OJSC Territorial Generation Company №11

Consolidated Financial Statements
for the year ended 31 December 2010

Contents

KPMG

ZAO KPMG
Naberezhnaya Tower Complex, Block C
10 Presnenskaya Naberezhnaya
Moscow, Russia 123317

Telephone +7 (495) 937 4477
Fax +7 (495) 937 4400/99
Internet www.kpmg.ru

Independent Auditors' Report

To the Board of Directors of Open Joint-Stock Company Territorial Generation Company №11 (OJSC TGC-11)

We have audited the accompanying consolidated financial statements of OJSC TGC-11 (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 relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

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

ZAO KPMG

ZAO KPMG

25 March 2011

(in '000 RUB)

	Note	2010	2009
ASSETS			
Non-current assets			
Property, plant and equipment	10	15 459 317	15 127 849
Intangible assets		75 896	149 234
Prepayments	13	17 662	30 065
Trade and other receivables	12	12 938	61 786
Total non-current assets		**15 565 813**	**15 368 934**
Current assets			
Inventories	11	725 045	969 498
Trade and other receivables	12	1 957 149	2 184 397
Prepayments	13	56 905	121 478
Income tax receivable		15 113	14 650
VAT recoverable		10 312	7 534
Loans given	14	-	250 000
Cash and cash equivalents	15	153 075	7 076
Total current assets		**2 917 599**	**3 554 633**
Total assets		**18 483 412**	**18 923 567**

The Consolidated Statement of Financial Position is to be read in conjunction with the notes to, and forming part of, the Consolidated Financial Statements set out on pages 10 to 43.

(in '000 RUB)

	Note	2010	2009
EQUITY			
Share capital	16	5 128 277	5 128 277
Treasury shares	16	(20 671)	(20 671)
Additional paid-in capital	16	125 590	125 590
Retained earnings		7 280 359	7 407 147
Total equity		**12 513 555**	**12 640 343**
LIABILITIES			
Non-current liabilities			
Loans and borrowings	17	1 730 810	1 002 794
Employee benefits	18	492 173	279 024
Provisions	19	86 165	79 048
Deferred tax liabilities	9	1 158 244	1 096 718
Total non-current liabilities		**3 467 392**	**2 457 584**
Current liabilities			
Loans and borrowings	17	907 155	2 121 052
Trade and other payables	20	583 479	960 184
Income tax payable		-	4 653
Other taxes payable	22	479 008	202 006
Advances from customers		212 059	195 594
Employee payables	21	279 333	255 367
Provisions	19	41 431	86 784
Total current liabilities		**2 502 465**	**3 825 640**
Total liabilities		**5 969 857**	**6 283 224**
Total equity and liabilities		**18 483 412**	**18 923 567**

General Director — Kozhemyako S.I.

Chief Accountant — Chizhenko I.V.

25 March 2011

The Consolidated Statement of Financial Position is to be read in conjunction with the notes to, and forming part of, the Consolidated Financial Statements set out on pages 10 to 43.

(in '000 RUB)

	Note	2010	2009
Revenue	6	19 322 708	17 394 025
Other operating income	6	208 216	215 674
Operating expenses	7	(19 334 984)	(16 766 194)
Results from operating activities		**195 940**	**843 505**
Finance income	8	18 062	49 730
Finance costs	8	(260 988)	(338 519)
Net finance costs		**(242 926)**	**(288 789)**
(Loss)/profit before income tax		**(46 986)**	**554 716**
Income tax (expense)/benefit	9	(79 802)	403 459
(Loss)/profit for the year		**(126 788)**	**958 175**
Total comprehensive (loss)/income for the year		**(126 788)**	**958 175**
(Loss)/earnings per ordinary share: basic and diluted (in RUB per share)	16	**(0.0002)**	**0.0019**

The Consolidated Statement of Comprehensive Income is to be read in conjunction with the notes to, and forming part of, the Consolidated Financial Statements set out on pages 10 to 43.

(in '000 RUB)

	Note	2010	2009
OPERATING ACTIVITIES			
(Loss)/profit before income tax		**(46 986)**	**554 716**
Adjustments for:			
Depreciation and impairment loss	7	1 317 466	1 001 463
Allowance for impairment of accounts receivable	7	346 385	505 980
Past service cost and actuarial gain		174 843	(102)
Provisions		45 742	(8 522)
Loss on disposal of property, plant and equipment		1 148	17 597
Net finance costs		242 926	288 789
Adjustments for other non-cash transactions		88 501	42 910
Operating profit before changes in working capital, income taxes and interest paid		**2 170 025**	**2 402 831**
Changes in working capital:			
Increase in trade and other receivables		(55 438)	(801 858)
Decrease/(increase) in inventories		244 453	(268 310)
Decrease/(increase) in prepayments		68 950	(36 971)
Increase in VAT recoverable		(2 778)	(2 484)
(Decrease)/increase in trade and other payables		(386 387)	298 719
Increase/(decrease) in other taxes payable		277 002	(220 395)
(Decrease)/increase in employee payables		(3 585)	24 969
Decrease in employee benefits		(7 137)	(2 154)
Decrease in provisions		(61 544)	-
Increase in advances from customers		16 465	447
Cash flows from operating activities before income taxes and interest paid		**2 260 026**	**1 394 794**
Interest paid		(248 568)	(386 172)
Income tax (paid)/reimbursed		(29 782)	195 680
Net cash flows from operating activities		**1 981 676**	**1 204 302**

The Consolidated Statement of Cash Flows is to be read in conjunction with the notes to, and forming part of, the Consolidated Financial Statements set out on pages 10 to 43.

(in '000 RUB)

	Note	2010	2009
INVESTING ACTIVITIES			
Acquisition of property, plant and equipment		(1 585 799)	(2 628 175)
Proceeds from disposal of property, plant and equipment		1 640	8 636
Acquisition of intangible assets		(14 453)	(2 504)
Loans repaid		250 000	250 000
Other		724	3 168
Net cash flows used in investing activities		**(1 347 888)**	**(2 368 875)**
FINANCING ACTIVITIES			
Proceeds from loans and borrowings		15 602 850	11 642 760
Repayment of loans and borrowings		(16 064 513)	(10 345 748)
Dividends paid		(332)	(1 389)
Repayment of principal finance lease liabilities		(25 794)	(36 148)
Shares transferred to LLC Neft-Aktiv	16	-	(109 963)
Net cash flows (used in)/ from financing activities		**(487 789)**	**1 149 512**
Net increase/(decrease) in cash and cash equivalents		**145 999**	**(15 061)**
Cash and cash equivalents at 1 January		7 076	22 137
Cash and cash equivalents at 31 December	15	**153 075**	**7 076**

The Consolidated Statement of Cash Flows is to be read in conjunction with the notes to, and forming part of, the Consolidated Financial Statements set out on pages 10 to 43.

(in '000 RUB)

		Attributable to equity holders of TGC-11				
	Note	**Share capital**	**Treasury shares**	**Additional paid-in capital**	**Retained earnings**	**Total equity**
At 1 January 2009		5 128 277	(20 671)	125 590	6 558 935	**11 792 131**
Total comprehensive income for the year		-	-	-	958 175	**958 175**
Shares transferred to LLC Neft-Aktiv	16	-	-	-	(109 963)	**(109 963)**
At 31 December 2009		**5 128 277**	**(20 671)**	**125 590**	**7 407 147**	**12 640 343**
Total comprehensive loss for the year		-	-	-	(126 788)	**(126 788)**
At 31 December 2010		**5 128 277**	**(20 671)**	**125 590**	**7 280 359**	**12 513 555**

The Consolidated Statement of Changes in Equity is to be read in conjunction with the notes to, and forming part of, the Consolidated Financial Statements set out on pages 10 to 43.

1 Background

(a) The Group and its operations

OJSC Territorial Generation Company №11 (hereinafter – "TGC-11") was established on 26 August 2005 in the framework of the reform of the Russian power industry. The reorganization of TGC-11 was completed on 1 November 2007 as a result of the merger of OJSC Omsk Electricity Generation Company (hereinafter – "OEGC") and JSC Tomskenergo (hereinafter – "Tomskenergo") with TGC-11.

The registered office of TGC-11 is located at 5 Sovetskaya, Novosibirsk, 630007, Russia.

As at 31 December 2010 and 2009 OJSC Territorial Generation Company №11 Group (hereinafter - the "Group") comprises TGC-11 and its subsidiaries:

	Ownership, %
OJSC Production and Repairs Enterprise Omskenergoremont	100
OJSC Engineering and Construction Company	100
OJSC Energoservis	100
LLC SibEnergoFinance	100

The Group's main operating activity is electricity and heat generation.

(b) 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.

(c) Government regulation of tariffs for electricity and heat energy

The government affects financial and business activities of the Group by controlling tariffs for electricity and heat energy. The Federal Tariff Agency or Regional Energy Commissions do not always approve increase of tariffs in line with the increase of the Group's expenses; therefore, certain tariffs may not be sufficient to cover all the Group's power generation expenses. Tariffs are determined based on the expenses calculated in accordance with Russian Accounting Standards.

Produced electricity in excess of volumes sold at regulated tariffs is realized at market prices on non-regulated market.

2 Basis of preparation

(a) Statement of compliance

These consolidated financial statements (hereinafter – "Financial Statements") have been prepared in accordance with International Financial Reporting Standards (hereinafter – "IFRSs").

(b) Basis of measurement

These Financial Statements are prepared on the historical cost basis except for the valuation of property, plant and equipment acquired before 1 January 2006 at the fair value at the date of transition to IFRS in order to determine their deemed cost.

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble ("RUB"), which is the functional currency of all entities of the Group and the currency in which these Financial Statements are presented.

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

(d) Use of professional judgment, estimates and assumptions

The preparation of consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. 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.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the Financial Statements is included in the following notes:

- Note 24 – allowances for impairment of accounts receivable; and
- Note 23 – lease classification.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included in the following notes:

- Note 18 – employee benefits;
- Note 19 – provisions; and
- Note 25 – contingencies.

(e) Changes in accounting policies and presentation

(i) Accounting for leases of land

With effect from 1 January 2010, the Group changed its accounting policies in relation accounting for leases of land.

The amendment to IAS 17 *Leases* regarding the leases of land became effective from 1 January 2010. The amendment removed the earlier exemption which allowed leases of land to be classified as operating leases regardless of the length of the lease term. The amended guidance requires all existing leases of land to be reassessed and reclassified if necessary as finance leases if the finance lease classification criteria are met.

At 1 January 2010, the Group reassessed all existing land lease contracts and as a result it was assessed that existing land lease contracts do not qualify as finance leases and therefore, the classification was not changed (refer to Note 23).

(ii) ***Reclassifications***

Certain provisions of the Group related to settlements with employees presented in the consolidated financial statements for the year ended 31 December 2009 have been reclassified in order to ensure comparability with the presentation in the consolidated financial statements for the year ended 31 December 2010.

Current liabilities	2009 After reclassification	2009 Before reclassification	Difference
Provisions	86 784	220 954	(134 170)
Employee payables	255 367	121 197	134 170
			-

(f) New standards and interpretations early adopted

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 state controlled 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 management decided to apply the revised IAS 24 (2009) in relation to exemption from the disclosure of operations with government-related entities starting from consolidated financial statements for the year ended 31 December 2009.

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these Financial Statements, and have been applied consistently by Group entities, except as explained in Note 2 (e), which addresses changes in accounting policies. Certain comparative amounts have been reclassified to conform with the current year presentation (refer to Note 2 (e)).

(a) Basis of consolidation

Subsidiaries are the entities controlled by the Group. Control exists when the Group has the power to govern financial and operating policies of an entity to obtain benefits from its activities. In assessing control if potential voting rights that are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date control commences until the date when it ceases. The accounting policies of subsidiaries have been changed when necessary to align with the policies adopted by the Group.

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

(b) Foreign currency transactions

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into Russian roubles 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 in retranslation are recognised in profit or loss.

(c) Financial instruments

(i) Non-derivative financial assets

The Group initially recognises loans and receivables and deposits on the date that they are originated.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Loans and receivables

Loans and receivables are a category of financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Loans and receivables category comprise the following classes of assets: loans given, trade and other receivables and cash and cash equivalents.

Cash and cash equivalents comprise cash balances and call deposits with maturities at initial recognition of three months or less.

(ii) Non-derivative financial liabilities

All financial liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Group has the following non-derivative financial liabilities: loans and borrowings and trade and other payables.

Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

(d) Equity

Ordinary shares

Ordinary shares are classified as equity.

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.

Dividends

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

(e) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment at 1 January 2006, the date of transition to IFRSs, was determined by reference to its fair value at that date.

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, the costs of dismantling and removing the items and restoring the site on which they are located, 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.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within "other operating income" or "operating expense" 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 is based on the cost of an asset, less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

- Electricity and heat generation 25-70 years;
- Heating network 10-30 years;
- Other 10-40 years.

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(f) Intangible assets

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

Amortisation

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

- Informational systems 5-7 years.

Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(g) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's statement of financial position.

(h) Inventories

Inventories are measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories includes all actual acquisition costs, processing costs directly associated with manufacturing products (rendering services, performing work) and other costs incurred to bring inventories to their existing condition and location.

The cost of inventories is determined using the weighted average cost method.

(i) Impairment

(i) Financial assets

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

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

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

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

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

(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 that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

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

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.

(j) Employment benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans, including Russia's State pension fund, are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

(ii) 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 government 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.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in profit or loss.

The Group recognizes actuarial gains and losses arising as a result of adjustments of actuarial assumptions and exceeding 10% of the higher of the value of pension plan assets or recognised obligations under the pension plan, through recognition in profit or loss over the period of expected average remaining service lives.

The Group recognises gains and losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on curtailment comprises any resulting change in the fair value of plan assets, change in the present value of defined benefit obligation and any related actuarial gains and losses and past service cost that had not previously been recognised.

(iii) Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits other than pension plans is 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 the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on government 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 using the projected unit credit method. Any actuarial gains or losses are recognised in profit or loss in the period in which they arise.

(iv) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(k) 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.

(l) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and other sales taxes or duty.

(i) Rendering of services

Revenue is recognized on the delivery of electricity, heat and chemically treated water and on dispatch of non-utility services and repair and repair-construction work during the period. The tariffs for electricity and heat are approved by Federal Tariff Agency or Regional Energy Commissions.

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

(ii) Sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on dispatch of the goods.

(m) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the contingency no longer exists and the lease adjustment is known.

(n) Finance income and costs

Finance income comprises interest income on funds invested, dividend income, gains on the disposal of financial assets.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions and impairment losses recognised on loans given. 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.

Interest income and expenses on financial instruments are recognised in the profit or loss on a straight-line basis over the lifetime of the financial instrument using the effective interest method.

(o) Income tax

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:

- temporary differences on 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;
- temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to the 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 assets and liabilities, 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.

In accordance with the tax legislation of the Russian Federation, tax losses and current tax assets of a company in the Group may not be set off against taxable profits and current tax liabilities of other Group companies. In addition, the tax base is determined separately for each of the Group's main activities and, therefore, tax losses and taxable profits related to different activities cannot be offset.

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 earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to shareholders of TGC-11 by the weighted average number of shares outstanding during the period, adjusted for own shares held. The Group has not issued any instruments that potentially may dilute EPS.

(q) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenue and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's management in order to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Group's chief operating decision maker (the General Director of TGC-11) include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly head office expenses and income and expenses of TGC-11's subsidiaries.

(r) New Standards and interpretations not yet adopted

Other than those adopted early as explained in Note 2 (f), a number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2010, and have not been applied in preparing these Financial Statements. Of these pronouncements, potentially the following will have an impact on the Group' operations. The Group plans to adopt these pronouncements when they become effective.

- 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 phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during the first half of 2011. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant 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 value

A number of the Group's accounting policies and disclosures require the determination of fair value for assets and liabilities. Fair values have been determined for measurement and for 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) Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

(b) 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. For finance leases the market rate of interest is determined by reference to similar lease agreements.

5 Operating segments

The Group determined the following reportable segments:

- Generation (heat and energy production) in Omsk region;
- Generation (heat and energy production) in Tomsk region.

Based on the decision of the Board of Directors with the effect from 1 January 2010 gross profit adjusted for depreciation was determined as segment results for the Group's internal reporting purposes. Comparative information for the year ended 31 December 2009 has been re-presented accordingly.

Information of the Group's reportable segments results is presented in the tables below:

For the year ended 31 December 2010:

	Omsk	Tomsk	Total
External revenues	13 431 902	5 870 824	**19 302 726**
Inter-segment revenue	17 562	1 703	**19 265**
Depreciation	621 439	461 255	**1 082 694**
Reportable segment results	1 376 263	1 096 632	**2 472 895**

For the year ended 31 December 2009:

	Omsk	Tomsk	Total
External revenue	12 397 028	4 682 777	**17 079 805**
Inter-segment revenue	11 340	-	**11 340**
Depreciation	605 190	412 649	**1 017 839**
Reportable segment results	1 391 809	813 765	**2 205 574**

Reconciliations of reportable segment revenues and profit or loss:

Revenue	**2010**	**2009**
Total revenue for reportable segments	19 321 991	17 091 145
Unallocated	104 676	44 542
Elimination of inter-segment revenue	(19 265)	(11 340)
Other balancing items	(84 694)	269 678
Consolidated revenue	**19 322 708**	**17 394 025**

	2010	**2009**
Reportable segment results	**2 472 895**	**2 205 574**
Unallocated	(228 375)	(170 485)
Change in provisions for unused vacation and bonuses	(27 551)	(14 056)
Change in other provisions	43 353	(52 625)
Allowance for impairment of accounts receivable	(346 385)	(505 980)
Depreciation and impairment	(1 317 466)	(1 001 463)
Changes in employee benefits	(189 771)	(5 795)
Unrealized gain	(29 386)	(66 966)
Reversal of tax provision	-	75 203
Prior years income/losses	(32 303)	380 071
Write-off of SAP expenses	(88 516)	-
Other balancing items	(60 555)	27
Results from operating activities per IFRS	**195 940**	**843 505**
Net finance costs	(242 926)	(288 789)
(Loss)/profit before income tax	**(46 986)**	**554 716**

Balancing items include other adjustments added to transfer amounts determined in accordance with Russian accounting standards to IFRS.

For the year ended 31 December 2010 the amount of revenue from its major customer, CJSC Financial Settlement Center is equal to RUB 5 266 181 thousand (for the year ended 31 December 2009: RUB 2 431 730 thousand).

6 Revenue from operations

Revenue	**2010**	**2009**
Heating	10 092 094	9 510 959
Electricity	8 563 803	7 250 577
Water and condensate sales	165 488	130 213
Sales of chemically treated water	298 255	327 142
Repairs	130 779	43 434
Other revenue	72 289	131 700
	19 322 708	**17 394 025**

Other operating income	**2010**	**2009**
Fines and penalties under contracts	134 929	131 549
Operating lease income	47 551	40 364
Other operating income	25 736	43 761
	208 216	**215 674**

7 Operating expenses

	2010	2009
Fuel	8 996 687	7 187 349
Employee benefit expenses and payroll taxes	3 277 532	2 870 289
Other materials	1 325 812	1 485 794
Depreciation and impairment	1 317 466	1 001 463
Heat distribution	1 045 854	961 461
Purchased power	891 901	790 816
Water usage	572 178	526 504
Allowance for impairment of accounts receivable	346 385	505 980
Repair and maintenance	418 981	471 880
Taxes other than income tax	522 911	334 238
Rent	224 927	259 909
Abonent payment	158 962	163 588
Agent commission fee	-	136 368
Security	115 764	116 695
Transportation	87 984	74 758
Other operating expenses	683 299	672 867
Capitalized expenses	(651 659)	(793 765)
	19 334 984	**16 766 194**

8 Finance income and finance costs

	2010	2009
Finance income		
Interest income on loans	-	302
Interest income: effect of discounting	17 338	18 398
Other income	724	31 030
	18 062	**49 730**

Finance costs	2010	2009
Interest expense on borrowings	201 974	240 709
Impairment loss on loan given	-	50 736
Unwind of discount on site restoration provision	6 257	13 319
Interest expense: defined benefit obligation	45 443	19 311
Finance lease charges	7 314	14 444
	260 988	**338 519**

9 Income tax

The Group's applicable tax rate is the income tax rate of 20% for Russian companies.

	2010	2009
Current income tax		
Current year	(10 979)	(29 694)
(Under)/overprovided in prior periods	(7 297)	262 456
	(18 276)	232 762
Deferred tax		
Origination and reversal of temporary differences	(56 682)	(157 873)
Recognition of previously unrecognised tax losses	34 860	263 264
Change in PPE tax base	(39 704)	65 306
	(61 526)	170 697
Total income tax	**(79 802)**	**403 459**

Reconciliation of effective tax rate:

	2010		2009	
	'000 RUB	**%**	**'000 RUB**	**%**
(Loss)/profit before income tax	(46 986)	(100)	554 716	100
Income tax at applicable tax rate	9 397	20	(110 943)	(20)
(Under)/overprovided in prior periods	(7 297)	(15)	262 456	47
Net tax effect of other items which are not deductible /not taxable for taxation purposes	(77 058)	(164)	(76 624)	(13)
Recognition of previously unrecognised tax losses	34 860	74	263 264	47
Change in PPE tax base	(39 704)	(85)	65 306	12
	(79 802)	**(170)**	**403 459**	**73**

Income tax overprovided in prior periods in the amount of RUB 262 456 thousand is mainly related to the completion of legal process on income tax in favour of TGC-11 in 2009 (refer to next paragraph).

On 23 March 2009 the Western Siberia Federal District Arbitration Court made a decision in favour of TGC-11 on litigation with tax authorities in relation to deductibility of the amount of the operating expenses taken for tax purposes by OEGK in 2005 and 2006, including accelerated depreciation of property, plant and equipment operated in aggressive environment.

Therefore, during the year ended 31 December 2009 the Group recognized tax loss carry - forwards in the amount of RUB 1 316 320 thousand, which resulted in the income tax benefit in the amount of RUB 263 264 thousand.

Differences between the carrying amounts of assets and liabilities reported in the Financial Statements and their values for taxation purposes give rise to certain temporary differences. The tax effect of those temporary differences is measured at the rate of 20%.

	2010	2009
Tax effects of deductible temporary differences		
Provisions (including bonus and unused vacation provisions)	49 738	43 044
Inventory	7 561	5 591
Trade and other receivables	118 326	65 255
Tax loss carry-forwards	96 292	224 037
Other	4 962	14 376
	276 879	352 303
Tax effect of taxable temporary differences		
Property, plant and equipment	1 423 286	1 409 451
Other	11 837	39 570
	1 435 123	1 449 021
Net deferred tax liability	**1 158 244**	**1 096 718**

All movements in the temporary differences are recorded in profit and loss.

10 Property, plant and equipment

	Heat and electricity generation	Heat networks	Other	Construction in progress	Total
Cost as at 1 January 2009	**10 297 022**	**3 056 508**	**1 417 712**	**790 121**	**15 561 363**
Additions	-	-	-	3 079 741	3 079 741
Transfers	2 733 305	154 383	305 980	(3 193 668)	-
Disposals	(976)	(13 556)	(18 200)	(21 617)	(54 349)
As at 31 December 2009	**13 029 351**	**3 197 335**	**1 705 492**	**654 577**	**18 586 755**
Accumulated depreciation					
As at 1 January 2009	**(1 527 552)**	**(660 592)**	**(284 103)**	-	**(2 472 247)**
Depreciation charge	(621 880)	(233 225)	(146 358)	-	(1 001 463)
Disposals	754	9 589	4 461	-	14 804
As at 31 December 2009	**(2 148 678)**	**(884 228)**	**(426 000)**	-	**(3 458 906)**
Carrying amounts					
As at 1 January 2009	8 769 470	2 395 916	1 133 609	790 121	13 089 116
As at 31 December 2009	**10 880 673**	**2 313 107**	**1 279 492**	**654 577**	**15 127 849**

	Heat and electricity generation	Heat networks	Other	Construction in progress	Total
Cost as at 1 January 2010	**13 029 351**	**3 197 335**	**1 705 492**	**654 577**	**18 586 755**
Additions	-	-	-	1 651 722	1 651 722
Transfers	646 767	158 155	377 662	(1 182 584)	-
Disposals	(6 747)	-	(6 369)	-	(13 116)
As at 31 December 2010	**13 669 371**	**3 355 490**	**2 076 785**	**1 123 715**	**20 225 361**
Accumulated Depreciation					
As at 1 January 2010	**(2 148 678)**	**(884 228)**	**(426 000)**	**-**	**(3 458 906)**
Depreciation charge	(733 320)	(254 462)	(172 952)	-	(1 160 734)
Impairment	-	-	-	(156 732)	(156 732)
Disposals	4 658	-	5 670	-	10 328
As at 31 December 2010	**(2 877 340)**	**(1 138 690)**	**(593 282)**	**(156 732)**	**(4 766 044)**
Carrying amounts					
As at 1 January 2010	10 880 673	2 313 107	1 279 492	654 577	15 127 849
As at 31 December 2010	**10 792 031**	**2 216 800**	**1 483 503**	**966 983**	**15 459 317**

In 2010 capitalized borrowing costs amounted to RUB 39 955 thousand (2009: RUB 134 360 thousand), weighted average capitalization rate – 9.2% (2009: 15.3%).

As at 31 December 2010 capital construction objects with the carrying amount of RUB 156 732 thousand were impaired due to substantial uncertainty in relation its further construction or other usage (Omsk region). The impairment loss was recognised in the operating expenses.

Leased machinery and equipment

The Group's other property, plant and equipment include items under finance lease agreements. The net book value of leased assets was as follows:

	2010	2009
Cost	106 691	175 505
Accumulated depreciation	(16 734)	(34 138)
Net book value	**89 957**	**141 367**

11 Inventories

	2010	2009
Fuel productions stocks	532 179	783 620
Materials and supplies	193 523	186 837
	725 702	**970 457**
Provision for inventory obsolescence	(657)	(959)
Carrying amount of inventories	**725 045**	**969 498**

12 Trade and other receivables

	2010	2009
Non-current		
Other receivables	12 999	61 847
Allowance for impairment	(61)	(61)
	12 938	**61 786**
Current		
Trade receivables	2 906 865	2 664 884
Allowance for impairment of trade receivables	(1 146 647)	(786 796)
Promissory notes receivable	1 337	1 337
Other receivables	340 508	565 555
Allowance for impairment of other receivables	(144 914)	(260 583)
	1 957 149	**2 184 397**

The carrying value of non-current receivables as at 31 December 2010 was determined using the discount rate of 12.6% (31 December 2009 – 15.5%).

The average credit period provided by the Group to its customers was 39 days in 2010 (2009 - 45 days).

13 Prepayments

	2010	2009
Non-current		
Advances for capital expenditures	17 662	30 065
	17 662	**30 065**
Current assets		
Advances (net of allowance for impairment: as at 31 December 2010 - RUB 5 635 thousand, 2009: RUB 10 012 thousand)	56 905	121 478
	56 905	**121 478**

14 Loans given

The outstanding balance of unsecured loan given as at 31 December 2009 of RUB 250 000 thousand was settled in cash in the first quarter 2010.

15 Cash and cash equivalents

	2010	2009
Cash on hand in RUB	322	154
Cash at banks in RUB	3 878	2 363
Cash in transit	32 375	4 559
Deposits	116 500	-
	153 075	**7 076**

16 Equity

(a) Share capital

As at 31 December 2010 and 2009, the authorized, issued and fully paid share capital comprised 512 827 729 472 ordinary shares with a par value of RUB 0.01.

(b) Treasury shares

In September 2008 the Group repurchased 725 282 150 of its ordinary shares for the total amount of RUB 20 671 thousand. These shares are held by one of the subsidiaries and are carried at the acquisition cost.

(c) Dividends

In accordance with Russian legislation TGC-11's distributable reserves are limited to the balance of retained earnings as recorded in TGC-11's statutory financial statements prepared in accordance with Russian Accounting Principles. As at 31 December 2010 TGC-11 had retained earnings, including the profit for the current year, of RUB 1 366 535 thousand (31 December 2009 – RUB 1 112 429 thousand).

In 2010, and up to the date of approval of the Financial Statements for the year ended 31 December 2010, the Group declared no dividends. The Group declared and paid no dividends for 2009.

(d) Shares transferred to LLC Neft-Aktiv

In February 2008 TGC-11 received a claim from LLC Neft-Aktiv, a minority shareholder of Tomskenergo, on the validity of the reorganization of Tomskenergo on the form of merging with TGC-11 due to improper notification of LLC Neft-Aktiv about the extraordinary general meeting of Tomskenergo's shareholders on 24 August 2007. On 4 July 2008 the Moscow Arbitration Court took a decision to satisfy the claim of LLC Neft-Aktiv in full. The resolution of the Ninth Arbitration Appellation Court of Moscow on 8 December 2008 left the above decision unchanged. In February 2009 TGC-11 filed cessation appeals to the Moscow Federal District Arbitration Court.

TGC-11 and LLC Neft-Aktiv have reached a mutual agreement on the amicable settlement of the above dispute that was approved by the Moscow District Federal Arbitration Court on 15 July

2009. According to the mutual agreement on the amicable settlement TGC-11 should transfer 7 657 430 027 ordinary shares to LLC Neft-Activ. In September 2009, 7 657 430 027 of TGC-11 ordinary shares were transferred to LLC Neft-Activ, the cost of that transfer for the Group was RUB 109 963 thousand.

Due to the fact that the mutual agreement represents settlement with LLC Neft-Aktiv in its capacity as the former owner of interest in Tomskenergo as a result of reorganization of TGC-11, transfer of shares was recorded in the consolidated statement of changes in equity as decrease of retained earnings.

(e) Earnings per share

(Loss)/earnings per share are calculated by dividing (loss)/profit for the year by the weighted average number of ordinary shares in issue during the reporting year, except for the weighted average number of shares repurchased by the Group and recorded as treasury shares.

	2010	2009
Weighted average number of ordinary shares outstanding	512 102 447 322	512 102 447 322
(Loss)/profit for the year attributable to shareholders	(126 788)	958 175
(Loss)/earnings per share (RUB): basic and diluted	**(0.0002)**	**0.0019**

(f) Additional paid-in capital

Additional paid-in capital represents the amount of cash received by the Group in 2007 from the sale of 100% shares of subsidiaries owned by Tomskenergo and OEGC, made before the merger of Tomskenergo and OEGC with TGC-11.

17 Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate and liquidity risk, refer to Note 24.

	Currency	Effective annual interest rate	Maturity	31 December 2009
Non-current liabilities				
Long-term bank loan	RUB	14.2%	2012	1 000 000
Finance lease liabilities	RUB	12.6%	2014	2 794
				1 002 794
Current liabilities				
Short-term bank loans	RUB	9.7-24.4%	2010	2 095 885
Current portion of finance lease	RUB	12.6%	2010	25 167
				2 121 052

	Currency	Effective annual interest rate	Maturity	31 December 2010
Non-current liabilities				
Long-term bank loans	RUB	8.28-14.2%	2012-2013	1 730 022
Finance lease liabilities	RUB	12.6%	2014	788
				1 730 810
Current liabilities				
Short-term bank loans	RUB	6.65-14.5%	2011	904 875
Current portion of finance lease liabilities	RUB	12.6%	2011	2 280
				907 155

Bank loans

All bank loans bear fixed interest rate.

The effective interest rate is the market interest rate applicable to the loan at the date of origination.

Bank loans are mainly represented by the credit lines obtained for financing of operating activities and have the following securities for loans: nil as at 31 December 2010 (property, plant and equipment with the carrying value of RUB 415 359 thousand as at 31 December 2009).

Finance lease obligations

Finance lease agreements are mainly for motor vehicles and heat network. Lease terms correspond to useful lives of the leased asset. The lease agreements provide for the transfer of ownership for the property, plant and equipment at the end of the lease term.

The maturity of finance lease obligations is as follows:

	2010		2009	
	Future minimum lease payments	Interest	Future minimum lease payments	Interest
Less than one year	3 114	834	32 240	7 073
Between one and five years	1 003	215	3 430	636
	4 117	**1 049**	**35 670**	**7 709**

The finance lease liabilities are secured by leased assets.

18 Employee benefits

The Group has defined benefit pension and other long-term defined benefit plans that cover most full-time and retired employees. Defined post-employment benefits consist of several unfunded plans providing for lump-sum payments upon retirement, financial support for current pensioners, death benefits, jubilee benefits.

Defined benefit obligations have been assessed by an independent professional actuary using the projected unit credit method.

(a) Movements in net liability of the defined benefit obligations

	2010	2009
Present value of defined benefit obligations	550 307	189 534
Unrecognized past service cost	(131 553)	(15 222)
Unrecognized actuarial losses	73 419	104 712
Net defined benefit obligation	**492 173**	**279 024**

(b) Amounts recognised in profit or loss

	2010	2009
Current service cost	14 928	8 620
Interest expense	45 443	19 311
Actuarial gain	(1 227)	(3 896)
Past service cost	176 070	3 998
Plan reduction	-	(2 927)
	235 214	**25 106**

(c) Movements in the present value of the defined benefit obligations

	2010	2009
Defined benefit obligation at 1 January	189 534	222 001
Current service cost	14 928	8 620
Interest expense	45 443	19 311
Actuarial gain/(loss)	30 066	(53 915)
Past service cost	292 401	5 897
Plan reduction	-	(4 533)
Payments to employees	(22 065)	(7 847)
Defined benefit obligation at 31 December	**550 307**	**189 534**

Past service cost arose due to execution of new collective agreements with employees in the Group' subsidiaries and the increased benefit payments for existing and retired employees.

The amount accrued for the year under defined benefit plans was included in operating expenses: employee benefit expenses and payroll taxes. Interest expense was included in finance cost.

The table below presents the major actuarial assumptions:

	2010	2009
Discount rate	8%	9.5%
Wages and salaries increase	7.5%	8%
Employee turnover	6%	6%
Average retirement age		
Men	57.5	57.5
Women	54.5	54.0
Average life expectancy of members from the date of retirement		
Men	3.8	3.8
Women	19.4	19.4

19 Provisions

	2010	2009
Non-current		
Site restoration provision	86 165	79 048
	86 165	**79 048**
Current		
Site restoration provision	-	2 000
Other provisions	41 431	84 784
	41 431	**86 784**

Site restoration provision

The site restoration provision is recognised based on the expected costs and timing of site restoration activities to be taken by the Group on retirement of ash dumps in order to prevent the environment damages.

The site restoration provision was estimated as at 31 December 2010 using the discount rate from 6.05% to 8.03% per annum (as at 31 December 2009 – 8.41% per annum).

The movement in the site restoration provision is as follows:

	2010	2009
Site restoration provision as at 1 January	81 048	95 892
Unwinding of discount	6 257	13 319
Changes in estimates of existing obligations	(1 140)	(28 163)
Site restoration provision as at 31 December	**86 165**	**81 048**

20 Trade and other payables

	2010	2009
Trade payables	559 269	918 082
Other payables	24 210	42 102
	583 479	**960 184**

In 2010, the average credit period on purchases was 31 days (2009: 32 days). The Group has financial risk management policies in place, which includes budgeting and analysis of cash flows and payments schedule, to ensure that payables are paid when due.

21 Employee payables

	2010	2009
Employee payables	117 612	121 197
Bonus provision	77 843	89 848
Unused vacation provision	83 878	44 322
	279 333	**255 367**

Bonus provision

Bonus provision comprises of the bonuses and other similar employee benefits that are accrued based on the performance of employees in the reporting period, including unified social tax at the effective rate of 22.3%.

Unused vacation provision

Unused vacation provision is estimated based on an annual average salary, average number of personnel and number of vacation days not used by employees for the year including unified social tax at the effective rate of 22.3%

22 Other taxes payable

	2010	2009
Value added tax	278 698	61 135
Land tax	64 281	60 333
Unified social tax	36 509	33 036
Personal income tax	25 899	26 208
Property tax	56 124	1 236
Other taxes	17 497	20 058
	479 008	**202 006**

23 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2010	2009
Due within one year	165 186	243 139
Due from one to five years	325 290	30 211
Due more than five years	92 135	95 065
	582 611	**368 415**

The most significant portion of lease rentals relate to leases of gas pipe lines, heating mains, heating infrastructure and land.

The leases typically run for an initial period of 1 to 5 years, for land leases from 5 to 25 years, with an option to renew the lease after that date. Lease payments are reviewed annually to reflect market rentals.

Land leases were entered in prior periods and represented land under the property, plant and equipment.

24 Financial instruments and risk management

(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 Financial Statements.

The Group's risk management policies deal with identifying and analyzing the risk faces by the Group, setting appropriate risk limits and controls, and monitoring risk and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its internal policies, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

(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 loans given.

When monitoring credit risk, the Group classifies counterparties based on their credit history and estimation of their financial stability. The Group's management assesses the creditworthiness of counterparties taking into account their financial position, past business experience and other factors.

The Group's management believes that the collectability of receivables may be affected by economic factors, especially during the period of Russian and global market vulnerability, however it assesses the risk of incurring losses in excess of the amount of provision for impairment recognised in the Financial Statements, to be low.

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

	Carrying amount	
	2010	**2009**
Trade and other receivables	1 970 087	2 246 183
Loans given	-	250 000
Cash and cash equivalents	153 075	7 076
	2 123 162	**2 503 259**

The maximum exposure to credit risk for trade receivables at the reporting date by type of customer was:

	Carrying amount	
	2010	**2009**
Legal entities	818 419	884 998
Individuals	941 799	993 090
	1 760 218	**1 878 088**

The amounts of trade accounts receivables from legal entities include the receivables from CJSC Financial Settlement Center in the amount of RUB 414 025 thousand (2009: RUB 274 739 thousand).

Impairment losses

The aging analysis is presented below:

	Gross 2010	**Impairment 2010**	**Gross 2009**	**Impairment 2009**
No past due	1 400 551	-	2 048 272	34 602
Past due 0-90 days	236 140	11	139 405	11 739
Past due 91-180 days	79 893	9 412	36 740	11 223
Past due 181-365 days	318 721	134 021	115 810	41 444
More than one year	1 226 404	1 148 178	953 396	948 432
	3 261 709	**1 291 622**	**3 293 623**	**1 047 440**

Allowance for impairment is determined by the Group's management based on the assessment of the solvency of individual customers, trends, analysis of payments history and expected future cash flows.

The movement in the allowance for impairment in respect of trade and other receivables during the year is as follows:

	2010	2009
Balance at the beginning of the year	1 047 440	575 630
Allowance accrued	350 762	522 812
Decrease due to reversal	-	(26 844)
Amounts written off against trade receivables	(106 580)	(24 158)
Balance at the end of the year	**1 291 622**	**1 047 440**

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle financial liabilities as they actually fall due.

The Group monitors liquidity risk by detailed budgeting and planning the current liquidity on a daily basis. Management analyses maturities of the estimated cash flows from operating and financing activities, and manages current liquidity using open credit lines.

As at 31 December 2010, the Group had the following credit lines facilities:

- From OJSC Gazprombank with an unused portion of facility to RUB 3 500 000 thousand, valid till March 2013;
- From CJSC UniCredit Bank with an unused portion of facility to RUB 1 188 000 thousand, valid till April 2013;
- From CJSC Raiffeisenbank with an unused portion of facility to RUB 950 000 thousand, valid till May 2012;
- From OJSC AB Rossiya with an unused portion of facility to RUB 1 000 000 thousand, valid till April 2013.

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

Non derivative financial liabilities as at 31 December 2010

	Carrying amount	Contractual cash flows	Less than 1 year	2-5 years
Trade and other payables	862 812	862 812	862 812	-
Loans and borrowings	2 634 897	3 008 939	930 257	2 078 682
Finance lease liabilities	3 068	4 117	3 114	1 003
	3 500 777	**3 875 868**	**1 796 183**	**2 079 685**

Non derivative financial liabilities as at 31 December 2009

	Carrying amount	Contractual cash flows	Less than 1 year	2-5 years
Trade and other payables	1 215 551	1 215 551	1 215 551	-
Loans and borrowings	3 095 885	3 640 415	2 228 031	1 412 384
Finance lease liabilities	27 961	35 670	32 240	3 430
	4 339 397	**4 891 636**	**3 475 822**	**1 415 814**

(d) Market risk

Market risk is the risk that changes in market prices, such as interest rates, 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.

There is no exposure to currency risk as the Group does not have operations denominated in a currency other than RUB.

Market risk of the Group represented by interest rate risk.

(i) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group is exposed to interest rate risk only through market value fluctuations of loans and borrowings. The Group has no significant interest-bearing assets.

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 or as available for sale. Therefore a change in interest rate at the reporting date would not affect profit or loss.

Fair values

Management believes that the fair value of the Group's financial assets and liabilities approximates their carrying amounts. The basis for determination of fair value is disclosed in Note 4.

(e) Capital risk management

The Group has no formal policy for capital management but management seeks to maintain a sufficient capital base for meeting the Group's operational and strategic needs, and to maintain confidence of market participants. This is achieved with efficient cash management, constant monitoring of Group's revenues and profit, and long-term investment plans mainly financed by the Group's operating cash flows. With these measures the Group aims for steady profits growth.

25 Contingencies and commitments

(a) Insurance

As at 31 December 2010 the Group had insurance coverage for its production facilities and equipment in the amount of RUB 13 481 534 thousand (as at 31 December 2009 – RUB 13 481 534 thousand) and for liabilities to third parties in respect of damage to the environment and life and health injury arising from accidents on the Group's property in the amount of RUB 189 072 thousand (as at 31 December 2009 – RUB 185 172 thousand). Nevertheless, the Group is exposed to a risk of negative impact on the Group's performance and financial position in case of a loss or damage to assets which have no or partial insurance coverage.

(b) Legal proceedings

Group entities are party to certain legal proceedings arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or claims outstanding, which, upon final disposition, will have a material adverse effect on the financial position of the Group.

(c) Taxation contingencies

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 Financial Statements, if the authorities were successful in enforcing their interpretations, could be significant.

(d) Environmental liabilities

The entities of the Group are subject to extensive environment control and regulation by federal and regional authorities. The management believes that the Group's production technologies comply with all requirements of environmental regulations in the Russian Federation. However, environmental laws and regulations continue to evolve. The Group is unable to predict timing or extent of such changes. Such changes, if they occur, may require the Group to modernise technology in order to comply with more strict regulations.

(e) Contingencies related to compliance with directions of state authorities for monitoring technical conditions of the production assets

State authorities monitor the technical condition of the Group's production equipment on a regular basis. As a result of such reviews the Group may be required to perform modernization or repairs of its plant and equipment. Given that the volume, estimates and timing of such works are now under consideration by the Group's management, it is impracticable to estimate the total amount of capital expenditure necessary to fulfill government authorities' requirements as at 31 December

2010. As at 31 December 2010 all prior directions issued by government authorities fulfilled in time.

26 Related-party disclosures

As at 31 December 2010 and 2009 TGC-11 was ultimately controlled by the Government of the Russian Federation.

During the second half of 2009 the structure of TGC-11 shareholders changed. As a result, as at 31 December 2010 and 31 December 2009 certain TGC-11 shareholders which had significant influence on the Group were controlled by the Government of the Russian Federation.

The Group's related party transactions were with the shareholders, companies owned or controlled by the same entities as the Group and state controlled entities.

The following tables summarize the Group's transactions with the related parties, except for the transactions with state controlled entities:

Related parties	Sales/ purchases from related parties	Sales to related parties for the year ended 31 December 2010	Purchases from related parties for the year ended 31 December 2010	Sales to related parties for the year ended 31 December 2009	Purchases from related parties the year ended 31 December 2009
Parties controlled by the shareholders of TGC-11:	Coal	-	-	-	104 027

Related parties	Type of operation	Receivables from related parties as at 31 December 2010	Receivables from related parties as at 31 December 2009	Liabilities to related parties as at 31 December 2010	Liabilities to related parties as at 31 December 2009
Key management personnel	Salary and other benefits	29	-	1 828	6 520

In 2010 the Group sold large portion of heat and electric power to state controlled entities (2009: small portion). Conditions of these agreements were similar to those to third parties. Order of settlement of tariffs on electricity and heat is disclosed in the Note 1 (c).

For the year ended 31 December 2010 all the Group's gas purchases in the amount of RUB 5 255 502 thousand (2009: RUB 1 083 756 thousand) were from state controlled entities based on contractual prices. The accounts payables of the Group to state controlled entities for gas supply as at 31 December 2010 amounted to RUB 20 098 thousand (31 December 2009 – RUB 172 224 thousand).

For the year ended 31 December 2010 the Group obtained loans from state controlled banks based on market interest rates in the total amount of RUB 5 172 741 thousand (2009: RUB 855 405 thousand). The liability of the Group to state controlled banks as at 31 December 2010 amounted to RUB 93 754 thousand (31 December 2009 – RUB 706 110 thousand).

Other purchases from state controlled entities represented the small portion of the total Group other purchases.

Comparative data for 2009 regarding transactions with state controlled entities represented above disclosed since the date the Group was considered to be controlled by the Government of the Russian Federation.

Outstanding balances at the end of reporting periods are unsecured, interest free and settlement occurs mainly in cash.

Management remuneration

	2010	2009
Salaries and bonuses	62 533	74 058
Termination benefits	-	48 135
	62 533	**122 193**

27 Service concession arrangement

The Group uses public heating system facilities for providing services of heat supply to customers. The right to use the infrastructure is received from municipal authorities of Tomsk region (Property Department of Tomsk administration and Tomsk Property Treasury Department local authority, the "Grantor" – hereinafter) under service concession agreement.

In accordance with the arrangement, the contract period starts 1 June 2007 and set for indefinite period. The arrangement can be cancelled upon mutual agreement of the parties or unilaterally with the preliminary notification of a party.

The Group as an operator of the service concession has the obligation for maintenance and repair of the infrastructure as agreed with the Grantor on a regular basis.

For the year ended 31 December 2010 rent payments for uses of public heating system that recorded in operating expenses of the Group amounted to RUB 445 thousand (in 2009 – RUB 445 thousand), repair expenses - RUB 104 991 thousand (in 2009 – RUB 119 538 thousand). Non-cancellable rent payments were disclosed in Note 23.

In addition under the service concession arrangement the Group has the right to make improvement (upgrades) of the facilities upon approval by the Grantor. The Group does not possess the right of ownership over the infrastructure or upgrades at the end of concession arrangement. During 2007 – 2010 years the Group did not perform any improvements (upgrades) of the facilities and did not have any capital construction commitments for these facilities.

28 Subsequent events

As at 7 February 2011 the Group has executed contract of the equipment supply for the construction of steam-gas plant 90 (further – SGP-90) with OJSC "EnergoMashinostroitelny Alliance". Construction of SGP-90 is intended to increase generation capacity of Omsk generation. Project documentation for the construction of SGP-90 was transferred to government authorities for examination.