand)	344 535	213 531
Total financial receivables	**16 003 860**	**9 370 734**
Value-added tax receivables	3 134 703	1 293 818
Advances to suppliers	93 639	55 828
Other taxes receivable	6 064	42 278
Total accounts receivable and prepayments	**19 238 266**	**10 762 658**

Note 12. Inventories

	31 March 2011	31 December 2010
Fuel	1 410 201	1 710 532
Spare parts	425 989	388 318
Raw materials and other supplies	430 941	439 518
Total inventories	**2 267 131**	**2 538 368**

Raw materials and other supplies are recorded net of provision for impairment in the amount of RUB 34 248 thousand (31 December 2010: RUB 34 248 thousand).

Note 13. Equity

Share capital

The Group's share capital as at 31 March 2011 and as at 31 March 2010 was RUB 38 543 414 thousand comprising 3 854 341 417 ordinary shares with a par value of RUB 0.01. All shares authorized are issued and fully paid.

Dividends

In accordance with the Russian legislation, the Group distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of financial statements prepared in accordance with Russian Accounting Rules. The statutory accounting reports of the Company are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the net profit

(in thousands of Russian Roubles)

Note 14. Long-term Borrowings

	Currency	Effective interest rate	Maturity	31 March 2011	31 December 2010
Long-term bonds	RUB	16.99%	2014	5 000 000	5 000 000
Long-term bonds	RUB	8.5%	2014	924 376	923 126
NORDIC Investment Bank	Euro	EURIBOR + 3%	2014	554 153	651 535
Nordic Environment Finance Corporation	Euro	EURIBOR + 2.00%	2015	80 047	90 750
AB Russia	RUB	7.2%	2013	1 200 000	1 200 000
TransCreditBank	RUB	6.5%	2013	1 696 727	1 969 405
Barclays bank	RUB	6.9%	2012	1 000 000	1 000 000
VTB North-West	RUB	6.8-6.95%	2012-2016	3 841 200	4 700 600
Sberbank RF	RUB	6.7-6.9%	2012-2013	7 200 000	3 700 000
Unicreditbank	RUB	6.8%	2012	1 124 505	1 124 505
Alfabank	RUB	6.8%	2012	2 000 000	2 000 000
				24 621 008	**22 359 921**
Less: current portion					
Long-term bonds issued				(5 000 000)	(5 000 000)
NORDIC Investment Bank				(184 718)	(186 153)
Nordic Environment Finance Corporation				(20 012)	(20 167)
VTB North-West		6.95-6.99%		(1 997 100)	(859 400)
Total long-term borrowings				**17 419 178**	**16 294 201**

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

Compliance with covenants

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

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

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

(in thousands of Russian Roubles)

Note 15. Short-Term Borrowings and Current Portion of Long-Term Borrowings

Name of lender	Currency	Effective interest rate	31 March 2011	31 December 2010
VTB North-West	RUB	7.02-9.7%	940 300	840 000
Current portion of long-term borrowings:				
Long-term bonds issued	RUB	16.99%	5 000 000	5 000 000
Nordic Environment Finance Corporation	Euro	EURIBOR+2.00%	20 012	20 167
NORDIC Investment Bank	Euro	EURIBOR+3%	184 718	186 153
VTB North-West	RUB	6.95-7.1%	1 997 101	859 400
Total short-Term Borrowings			**8 142 131**	**6 905 720**

Note 16. Accounts Payable and Accrued Liabilities

	31 March 2011	31 December 2010
Trade accounts payable	3 710 526	3 403 848
Accounts payable for capital construction	1 228 817	2 428 919
Accrued liabilities and other payables	324 504	364 329
Interest accrued on loans	237 343	56 445
Total financial payables	**5 501 190**	**6 253 541**
Advances from customers	996 787	1 115 330
Employee benefits	391 977	342 271
Total accounts payable and accrued liabilities	**6 889 954**	**7 711 142**

Note 17. Other Taxes Payable

	31 March 2011	31 December 2010
Property tax	240 467	174 375
Water usage tax	13 471	13 643
Employee taxes	123 845	54 429
VAT provision	3 447 275	233 811
Other taxes	94 889	95 835
Total taxes Payable	**3 919 947**	**572 093**

(in thousands of Russian Roubles)

Note 18. Operating Expenses, net

	Three months ended 31 March 2011	Three months ended 31 March 2010
Fuel	9 174 361	8 293 715
Employee benefits	1 554 898	1 376 678
Electricity and heat purchases	1 866 861	1 359 426
Depreciation of property, plant and equipment and intangible assets	1 024 712	817 194
Repairs and maintenance	180 773	79 709
Water usage expenses	531 217	559 554
Heat distribution	225 541	165 315
Taxes other than income tax	223 293	255 534
Dispatcher's fees	180 728	153 933
Other materials	90 765	103 553
Lease expenses	81 861	126 461
Insurance cost	48 367	58 328
Provision for impairment of accounts receivable	(2 490)	4 279
(Gain)/Loss from sale of investments	-	(212 411)
Other operating income	(37 933)	(120 741)
Other operating expenses	932 929	625 456
Total operating expenses, net	**16 075 883**	**13 645 983**

Note 19. Finance income and finance costs

	Three months ended 31 March 2011	Three months ended 31 March 2010
Interest expense	181 563	247 121
Interest income	(222)	(1 707)
Effect of discounting	847	(3 294)
Exchange differences	(1732)	(88 072)
Finance costs	**180 456**	**154 048**

Note 20. Events after the reporting period

Loans

For the period from 1 April 2011 till 10 June 2011 the Group repaid its short-term borrowings outstanding as at 31 December 2010 for the total amount of RUB 4 243 026 thousand.