Open Joint Stock Company BASHKIRENERGO

Consolidated Financial Statements
for the Year Ended 31 December 2010

OJSC BASHKIRENERGO

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of Open Joint Stock Company Bashkirenergo and its subsidiaries (the "Group") as at 31 December 2010, and the results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group financial position and financial performance;
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy the consolidated financial position of the Group, and which enable management to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with the Russian Federation legislation and accounting standards;
- Taking such steps as are reasonably available to safeguard the assets of the Group;
- Preventing and detecting fraud and other irregularities.

The consolidated financial statements of the Group for the year ended 31 December 2010 were approved by management on 20 April 2011.

On behalf of management:

Doronin A. Y.	**Kharchenko P. A.**
General Director	Chief Accountant

Ufa, Russia
20 April 2011

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INDEPENDENT AUDITORS' REPORT

To Shareholders and Board of Directors of Open Joint Stock Company Bashkirenergo:

We have audited the accompanying consolidated financial statements of Open Joint Stock Company Bashkirenergo 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 a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, auditors consider internal control relevant to the 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 Group'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 cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte & Touche

Moscow, Russia
20 April 2011

OJSC BASHKIRENERGO

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2010
in millions of Russian Roubles

	Notes	31/12/2010	31/12/2009	01/01/2009
ASSETS				
Non-current assets				
Property, plant and equipment	6	47,675	47,520	46,421
Advances paid for acquisition of property, plant and equipment		3,450	4,127	3,050
Inventories	7	183	179	198
Trade and other receivables	8	121	151	123
Other non-current assets		59	57	42
		51,488	**52,034**	**49,834**
Current assets				
Inventories	7	1,169	1,459	2,151
Trade and other receivables	8	2,658	2,413	1,917
Advances paid and prepaid expenses		427	414	1,698
Investments	9	42	94	1,657
Income tax prepaid		181	438	231
VAT recoverable and other taxes prepaid		1,272	1,133	1,489
Cash and cash equivalents	10	569	598	827
		6,318	**6,549**	**9,970**
TOTAL ASSETS		**57,806**	**58,583**	**59,804**
EQUITY AND LIABILITIES				
Capital and reserves				
Share capital	11	1,093	1,093	1,093
Treasury shares	11	(282)	-	-
Retained earnings		49,023	47,499	46,768
Equity attributable to owners of the parent company		**49,834**	**48,592**	**47,861**
Non-controlling interests		285	255	99
TOTAL EQUITY		**50,119**	**48,847**	**47,960**
Non-current liabilities				
Loans and borrowings	12	-	8	1,500
Employee benefit obligations	13	584	497	384
Deferred tax liabilities	18	1,549	1,697	2,028
Other non-current liabilities		81	82	81
		2,214	**2,284**	**3,993**
Current liabilities				
Loans and borrowings	12	160	1,490	1,820
Trade and other payables	14	1,203	1,513	1,707
Advances received from customers		2,230	2,525	3,144
Accrued expenses and provisions	15	935	1,169	586
Income tax payable		108	61	27
Other taxes payable	16	837	694	567
		5,473	**7,452**	**7,851**
TOTAL LIABILITIES		**7,687**	**9,736**	**11,844**
TOTAL EQUITY AND LIABILITIES		**57,806**	**58,583**	**59,804**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2010

in millions of Russian Roubles

	Notes	Year ended 31/12/2010	Year ended 31/12/2009
Revenue			
Electricity and capacity		47,365	36,792
Heat energy		12,280	10,983
Other revenue		3,190	2,520
		62,835	**50,295**
Operating expenses			
Fuel		(23,994)	(17,759)
Purchase of electricity		(15,132)	(9,334)
Staff costs	17	(8,758)	(8,903)
Depreciation		(3,497)	(3,366)
Repair and maintenance		(2,965)	(2,770)
Materials and spare parts		(1,707)	(1,780)
Charity		(681)	(497)
Water usage		(514)	(300)
Taxes, other than income tax		(399)	(403)
Rent		(143)	(137)
Loss on disposal of property, plant and equipment		(132)	(392)
Change in provision for tax and legal contingencies		363	(223)
Change in allowance for doubtful receivables		(40)	(200)
Impairment of advances paid		71	(116)
Other operating expenses		(1,191)	(1,058)
		(58,719)	**(47,238)**
Operating profit		**4,116**	**3,057**
Finance income		-	44
Finance costs		(39)	(33)
Profit before income tax		**4,077**	**3,068**
Income tax	18	(1,286)	(933)
PROFIT FOR THE YEAR		**2,791**	**2,135**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**2,791**	**2,135**
Attributable to:			
Owners of the parent company		2,761	1,979
Non-controlling interests		30	156
		2,791	**2,135**
EARNINGS PER SHARE	11		
Basic earnings per share (in Roubles)		2.57	1.72
Diluted earnings per share (in Roubles)		2.55	1.72

OJSC BASHKIRENERGO

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2010
in millions of Russian Roubles

	Year ended 31/12/2010	Year ended 31/12/2009
OPERATING ACTIVITIES		
Profit before income tax	**4,077**	**3,068**
Adjustments for:		
Depreciation	3,497	3,366
Change in provision for tax and legal contingencies	(363)	223
Change in provision for unused vacations and bonuses	371	29
Loss on disposal of property, plant and equipment	132	392
Change in allowance for doubtful receivables	40	200
Impairment of advances paid	(71)	116
Finance costs	39	33
Finance income	-	(44)
Other adjustments	21	137
Operating cash flow before movements in working capital	**7,743**	**7,520**
Change in inventories	347	701
Change in trade and other receivables	(246)	(734)
Change in advances paid and prepaid expenses	58	1,168
Change in taxes receivable, other than income tax	(139)	356
Change in trade and other payables	(590)	93
Change in advances received from customers	(295)	(619)
Change in taxes payable, other than income tax	143	127
Net cash provided by operations	**7,021**	**8,612**
Income tax paid	(1,130)	(1,437)
Interest paid	(74)	(272)
Net cash generated from operating activities	**5,817**	**6,903**
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(3,289)	(5,700)
Proceeds from disposal of property, plant and equipment	246	31
Purchase of investments	(457)	(640)
Proceeds from disposal of investments	511	1,082
Withdrawal of deposits	-	1,121
Dividends and interest received	-	44
Net cash used in investing activities	**(2,989)**	**(4,062)**
FINANCING ACTIVITIES		
Dividends paid	(1,237)	(1,248)
Repurchase of ordinary shares	(282)	-
Proceeds from loans and borrowings	15,665	20,768
Principal repayments on loans and borrowings	(17,003)	(22,590)
Net cash used in financing activities	**(2,857)**	**(3,070)**
Net decrease in cash and cash equivalents	**(29)**	**(229)**
Cash and cash equivalents at beginning of the year	**598**	**827**
Cash and cash equivalents at end of the year	**569**	**598**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2010
in millions of Russian Roubles

	Equity attributable to owners of the parent company					
	Share capital	Treasury shares	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2009	**1,093**	**-**	**46,768**	**47,861**	**99**	**47,960**
Comprehensive income for the year	-	-	1,979	**1,979**	156	**2,135**
Dividends	-	-	(1,248)	**(1,248)**	-	**(1,248)**
Balance at 31 December 2009	**1,093**	**-**	**47,499**	**48,592**	**255**	**48,847**
Comprehensive income for the year	-	-	2,761	**2,761**	30	**2,791**
Dividends	-	-	(1,237)	**(1,237)**	-	**(1,237)**
Repurchase of ordinary shares	-	(282)	-	**(282)**	-	**(282)**
Balance at 31 December 2010	**1,093**	**(282)**	**49,023**	**49,834**	**285**	**50,119**

1. GENERAL INFORMATION

Organisation

Open Joint Stock Company Bashkirenergo (the "Company") was established on 30 October 1992.

The principal business activities of the Company, its subsidiaries and special purpose entities (collectively, the "Group") is generation, transmission and distribution of electricity and heat energy. The major operating facilities of the Group are located on the territory of the Russian Federation in the Republic of Bashkortostan. The Group's electricity and heat generation base includes over 30 electricity generation stations with about 4,200 MegaWatts of electricity generation capacity and 13,300 GigaCalories/hour of heat generation capacity.

The Company's registered office is located at: 126, Komsomolskaya st., Ufa, 450096, Russian Federation.

Shareholding structure of the Company at 31 December 2010 and 2009 was as follows:

	31/12/2010		31/12/2009	
	Number of voting shares	% of voting shares	Number of voting shares	% of voting shares
CJSC "Bashkirskie Ob'edinennye Energeticheskie Sistemy"	127,058,290	12.19%	-	-
CJSC "Novoil – Energoinvest"	127,058,290	12.19%	-	-
CJSC "UNPZ – Energoinvest"	127,058,290	12.19%	-	-
CJSC "UNKh – Energoinvest"	141,846,237	13.60%	-	-
LLC "Depository and Corporate Technologies" (nominee)	232,448,366	22.29%	232,448,366	22.29%
CJSC "ING Bank (Eurasia)" (nominee)	93,101,213	8.93%	95,844,967	9.19%
CJSC "Depository Clearing Company" (nominee)	66,378,487	6.37%	87,886,877	8.43%
OJSC "ANK "Bashneft"	-	-	127,058,290	12.19%
OJSC "Novoil"	-	-	127,058,290	12.19%
OJSC "UNPZ"	-	-	127,058,290	12.19%
OJSC "UNKh"	-	-	141,846,237	13.60%
Other, less than 5%	127,718,315	12.24%	103,466,171	9.92%
Total	**1,042,667,488**	**100.00%**	**1,042,667,488**	**100.00%**

The parent company of CJSC "Bashkirskie ob'edinennye energeticheskie sistemy", CJSC "Novoil – Energoinvest", CJSC "UNPZ – Energoinvest" and CJSC "UNKh – Energoinvest", that jointly owned 50.17% of the Company's voting shares at 31 December 2010, is OJSC "ANK "Bashneft". The ultimate controlling shareholder of the Company is JSFC "Sistema".

The government of the Russian Federation exercises significant influence over the Group through its control of OJSC "FSK EES". At 31 December 2010 and 2009 OJSC "FSK EES" owned 22.29% of the Company's voting shares.

The major entities of the Group and their principal business activities are the following:

		Ownership		
	Principal activity	31/12/2010	31/12/2009	01/01/2009
OJSC "Bashkirenergo"	Holding company, Distribution of electricity	-	-	-
LLC "Bashkirskaya Generiruyuschaya Kompaniya"	Electricity and heat energy generation	100%	100%	100%
LLC "Bashkirskiye Raspredelitelniye Electricheskiye Seti"	Electricity transmission and connection to electric networks	100%	100%	100%
LLC "Bashkirskiye Raspredelitelniye Teploviye Seti"	Generation and transmission of heat energy	100%	100%	100%
LLC "Bashkirskaya Setevaya Kompaniya"	Electricity transmission	100%	100%	100%
LLC "Energeticheskaya Sbytovaya Kompaniya Bashkortostana"	Distribution of electricity	100%	100%	100%
LLC "Bashteplosbyt"	Distribution of heat energy	100%	100%	100%
LLC "PGU "TEC-5"	Construction	100%	100%	100%
LLC "Energoremont"	Maintenance of electric networks and equipment	100%	100%	100%
LLC "Energoteploremont"	Maintenance of heat networks and equipment	100%	100%	100%
LLC "Energoavtomatika"	Maintenance of controlling systems	100%	100%	100%
LLC "Bashenergouchet"	Maintenance of electric accounting systems	100%	100%	100%
LLC "Bashenergotrans"	Transportation	100%	100%	100%
LLC "Energosnabkomplekt"	Purchase of inventories	100%	100%	100%

At 31 December 2010 and 2009, the Group included 3 special purpose entities which were established to provide supporting services to the Group's entities.

Business environment

Emerging markets such as Russian Federation are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. As has happened in the past, actual or perceived financial problems or an increase in the perceived risks associated with investing in emerging economies could adversely affect the investment climate in the Russian Federation and the Russian economy in general.

The global financial turmoil that has negatively affected Russian financial and capital markets in 2008 and 2009 has receded and the Russian economy returned to growth in 2010. However significant economic uncertainties remain. Adverse changes arising from systemic risks in global financial systems, including any tightening of the credit environment or Russia, could slow or disrupt the economy, adversely affect the Group's access to capital and cost of capital for the Group and, more generally, its business, results of operations, financial condition and prospects.

Relations with the State and current regulations

In addition to exercising significant influence over the Group through indirect ownership of 22.29% of the Company's voting shares, the government directly affects the Group's operations by regulating wholesale energy sales through the Federal Service on Tariffs, and retail sales of electricity and heat through Regional Energy Commissions. 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.

The operations of all generating facilities are coordinated by the System Operator of the Unified Energy System ("SO UES") in order to meet system requirements. Operations of SO UES are controlled by the government. Moreover, the government controls a number of the Group's fuel and other suppliers.

As a result, the Russian government's economic, social and other policies could have a material effect on the Group's operations.

Changes in industry

Since 1 January 2011, a competitive wholesale market has been in operation, where electricity and capacity are sold at free, unregulated prices, except for volumes of electricity sold to the public and categories of consumers of an equivalent status, for whom governmental tariff regulation still applies.

Seasonality

Demand for electricity and heat is influenced by both the seasons of the year and the relative severity of the weather. Revenues from heating are concentrated within the months of October to March. A similar, although less intense, concentration of electricity sales occurs within the same period.
The seasonality of electricity and heat production has a corresponding impact on the usage of fuel and the purchase of power. Furthermore, during the periods of lower production from April to September, there is an increase in the expenditures on repairs and maintenance.

This seasonality does not impact the revenue or cost recognition policies of the Group.

2. BASIS OF PRESENTATION

Transition to IFRS

For all periods up to the year ended 31 December 2008, the entities of the Group prepared their financial statements in accordance with the accounting standards of the Russian Federation ("RAS"). These consolidated financial statements for the year ended 31 December 2010 are the first the Group prepares in accordance with International Financial Reporting Standards ("IFRS"), which includes standards and interpretations approved by the International Accounting Standards Board, including International Accounting Standards and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

The Group has prepared its IFRS opening balance sheet as at 1 January 2009, the date of transition to IFRSs. Note 20 discloses the principal adjustments made by the Group in restating its RAS balance sheet as at 1 January 2009 and its most recently published RAS financial statements for the year ended 31 December 2009.

In accordance with the exemption under IFRS 1 "First Time Adoption of IFRS", management has elected to account for property, plant and equipment at 1 January 2009 at their fair values which represent deemed cost.

Basis of preparation

The entities of the Group maintain their accounting records in accordance with the laws, accounting and reporting regulations of the Russian Federation. Accounting principles and financial reporting procedures in the Russian Federation differ substantially from those generally accepted under IFRS. Accordingly, financial statements of individual entities of the Group have been adjusted to ensure that the consolidated financial statements are presented in accordance with IFRS.

The consolidated financial statements have been prepared on the historical cost basis except for valuation of property, plant and equipment in accordance with provisions of IFRS 1 “First Time Adoption of IFRS”.

Early adoption of the revised IFRS standard

Management of the Group has elected to partially adopt the revised IAS 24 “Related Parties Disclosure” in advance of its effective date (1 January 2011). Early adoption relates to the partial exemption from certain disclosures of balances and transactions between government-related entities. Information required by the revised standard in respect of related parties transactions and balances is presented in note 19.

Standards and interpretations in issue but not yet adopted

At the date of authorisation of these consolidated financial statements, the following standards and interpretations were in issue but not yet effective:

	Effective for annual periods beginning on or after
IAS 1 Presentation of Financial Statements (amended)	1 January 2011
IAS 12 Income Taxes (amended)	1 January 2012
IAS 24 Related Party Disclosures (revised)	1 January 2011
IAS 27 Consolidated and Separated Financial Statement (amended)	1 July 2010
IAS 32 Financial Instruments: Presentation (amended)	1 February 2010
IAS 34 Interim Financial Reporting (amended)	1 January 2011
IFRS 1 First-time Adoption of International Financial Reporting Standards (amended)	1 July 2010
IFRS 3 Business Combinations (amended)	1 July 2010
IFRS 7 Financial instruments: Disclosures (amended)	1 January 2011
IFRS 9 Financial Instruments: Classification and Measurement	1 January 2013
IFRIC 13 Customer Loyalty Programs	1 January 2011
IFRIC 14 The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction (amended)	1 January 2011
IFRIC 19 Extinguishment Financial Liabilities with Equity Instruments	1 July 2010

Management anticipates that all of the above standards and interpretations will be adopted in the Group’s consolidated financial statements for the respective periods. The impact is currently being assessed by management.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements include financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in consolidated subsidiaries are identified separately from the Group's equity therein. The interests of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Special purpose entities

Special purpose entities ("SPEs") are those undertakings that are created to satisfy specific business needs of the Group and the Group has the right to the majority of the benefits of an SPE, or is exposed to risks associated with the activities of an SPE. SPEs are consolidated in the same manner as subsidiaries.

Property, plant and equipment

Recognition and measurement

Property, plant and equipment of the Group acquired or constructed before 1 January 2009 are recorded at the amounts determined by an independent and qualified appraiser. The basis of valuation was fair value. In some instances, when property plant and equipment items are of a specialised nature, they were valued at depreciated replacement cost. For each item of property plant and equipment the new replacement cost was estimated as the current cost to replace the assets with a functionally equivalent asset. The new replacement cost was then adjusted for accrued depreciation, including physical depreciation and functional and economic obsolescence. The result of this valuation comprised deemed cost as at 1 January 2009. Property, plant and equipment of the special purpose entities are accounted for at their historical cost less accumulated depreciation and impairment loss. Items of property, plant and equipment acquired after 1 January 2009 are recorded at purchase or construction cost.

Construction 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 its intended use. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. Finance costs that are directly attributable to the acquisition or construction of assets, that necessarily takes a substantial period of time to get ready for its intended use or sale, are capitalised as part of the cost of that asset.

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

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised within other operating expenses in statement of comprehensive income.

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 the statement of comprehensive income as incurred.

Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

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. Land is not depreciated.

The estimated useful lives of major classes of property, plant and equipment for the current year are as follows:

Buildings	10-60 years
Machinery and equipment	4-35 years
Other	7-20 years

Depreciation methods, useful lives and residual values (if any) are reviewed at each reporting date, with the effect of any changes in estimates being accounted for on a prospective basis.

Impairment of property, plant and equipment

At the end of each reporting period, the Group reviews the carrying amounts of property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

The recoverable amount is the higher of fair value less cost to sell and value in use. 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.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Cash and cash equivalents

Cash comprises cash on hand and cash deposited on demand at banks. Cash equivalents comprise short-term highly liquid investments that are readily convertible into cash and have a maturity of three months or less from the date of origination and are subject to insignificant changes in value.

Inventories

Inventories primarily consist of fuel and materials and spare parts and are valued at the lower of the cost and net realisable value. Cost of inventories is determined by weighted average method. Net realisable value represents the estimated selling price determined under the ordinary business terms less estimated cost to sell.

Financial assets

Financial assets are recognised and derecognised on a trade date where the purchase or sale of an asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value plus transaction costs.

The Group's financial assets primarily include trade and other receivables and bank deposits and are classified as loans and receivables.

Loans and receivables

Loans and receivables include financial assets that have fixed or determinable payments that are not quoted in an active market. They are measured at amortised cost using the effective interest method less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of loans and receivables

Loans and receivables are assessed for indicators of impairment at the end of each reporting period. They are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For loans and receivables objective evidence of impairment could include:

- Significant financial difficulty of the counterparty; or
- Breach of contract, such as default or delinquency in interest or principal payments; or
- It becomes probable that the borrower will enter bankruptcy or financial re-organisation.

The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying value of loans and receivables is reduced by the impairment loss through the use of an allowance account. Subsequent recoveries of amounts previously written-off are credited against the allowance account. Change in the carrying amount of the allowance account is recognised in profit or loss.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

Financial liabilities

Financial liabilities, including trade and other payables and loans and borrowings, are initially measured at fair value, net of transaction costs. Financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Provisions and contingencies

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Contingencies

Contingencies attributable to specific events are disclosed unless the probability of an outflow of resources embodying economic benefit is remote. Contingent assets are not recognised in the consolidated financial statements but are disclosed when an inflow of economic benefit is probable.

Revenue recognition

Revenue from sales of electricity and heat energy is recognised when electricity and heat energy is supplied to customers.

Revenue from services on transmission of electricity and heat energy is recognised in the period when occurred.

Revenue is measured at the fair value of the consideration received or receivable, excluding value added tax and is recognised to the extent that it is probable that economic benefit will flow to the Group and the revenue can be reliably measured. Cash received in advance from customers is not treated as current year revenue, and is recognised within liabilities.

Other than residential customers, the Group's electricity and heat sales are made on the basis of contracts, which are signed with customers. Residential customers pay for their electricity usage based on metering systems on a monthly basis. Residential customers pay for heat usage at a flat rate based on the square meters of their apartments.

Connection services

Revenue from connection services represents a non-refundable fee for connecting the customer to the electricity grid network or a heat network. The terms, conditions and amount of these fees are negotiated separately and are independent from fees generated by electricity transmission services.

Revenue is recognized when electricity is activated and the customer is connected to the grid network.

In the case when the terms of connection service agreements for connecting the customers to the electricity grid network are granted in stages, revenue is recognized based on percentage of completion method after signing the act of completion.

Other revenue

Other revenue from sales of goods and services are recognised when all the following conditions are satisfied:

- The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Employee benefit obligations

Remuneration to employees in respect of services rendered during the reporting period, including accruals for unused vacation, bonuses and related social security contributions, is recognised as an expense in the period when it is earned.

Defined contribution plan

The Group's entities are legally obliged to make defined contributions to the Pension Fund of the Russian Federation, which are recorded as an expense as incurred. Contributions in respect of each employee to the Pension Fund vary from 0% to 20%, depending on the annual gross remuneration of each employee.

Defined benefit plan

For the unfunded defined benefit retirement plan, the cost of providing benefits is determined using the Project Unit Credit Method, with actuarial valuation being carried out at the end of each reporting period with immediate recognition of all actuarial gains and losses in profit or loss.

The retirement benefit obligations recognised in the consolidated statement of financial position represent the present value of the defined benefit obligations as adjusted for unrecognised past service costs.

Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liabilities for current tax is calculated using tax rates that have been enacted or substantially enacted by the end of reporting period.

Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the rates that are expected to apply in the period in which the liability is settled or the asset realised, based on the tax rates that have been enacted or substantially enacted by the end of reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of reporting period, to recover or settle the carrying amount of its assets and liabilities.

Dividends

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

Segment reporting

Operating segments are defined as types of operations that generate revenue and incur expenses in respect of which separate financial information is available and reported on a regular basis to the chief operating decision makers, who are responsible for allocating resources and assessing performance of operating segments. Chief operating decision makers have been identified as Management Board including General director, his deputies and directors of the largest subsidiaries of the Group.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Preparation of the consolidated financial statements in accordance with the IFRS requires the Group's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The determination of estimates requires judgements which are based on historical experience, current and expected economic conditions, and all other available information. Actual results could differ from those estimates.

The most significant areas requiring the use of management judgement, estimates and assumptions relate to:

- Useful economic lives of property, plant and equipment;
- Allowance for doubtful receivables;
- Legal contingencies;
- Taxation.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Useful economic lives of property, plant and equipment

The estimation of the useful lives of items of property, plant and equipment is a matter of judgement based on the Group's experience with similar assets. The future economic benefits embodied in property, plant and equipment are consumed principally through use. However, other factors, such as technical or commercial obsolescence and condition of property, plant and equipment (including operational factors and utilisation of maintenance programs), often will result in a change of the economic benefits from these assets.

Management periodically reviews the appropriateness of assets' useful economic lives. Revisions to estimates of the useful lives of property, plant and equipment is recognised prospectively in the period of the revision and where applicable, future periods. Accordingly, this may impact the amount of depreciation charge and carrying amount of property, plant and equipment in the future.

Allowance for doubtful receivables

The Group creates an allowance for doubtful receivables to account for estimated losses resulting from the inability of customers to make required payments. When evaluating the adequacy of an allowance for doubtful receivables, management bases its estimates on the current overall economic conditions, the ageing of accounts receivable balances, historical write-off experience, customer creditworthiness and changes in payment terms.

Changes in the economy, industry or specific customer conditions may require adjustments to the allowance for doubtful receivables recorded in the consolidated financial statements.

Legal contingencies

Legal proceedings covering a wide range of matters are pending or threatened in various jurisdictions against the Group. Periodically, the status of each significant loss contingency is reviewed to assess the potential financial exposure of the Group. The Group records provisions for pending litigation when it determines that an unfavorable outcome is probable and the amount of loss can be reasonably estimated. Due to the inherent uncertain nature of litigation, the ultimate outcome or actual cost of settlement may materially vary from estimates. Provisions are based on the best information available at the time. As additional information becomes available, the potential liability related to pending claims and litigation is reassessed an, if required, estimates are revised. Such revisions in estimates could have a material impact on the future of the Group's results.

Taxation

The Group is subject to various taxes in the Russian Federation. Significant judgement is required in determining the provision for tax contingencies. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact tax and provisions in the period in which such determinations are made.

in millions of Russian Roubles

5. SEGMENT INFORMATION

Chief operating decision makers of the Group, represented by the Management Board, have determined that each subsidiary of the Group with significant assets and operations represent an operating segment. Review and evaluation of the performance of these segments is done on a monthly basis.

Performance of the operating segments is assessed based on revenue, OIBDA (operating income before depreciation and amortization) and net profit, calculated under the accounting standards of the Russian Federation ("RAS"). Segment assets and liabilities are not reviewed by the Management board on a regular basis, and therefore were not disclosed in this note.

The table below presents segment information, prepared under the RAS, and its reconciliation to the consolidated IFRS results:

Segment revenue

	Year ended 31/12/2010	Year ended 31/12/2009
OJSC "Bashkirenergo"	73,860	59,694
LLC "Bashkirskaya Generiruyuschaya Kompaniya"	29,342	25,241
LLC "Bashkirskiye Raspredelitelniye Teploviye Seti"	6,159	5,201
LLC "Bashkirskiye Raspredelitelniye Electricheskiye Seti"	11,968	7,606
LLC "Bashkirskaya Setevaya Kompaniya"	1,491	1,230
LLC "Energeticheskaya Sbytovaya Kompaniya Bashkortostana"	645	623
LLC "Bashteplosbyt"	106	108
Other	4,635	8,408
Total revenue in accordance with RAS	**128,206**	**108,111**
Inter-segment revenue	(64,746)	(57,297)
Revenue from external customers in accordance with RAS	**63,460**	**50,814**
Adjustments:		
Offset of losses on electricity transmission against revenue	(625)	(519)
Revenue in accordance with IFRS	**62,835**	**50,295**

During the year ended 31 December 2010, revenue from the largest external customer of OJSC "Bashkirenergo" represented 23% of total revenue (2009: 13%).

in millions of Russian Roubles

Segment OIBDA

	Year ended 31/12/2010	Year ended 31/12/2009
OJSC “Bashkirenergo”	1,945	2,333
LLC "Bashkirskaya Generiruyuschaya Kompaniya”	3,203	3,712
LLC “Bashkirskiye Raspredelitelniye Teploviye Seti”	318	290
LLC “Bashkirskiye Raspredelitelniye Electricheskiye Seti”	3,212	1,645
LLC “Bashkirskaya Setevaya Kompaniya”	749	433
LLC “Energeticheskaya Sbytovaya Kompaniya Bashkortostana”	125	104
LLC “Bashteplosbyt”	21	18
Other	128	341
OIBDA in accordance with RAS	**9,701**	**8,876**
Adjustments:		
Elimination of intra-group dividends	(2,143)	(1,332)
Depreciation	(3,497)	(3,366)
Additional allowance for doubtful receivables	592	(481)
Provision for tax and legal contingencies	363	(223)
Employee benefit obligations	(87)	(114)
Finance (costs)/ income	(39)	11
Other adjustments	(813)	(303)
Profit before tax in accordance with IFRS	**4,077**	**3,068**

Profit for the year

	Year ended 31/12/2010	Year ended 31/12/2009
OJSC “Bashkirenergo”	1,557	1,791
LLC "Bashkirskaya Generiruyuschaya Kompaniya”	1,806	2,213
LLC “Bashkirskiye Raspredelitelniye Teploviye Seti”	77	13
LLC “Bashkirskiye Raspredelitelniye Electricheskiye Seti”	1,866	654
LLC “Bashkirskaya Setevaya Kompaniya”	476	194
LLC “Energeticheskaya Sbytovaya Kompaniya Bashkortostana”	92	74
LLC “Bashteplosbyt”	15	13
Other	56	230
Profit for the year in accordance with RAS	**5,945**	**5,182**
Adjustments:		
Elimination of intra-group dividends	(2,143)	(1,332)
Additional depreciation charge and loss on disposal of property, plant and equipment	(1,429)	(1,063)
Additional allowance for doubtful receivables	592	(481)
Provision for tax and legal contingencies	363	(223)
Deferred taxation	148	338
Employee benefit obligations	(87)	(114)
Other adjustments	(598)	(172)
Profit for the year in accordance with IFRS	**2,791**	**2,135**

in millions of Russian Roubles

6. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Machinery and equipment	Other	Construction in-progress	Total
Cost or valuation					
Balance at 1 January 2009	**31,722**	**12,880**	**575**	**1,244**	**46,421**
Additions	-	-	-	4,888	**4,888**
Transfers	1,189	1,934	134	(3,257)	**-**
Disposals	(149)	(29)	-	(257)	**(435)**
Balance at 31 December 2009	**32,762**	**14,785**	**709**	**2,618**	**50,874**
Additions	-	-	-	4,030	**4,030**
Transfers	862	1,871	73	(2,806)	**-**
Disposals	(124)	(56)	(163)	(62)	**(405)**
Balance at 31 December 2010	**33,500**	**16,600**	**619**	**3,780**	**54,499**
Accumulated depreciation					
Balance at 1 January 2009	-	-	-	-	**-**
Charge for the year	(1,545)	(1,660)	(161)	-	**(3,366)**
Eliminated on disposals	4	8	-	-	**12**
Balance at 31 December 2009	**(1,541)**	**(1,652)**	**(161)**	-	**(3,354)**
Charge for the year	(1,797)	(1,544)	(156)	-	**(3,497)**
Eliminated on disposals	12	8	7	-	**27**
Balance at 31 December 2010	**(3,326)**	**(3,188)**	**(310)**	**-**	**(6,824)**
Carrying value					
Balance at 1 January 2009	**31,722**	**12,880**	**575**	**1,244**	**46,421**
Balance at 31 December 2009	**31,221**	**13,133**	**548**	**2,618**	**47,520**
Balance at 31 December 2010	**30,174**	**13,412**	**309**	**3,780**	**47,675**

Included in additions for the year ended 31 December 2010 is a capitalised interest of RUB 74 million (31 December 2009: RUB 272 million).

7. INVENTORIES

	31/12/2010	31/12/2009	01/01/2009
Materials and spare parts	1,151	1,282	1,725
Fuel	262	295	551
Other inventories	50	237	220
Total current inventories, at cost	**1,463**	**1,814**	**2,496**
Less: write-down to net realisable value	(294)	(355)	(345)
Total current inventories	**1,169**	**1,459**	**2,151**
Chemical reagents	183	179	198
Total non-current inventories	**183**	**179**	**198**

in millions of Russian Roubles

8. TRADE AND OTHER RECEIVABLES

	31/12/2010	31/12/2009	01/01/2009
Trade receivables	3,143	3,108	3,076
Other receivables	327	314	169
Less: allowance for doubtful receivables	(812)	(1,009)	(1,328)
Total current receivables	**2,658**	**2,413**	**1,917**
Long-term receivables	796	895	348
Less: allowance for doubtful receivables	(675)	(744)	(225)
Total non-current receivables	**121**	**151**	**123**

The average credit period for the Group's customers is 30 days (2009: 30 days). During that period no interest is charged on the outstanding balances. Thereafter, for the agreements for electricity supply, interest is charge at the rate of 0.3% per day.

In determination of the allowance for doubtful receivables, the Group's management performs an analysis of expected recoverability separately for each customer. Generally, the Group provides for all accounts receivable over 90 days because historical experience is such that receivables due beyond 90 days are generally not recovered. Trade and other receivables between 30 and 90 days are provided for based on estimated unrecoverable amounts. For customers with overdue balances but for whom the new payment dates have been agreed in the debt restructuring agreements, allowance for doubtful receivables is not accrued.

The amount of the allowances are regularly reassessed based on the facts and circumstances existing at the end of each reporting period.

There is no formal credit rating analysis performed by the Group before accepting new customers due to the fact that supply of electricity and heat energy is a monopoly service.

Balances of the Group's top five counterparties are presented as follows:

	31/12/2010	31/12/2009	01/01/2009
CJSC "CFR"	644	528	241
OJSC "ANK "Bashneft"	60	10	2
MUP "ISK of Ufa"	55	-	1
OJSC "Iglinskie Elektricheskie Seti"	51	28	19
LLC "Bashzhilindustriya"	35	41	14
Total	**845**	**607**	**277**

Trade and other receivables included amounts that were past due at the end of the reporting periods. The Group has not recognised the allowance for doubtful receivables because these amounts were still considered recoverable. For majority of these balances debt restructuring agreements were in place. The Group did not hold any collateral for these balances.

Ageing of trade and other receivables that were past due but not impaired is presented as follows:

	31/12/2010	31/12/2009	01/01/2009
From 31 to 90 days	197	220	165
From 91 to 180 days	18	51	52
From 181 to 360 days	24	34	179
More than 361 days	360	221	251
Total	**599**	**526**	**647**

in millions of Russian Roubles

Movement in the allowance for doubtful receivables is presented as follows:

	31/12/2010	31/12/2009
Balance at beginning of the year	**1,753**	**1,553**
Additional allowance accrued	40	200
Written off as uncollectible	(306)	-
Balance at end of the year	**1,487**	**1,753**

Ageing of impaired trade and other receivables is presented as follows:

	31/12/2010	31/12/2009	01/01/2009
Up to 30 days	5	34	-
From 31 to 90 days	74	35	28
From 91 to 180 days	92	115	2
From 181 to 360 days	100	153	10
More than 361 days	1,216	1,416	1,513
Total	**1,487**	**1,753**	**1,553**

The Group's management believes that allowance for doubtful receivables recorded in the consolidated financial statements is sufficient to cover its credit risk.

9. INVESTMENTS

	31/12/2010	31/12/2009	01/01/2009
Loans issued	42	94	536
Bank deposits	-	-	1,121
Total	**42**	**94**	**1,657**

As at 1 January 2009, bank deposits included the following:

	Currency	Maturity	01/01/2009
Uralsib	RUB	01/04/2009	771
Sberbank	RUB	01/04/2009	350
Total			**1,121**

The bank deposits were withdrawn by the Group during 2009.

10. CASH AND CASH EQUIVALENTS

	31/12/2010	31/12/2009	01/01/2009
Current bank accounts	569	598	827
Total	**569**	**598**	**827**

in millions of Russian Roubles

The summary below shows credit quality analysis of banks where the Group held its cash and cash equivalents:

	Rating agency	Rating	31/12/2010	31/12/2009	01/01/2009
Uralsib	Fitch Ratings	B+	547	446	728
VTB	Fitch Ratings	BBB	22	-	-
Alfabank	Fitch Ratings	BB+	-	151	-
Sberbank	Fitch Ratings	BBB	-	1	31
Absolutbank	Fitch Ratings	BB+	-	-	68
Total			**569**	**598**	**827**

11. CAPITAL AND RESERVES

Share capital

Share capital of OJSC “Bashkirenergo” consists of 1,042,667,488 fully paid ordinary shares at par value of RUB 1 each, and 50,060,997 fully paid convertible non-participating preference shares at par value of RUB 1 each.

Ordinary shares carry one vote per share and a right to dividends. Convertible non-participating preference shares are entitled to receive a fixed preference dividend of 10% of net profit for the year as determined under RAS before any dividends are declared to the ordinary shareholders.
These preference shares can be converted into ordinary shares at the sale transaction with the consent from the buyer. Preference shares carry no rights to participate in the distribution of any surplus assets or profits, and no voting rights.

Treasury shares

During 2010, one of the Group’s subsidiaries repurchased 10,701,285 shares of the parent company for the total consideration of RUB 282 million.

Dividends

	Year ended 31/12/2010	Year ended 31/12/2009
Dividends declared in respect of the year ended 31 December 2008:		
Ordinary shares (RUB 1.00 per share)	-	1,042
Preference shares (RUB 4.11 per share)	-	206
Dividends declared in respect of the year ended 31 December 2009:		
Ordinary shares (RUB 1.09 per share)	1,122	-
Preference shares (RUB 2.30 per share)	115	-
Total	**1,237**	**1,248**

in millions of Russian Roubles

Earnings per share

	Year ended 31/12/2010	Year ended 31/12/2009
Weighted average number of ordinary shares outstanding during the year (number of shares)	1,035,367,159	1,042,667,488
Profit for the year attributable to owners of the parent company	2,761	1,979
Less: after-tax amount of dividends to preference shares	(103)	(186)
Basic earnings per share, in RUB	**2.57**	**1.72**
Diluted earnings per share, in RUB	**2.55**	**1.72**

During the year ended 31 December 2009, the convertible preference shares were anti-dilutive and therefore were excluded from the weighted average number of ordinary shares for the purposes of diluted earnings per share.

12. LOANS AND BORROWINGS

	31/12/2010		31/12/2009		01/01/2009	
	Rate	Balance	Rate	Balance	Rate	Balance
Uralsib	4.5%	150	13-14%	1,000	13-14%	1,093
VTB	8.3%	8	8.3%	8	8.3%	1,500
Sberbank		-		-	16%	350
Credit Europe Bank		-	12.50%	300		-
Transcreditbank		-	9.45%	183		-
Absolutbank		-		-	13-13.5%	360
Other		2		7		17
		160		**1,498**		**3,320**
Long-term portion of loans and borrowings		**-**		**8**		**1,500**
Short-term portion of loans and borrowings		**160**		**1,490**		**1,820**

Unused credit facilities

The following committed credit facilities were available to the Group:

	31/12/2010	31/12/2009	01/01/2009
Uralsib	3,650	2,400	2,400
Absolutbank	750	-	360
Credit Europe Bank	500	300	-
Transcreditbank	-	200	-
Sberbank	-	-	350
Less: amounts withdrawn	(150)	(1,483)	(1,803)
Total unused credit facilities	**4,750**	**1,417**	**1,307**

in millions of Russian Roubles

13. EMPLOYEE BENEFIT OBLIGATIONS

Valuation of the Group's defined benefit obligations was performed by an independent actuary.

Amounts recognised in the statement of comprehensive income in respect of the defined benefit plan were as follows:

	Year ended 31/12/2010	Year ended 31/12/2009
Current service cost	27	24
Interest	39	33
Actuarial losses	58	103
Total	**124**	**160**

Amounts recorded in the statement of financial position in respect of the defined benefit plans and movements in the present value of obligations were as follows:

	31/12/2010	31/12/2009
Balance at beginning of the year	**497**	**384**
Current service cost	27	24
Interest	39	33
Actuarial losses	58	103
Benefits paid	(37)	(47)
Balance at end of the year	**584**	**497**

Key assumptions used in estimation of obligations were as follows:

	31/12/2010	31/12/2009	01/01/2009
Discount rate	7.8%	8.5%	8.5%
Future pensions increase	5.0%	5.0%	5.0%
Retirement age (years)	58	58	58

14. TRADE AND OTHER PAYABLES

	31/12/2010	31/12/2009	01/01/2009
Trade payables	1,014	1,333	928
Dividends payable	34	82	22
Other payables	155	98	757
Total	**1,203**	**1,513**	**1,707**

The average credit period provided to the Group by its suppliers is 30 days (2009: 30 days). No interest is charged on the trade payables during this period. The Group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

in millions of Russian Roubles

15. ACCRUED EXPENSES AND PROVISIONS

	31/12/2010	31/12/2009	01/01/2009
Accrued wages and salaries	487	418	87
Provision for unused vacations	209	149	120
Provision for legal contingencies	183	269	46
Provision for tax contingencies	56	333	333
Total	**935**	**1,169**	**586**

16. OTHER TAXES PAYABLE

	31/12/2010	31/12/2009	01/01/2009
Value added tax	605	410	331
Property tax	97	90	92
Social security contributions	85	73	23
Other taxes	50	121	121
Total	**837**	**694**	**567**

17. STAFF COSTS

	Year ended 31/12/2010	Year ended 31/12/2009
Wages and salaries	7,003	7,506
Social security contributions	1,755	1,397
Total	**8,758**	**8,903**

Social security contributions for the year ended 31 December 2010 included contribution to the Pension Fund of the Russian Federation in the amount of RUB 1,187 million (2009: RUB 829 million).

18. INCOME TAX

	Year ended 31/12/2010	Year ended 31/12/2009
Current income tax expense	1,434	1,264
Deferred tax benefit	(148)	(331)
Total	**1,286**	**933**

A reconciliation of theoretical income tax calculated at the statutory rate of 20% to the amount of actual income tax expense recorded in the statement of comprehensive income is presented as follows:

	Year ended 31/12/2010	Year ended 31/12/2009
Profit for the year	**4,077**	**3,068**
Income tax at statutory rate of 20%	815	614
Effect of expenses not deductible for tax purposes, net	471	319
Total	**1,286**	**933**

in millions of Russian Roubles

Movements in the Group's deferred tax assets and liabilities are presented as follows:

	31/12/2010	Recognised in profit or loss	31/12/2009	Recognised in profit or loss	01/01/2009
Property, plant and equipment	(2,169)	226	(2,395)	203	(2,598)
Accounts receivable and advances paid	317	(67)	384	63	321
Employee benefits obligations	117	18	99	22	77
Other	186	(29)	215	43	172
Total	**(1,549)**	**148**	**(1,697)**	**331**	**(2,028)**

19. RELATED PARTIES

Related parties include shareholders, entities under common ownership and control with the Group and members of key management personnel. The Company and its subsidiaries in the ordinary course of business enter into various sale, purchase and service transactions with related parties. Transactions between the Company and its subsidiaries have been eliminated on consolidation and are not disclosed in this note.

Details of transactions between the Group and related parties are presented as follows:

	Sales of electricity and heat energy		Purchase of goods and services	
	Year ended 31/12/2010	Year ended 31/12/2009	Year ended 31/12/2010	Year ended 31/12/2009
OJSC "ANK "Bashneft" and its subsidiaries	12,498	10,943	1,148	893
Government-related entities	3,553	2,844	10,829	7,084
Total	**16,051**	**13,787**	**11,977**	**7,977**

The Group had the following outstanding balances with related parties:

	Amounts owed by related parties			Amounts owed to related parties		
	31/12/2010	31/12/2009	01/01/2009	31/12/2010	31/12/2009	01/01/2009
OJSC "ANK "Bashneft" and its subsidiaries	595	754	534	93	38	38
Government-related entities	162	106	84	543	519	414
Total	**757**	**860**	**618**	**636**	**557**	**452**

Compensation of key management personnel

The remuneration paid to directors and other key management personnel in the form of salaries and other short-term employee benefits amounted to RUB 85 million (2009: RUB 52 million). There were no other forms of key management compensation during the year.

in millions of Russian Roubles

20. RECONCILIATION OF PREVIOUSLY REPORTED CONSOLIDATED EQUITY AND PROFIT UNDER LOCAL ACCOUNTING STANDARDS TO CONSOLIDATED EQUITY AND PROFIT UNDER IFRS

	31/12/2009	1/01/2009
Consolidated equity under RAS — unaudited	**40,321**	**37,850**
Effect of consolidation of SPEs	257	106
Valuation of property, plant and equipment	11,892	12,956
Deferred taxation	(1,697)	(2,035)
Allowance for doubtful receivables	(1,610)	(1,130)
Write-off of old government grants	1,037	1,037
Employee benefit obligations	(497)	(384)
Provision for tax and legal contingencies	(602)	(378)
Other accruals and provisions	(227)	(284)
Other adjustments	(282)	123
Consolidated equity under IFRS	**48,592**	**47,861**

	Year ended 31/12/2009
Profit for the year under RAS — unaudited	**3,702**
Effect of consolidation of SPEs	156
Additional depreciation charge and loss on disposal of property, plant and equipment	(1,063)
Deferred taxation	338
Allowance for doubtful receivables	(481)
Other accruals and provisions	(280)
Other adjustments	(237)
Profit for the year under IFRS	**2,135**

21. COMMITMENTS AND CONTINGENCIES

Capital commitments

As at 31 December 2010, the Group's contractual capital commitments amounted to RUB 3,118 million (31 December 2009: RUB 3,605 million, 1 January 2009: RUB 4,882 million).

Included in capital commitments as at 31 December 2010, was an overdue payment to OJSC "Silovye Mashiny" (the "Contractor") in the amount of RUB 829 million. At the end of 2010, the Contractor applied to the court to claim this payment, together with the applicable penalties, from the Group. In March 2011 the court ruled in favor of OJSC "Silovye Mashiny" requiring the Group to make the payment. At the date of authorisation of the consolidated financial statements the payment remained outstanding. Penalties related to the overdue payment have been accrued as at 31 December 2010 in full.

Operating leases: Group as a lessee

The land on which the Group's production facilities are located is partially owned by the state. The Group leases land through operating lease agreements, which expire in various years through 2060. According to the term of lease agreements rent fees are revised annually by reference to an order issued by the relevant local authorities. The Group entities have a renewal option at the end of the lease period and an option to buy land at any time, at a price established by the local authorities.

in millions of Russian Roubles

Future minimum rental expenses under non-cancellable operating leases are as follows:

	31/12/2010	31/12/2009	01/01/2009
Due within one year	135	157	160
Due from second to fifth year	522	534	559
Due thereafter	3,645	3,783	3,914
Total	**4,302**	**4,474**	**4,633**

Litigation

The Group has been and continues to be the subject of legal proceedings from time to time, none of which has had, individually or in the aggregate, a material adverse impact on the Group. Management believes that the amount of provision recorded in the consolidated financial statements in respect of legal claims (note 15) is sufficient to cover the risk of negative impact on the Group's financial position or operating results.

Non-compliance with the legislation

In accordance with the regulations applicable to the Russian electricity market, starting from 1 January 2011 it is prohibited for an entity (or a group of related entities) to operate as an integrated business model including generation and transmission of electricity. In response to the new regulations, the Group obtained approval from the Federal Antimonopoly Service in October 2010 to perform a reorganization of the Group in the form of spin-off of its electricity transmission activities. However, the reorganization plan has not been approved by the shareholders at the Extraordinary Shareholders meeting that took place in December 2010.

The Group is unable to predict the outcome of potential actions taken by the government and therefore cannot reasonably predict the impact that the ultimate resolution of this matter will have on its operations and financial results.

Taxation contingencies in the Russian Federation

The taxation system in the Russian Federation is at a relatively early stage of development, and is characterised by numerous taxes, frequent changes and inconsistent enforcement at federal, regional and local levels.

The government of the Russian Federation has commenced a revision of the Russian tax system and passed certain laws implementing tax reform. The new laws reduce the number of taxes and overall tax burden on businesses and simplify tax litigation. However, these new tax laws continue to rely heavily on the interpretation of local tax officials and fail to address many existing problems. Many issues associated with practical implication of new legislation are unclear and complicate the Group's tax planning and related business decisions.

Russian tax authorities have a period of up to three years to re-open tax declarations for further inspection. Changes in the tax system that may be applied retrospectively by authorities could affect the Group's previously submitted and assessed tax declarations. While management believes that it has adequately provided for tax liabilities based on its interpretation of current and previous legislation (note 15), the risk remains that tax authorities in the Russian Federation could take differing positions with regard to interpretive issues. This uncertainty may expose the Group to additional taxation, fines and penalties that could be significant.

in millions of Russian Roubles

Environmental matters

The Group is subject to extensive federal, state and local environmental controls and regulations in the regions in which it operates. The Group's operations involve the discharge of materials and contaminants into the environment that could potentially impact on flora and fauna, and give rise to other environmental concerns. The Group's management believes that its production facilities are in compliance with the existing environmental legislation of the regions in which it operates. However, environmental laws and regulations continue to evolve.

The Group is unable to predict the timing or extent to which those laws and regulations may change. Such change, if it occurs, may require that the Group modernise technology and upgrade production equipment to meet more stringent standards.

Insurance

The insurance industry in the Russian Federation is in a developing stage and many forms of insurance protection common in developed markets are not generally available.

The Group's entities do not have full coverage for property damage, business interruption and third party liabilities. Until the Group obtains adequate insurance coverage, there is a risk that losses from business interruption and third party liabilities could have a material adverse effect on the Group's operations and financial position.

22. FINANCIAL RISK MANAGEMENT

Capital management

The Group manages its capital to ensure that entities of the Group will be able to continue as a going concern while maximising the return to the equity holders through the optimisation of the debt and equity balance. The management of the Group reviews the capital structure on a regular basis. Based on the results of this review, the Group takes steps to balance its overall capital structure through the payment of dividends, new share issues and share repurchase as well as the issue of new debt or the redemption of existing debt.

Consistent with other companies in the industry, the Group monitors capital on the basis of the gearing ratio, and ensures that the ratio is not more than 1.0. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total loans and borrowings less cash and cash equivalents, as shown in the consolidated statement of financial position. Capital is calculated as total equity, as shown in the consolidated statement of financial position.

	31/12/2010	31/12/2009	01/01/2009
Debt	160	1,498	3,320
Less: Cash and cash equivalents	(569)	(598)	(827)
Net debt	**(409)**	**900**	**2,493**
Equity attributable to owners of the parent company	49,834	48,592	47,861
Gearing ratio	**(0.01)**	**0.02**	**0.05**

in millions of Russian Roubles

Categories of financial instruments

	31/12/2010	31/12/2009	01/01/2009
Financial assets			
Trade and other receivables	2,779	2,564	2,040
Investments	42	94	1,657
Cash and cash equivalents	569	598	827
Total financial assets	**3,390**	**3,256**	**4,524**

	31/12/2010	31/12/2009	01/01/2009
Financial liabilities			
Loans and borrowings	160	1,498	3,320
Trade and other payables	1,203	1,513	1,707
Total financial liabilities	**1,363**	**3,011**	**5,027**

The main risks arising from the Group's financial instruments at 31 December 2010 are credit and liquidity risks.

Credit risk

Credit risk is the risk that a customer may default or not meet its obligations on a timely basis, leading to financial losses for the Group.

The maximum exposure of the Group to credit risk is presented as follows:

	31/12/2010	31/12/2009	01/01/2009
Trade and other receivables	2,779	2,564	2,040
Investments	42	94	1,657
Cash and cash equivalents	569	598	827
Total	**3,390**	**3,256**	**4,524**

Trade receivables consist of a large number of customers spread across different industries. Management does not believe that the Group is dependent on any particular customer.

The Group's cash is placed with the Russian financial institutions which are considered to have minimal or low risk of default. Credit quality analysis of these institutions is presented in note 10.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle its liabilities as they fall due. The Group's liquidity position is carefully monitored and managed. The Group has in place a detailed budgeting and cash forecasting process to help ensure that it has adequate cash available to meet its payment obligations. The Group has an access to financial facilities as presented in note 12. Based on the above, management believes, that the Group is in a position to meet all its obligations as they fall due from these facilities and operating cash flows.

in millions of Russian Roubles

Presented below is the maturity profile of the Group's loans and borrowings and accounts payable as at 31 December 2010 based on undiscounted contractual payments, including future interest payments:

	Total	Due within six months	Due from six months to one year	Due from one to five years	From five years
Loans and borrowings	171	13	4	154	-
Trade and other payables	1,203	1,203	-	-	-
Total	**1,374**	**1,216**	**4**	**154**	**-**

Presented below is the maturity profile of the Group's loans and borrowings and accounts payable as at 31 December 2009 based on undiscounted contractual payments, including future interest payments:

	Total	Due within six months	Due from six months to one year	Due from one to five years	From five years
Loans and borrowings	1,598	278	-	1,320	-
Trade and other payables	1,513	1,140	236	135	2
Total	**3,111**	**1,418**	**236**	**1,455**	**2**

Presented below is the maturity profile of the Group's loans and borrowings and accounts payable as at 1 January 2009 based on undiscounted contractual payments, including future interest payments:

	Total	Due within six months	Due from six months to one year	Due from one to five years	From five years
Loans and borrowings	3,880	1,678	127	2,075	-
Trade and other payables	1,707	1,680	24	3	-
Total	**5,587**	**3,358**	**151**	**2,078**	**-**