OJSC INTERREGIONAL DISTRIBUTION GRID COMPANY OF CENTER AND VOLGA REGION
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

Contents

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Independent Auditors' Report

To the Board of Directors of OJSC Interregional Distribution Grid Company of Center and Volga Region

We have audited the accompanying consolidated financial statements of OJSC Interregional Distribution Grid Company of Center and Volga Region (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of 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 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 qualified audit opinion.

ZAO KPMG, a company incorporated under the Laws of the Russian Federation, a subsidiary of KPMG Europe LLP, and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Basis for Qualified Opinion

We did not observe the counting of inventories stated at RUR 710,982 thousand as at 31 December 2008 because we were engaged as auditors of the Group only after that date. We were unable to satisfy ourselves as to those inventory quantities by alternative means. As a result, we were unable to determine whether adjustments might have been found necessary in respect of the elements making up the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended 31 December 2009. Our opinion on the consolidated financial statements as at for the year ended 31 December 2009 dated 30 April 2010 was modified accordingly. Our opinion on the current year's financial statements is also modified because of the possible effects of this matter on the comparability of the current year's figures and the corresponding figures.

Qualified Opinion

In our opinion, except for the possible effects on the corresponding figures as at and for the year ended 31 December 2009 and the possible effects on the comparability of the current year's figures of the matter described in the Basis for Qualified Opinion paragraph, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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06 May 2011

OJSC IDGC of Center and Volga Region
Consolidated Statement of Financial Position as at 31 December 2010

(in thousands of Russian Roubles, unless otherwise stated)

	Note	31 December 2010	31 December 2009
ASSETS			
Non-current assets			
Property, plant and equipment	7	45,135,110	40,446,390
Intangible assets	8	38,336	74,329
Investments in equity accounted investee	9	-	32,387
Other investments	10	539,384	489,141
Other non-current assets	11	322,611	317,933
Total non-current assets		**46,035,441**	**41,360,180**
Current assets			
Inventories	15	855,867	825,972
Income tax receivable		12,524	257,590
Trade and other receivables	13	4,807,729	6,227,142
Prepayments for current assets	14	128,890	131,165
Cash and cash equivalents	12	3,178,751	2,501,533
Total current assets		**8,983,761**	**9,943,402**
TOTAL ASSETS		**55,019,202**	**51,303,582**
EQUITY AND LIABILITIES			
Share capital	16	11,269,782	11,269,782
Reserves		45,985	32,611
Retained earnings		17,442,763	16,607,876
Total equity attributable to equity holders of the Company		**28,758,530**	**27,910,269**
Total equity		**28,758,530**	**27,910,269**
Non-current liabilities			
Deferred income tax liabilities	26	2,298,826	2,531,341
Employee benefits	17	1,200,188	972,652
Loans and borrowings	18	13,869,480	7,396,942
Trade and other payables	19	648,581	485,932
Total non-current liabilities		**18,017,075**	**11,386,867**
Current liabilities			
Loans and borrowings	18	1,678,113	5,337,246
Trade and other payables	19	6,092,315	6,241,898
Income tax payable		147,826	31
Current tax liabilities	20	325,343	427,271
Total current liabilities		**8,243,597**	**12,006,446**
Total liabilities		**26,260,672**	**23,393,313**
TOTAL EQUITY AND LIABILITIES		**55,019,202**	**51,303,582**

These consolidated financial statements were approved by management on 6 May 2011 and were signed on its behalf by:

Deputy General Director on ecomony and finance

Tihkomirova O.V.

Chief Accountant

Rodionova I.U.

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 9 to 40.

(in thousands of Russian Roubles, unless otherwise stated)

	Note	Year ended 31 December 2010	Year ended 31 December 2009
Revenue	21	54,629,510	47,353,403
Operating expenses	22	(52,782,562)	(45,350,102)
Other income and expenses, net	24	413,295	197,454
Operating profit		**2,260,243**	**2,200,755**
Finance income	25	47,712	24,773
Finance costs	25	(1,087,747)	(976,615)
Share of loss of equity accounted investee (net of income tax)		(4,378)	(9,881)
Profit before income tax		**1,215,830**	**1,239,032**
Income tax expense	26	(380,943)	(474,943)
Profit for the year		**834,887**	**764,089**
Other comprehensive income			
Net change in fair value of available-for-sale financial assets		16,718	24,386
Income tax on other comprehensive income		(3,344)	(4,877)
Other comprehensive income for the year, net of income tax		**13,374**	**19,509**
Total comprehensive income for the year		**848,261**	**783,598**
Profit attributable to:			
Shareholders of the Company		834,887	764,089
Total comprehensive income attributable to:			
Shareholders of the Company		848,261	783,598
Earnings per share	16		
Earnings per share – basic and diluted (in Russian roubles)		0.0074	0.0068

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 9 to 40.

(in thousands of Russian Roubles, unless otherwise stated)

	Notes	Year ended 31 December 2010	Year ended 31 December 2009
OPERATING ACTIVITIES:			
Profit before income tax		**1,215,830**	**1,239,032**
Adjustments for:			
Depreciation and amortisation	7, 8	3,640,252	3,745,708
Allowance for impairment of accounts receivable		676,501	(59,243)
Finance costs, net		1,040,035	951,842
(Gain)/loss on disposal of property, plant and equipment		(59,366)	37,177
Accounts payable written-off		(11,377)	(8,387)
Income from surplus of assets		(136,892)	(4,427)
Impairment losses on investments		32,969	-
Gain on disposal of investments		-	(5,063)
Share of loss of equity accounted investee (net of income tax)		4,378	9,881
Adjustment for other non-cash transactions		(1,646)	4,929
Cash from operating activities before changes in working capital		**6,400,684**	**5,911,449**
Working capital changes:			
Change in trade and other receivables		980,707	(1,642,411)
Change in prepayments for current assets		11,290	215,731
Change in inventories		(86,227)	(110,289)
Change in financial assets related to employee benefit fund		(38,739)	90,153
Change in trade and other payables		109,348	(428,887)
Change in employee benefits		227,536	148,865
Change in taxes payable other than income		(118,351)	179,657
Cash flows from operations before income taxes and interest paid		**7,486,248**	**4,364,268**
Income tax paid		(222,528)	(487,214)
Interest paid		(1,540,435)	(1,281,948)
Net cash flows from operating activities		**5,723,285**	**2,595,106**
INVESTING ACTIVITIES:			
Acquisition of property, plant and equipment and intangible assets		(8,131,668)	(4,249,045)
Proceeds from sale of property, plant and equipment		16,322	8,107
Interest received		42,312	24,773
Proceeds from disposal of other investments		5,400	4,442
Net cash flows used in investing activities		**(8,067,634)**	**(4,211,723)**
FINANCING ACTIVITIES:			
Proceeds from loans and borrowings		9,366,442	2,701,702
Repayment of loans and borrowings		(6,267,248)	(895,869)
Dividends paid		(959)	(10,724)
Payment of finance lease liabilities		(76,668)	(137,801)
Net cash flows from financing activities		**3,021,567**	**1,657,308**
Net increase in cash and cash equivalents		**677,218**	**40,691**
Cash and cash equivalents at 1 January		**2,501,533**	**2,460,842**
Cash and cash equivalents at 31 December		**3,178,751**	**2,501,533**

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 9 to 40.

(in thousands of Russian Roubles, unless otherwise stated)

	Share capital	Available-for-sale investments revaluation reserve	Retained earnings	Total	Total equity
Balance at 1 January 2009	**11,269,782**	**13,102**	**15,843,787**	**27,126,671**	**27,126,671**
Profit for the year	-	-	764,089	764,089	764,089
Other comprehensive income	-	19,509	-	19,509	19,509
Total comprehensive income for the year		19,509	764,089	783,598	783,598
Balance at 31 December 2009	**11,269,782**	**32,611**	**16,607,876**	**27,910,269**	**27,910,269**
Balance at 1 January 2010	**11,269,782**	**32,611**	**16,607,876**	**27,910,269**	**27,910,269**
Profit for the year	-	-	834,887	834,887	834,887
Other comprehensive income	-	13,374	-	13,374	13,374
Total comprehensive income for the year		13,374	834,887	848,261	848,261
Balance at 31 December 2010	**11,269,782**	**45,985**	**17,442,763**	**28,758,530**	**28,758,530**

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 9 to 40.

(in thousands of Russian Roubles, unless otherwise stated)

Note 1. Background

(a) The Group and its operations

Open Joint-Stock Company "Interregional Distribution Grid Company of Center and Volga Region" (hereafter, the "Company") and its subsidiaries (together referred to as the "Group") comprise Russian open joint stock companies as defined in the Civil Code of the Russian Federation. The Company was set up on 28 June 2007 based on Resolution no. 193p of 22 June 2007 and pursuant to the Board of Directors' decision (board of directors' meeting minutes no. 250 of 27 April 2007) of the Russian Open Joint-Stock Company RAO "United Energy Systems of Russia" (hereafter, "RAO UES").

The Company's registered office is Rozhdestvenskaya Street, Nizhniy Novgorod, 603950, Russian Federation.

The Group's principal activity is the transmission and distribution of electricity and the connection of customers to the electricity grid.

The Group consists of the Company and its subsidiaries:

Name	31 December 2010 % owned	31 December 2009 % owned
OJSC "Luchinskoye Agricultural Enterprise"	100.00	100.00
OJSC "Motor Vehicle Plant"	100.00	100.00
OJSC "Berendeyevskoye"	100.00	100.00
CJSC "Svet"	100.00	100.00
OJSC "Energetik Sanatorium-Preventorium"	100.00	100.00
OJSC "Interregional energoservice company "Energoefficiency technologies"	51.00	0.00

In December 2010 the Company established a subsidiary OJSC "Interregional energoservice company" Energoefficiency technologies" (further OJSC" IEC "Energoefficiency technologies"). The Company owned 51 % shares of OJSC "IEC "Energoefficiency technologies". The contribution to the share capital was performed by cash in January 2011.

As at 31 December 2010 and 31 December 2009, the Government of the Russian Federation owned 52.70% shares of IDGC Holding, which in turn owned 50.40% of the Company.

The Government of the Russian Federation influences the Group's activities through setting power transmission and distribution tariffs.

(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.

Note 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 ("IFRSs").

(b) Basis of measurement

The Financial Statements are prepared on the historical cost basis except:

- Financial investments classified as available-for-sale are stated at fair value;
- Property, plant and equipment was revalued to determine deemed cost as part of the adoption of IFRS as at 1 January 2006.

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble ("RUB"), which is the Company and its subsidiaries functional currency and the currency in which these Financial Statements are presented. All financial information presented in RUB has been rounded to the nearest thousand.

(d) Use of judgments and estimates

The preparation of the 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 7 – Property, plant and equipment;
- Note 13 – Trade and other receivables;
- Note 17 – Employee benefits.

(e) Changes in accounting policies

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 lease contracts and therefore, the classification was not changed (see note 28).

Note 3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in the Financial Statements, and have been applied consistently by Group entities, except as explained in note 2(e), which addresses changes in accounting policy for leases of land.

(a) Basis of consolidation

(i) Business combination including entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are revised. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Group's controlling shareholder's consolidated financial statements. The components of equity of the acquired entities are added to the same components within Group equity except that any share capital of the acquired entities is recognised as part of share premium. Any cash paid for the acquisition is recognised directly in equity.

(ii) Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

(iii) Investments in associates (equity accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity. Investments in associates are accounted for using the equity method and are recognised initially at cost. The Financial Statements include the Group's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest including any long-term investments is reduced to zero and the recognition of further losses is discontinued, except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(iv) Transactions eliminated on consolidation

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing these Financial Statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. 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, except for differences arising on the retranslation of available-for-sale equity instruments which are recognised in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(c) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) 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 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 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.

The Group has the following categories of non-derivative financial assets: loans and receivables and available-for-sale financial assets.

Held-to-maturity investments

If the Group has the positive intent and ability to hold to maturity debt securities that are quoted in an active market, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held-to-maturity financial assets are measured at amortised cost using the effective interest method, less any impairment losses. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years.

Loans and receivables

Loans and receivables are 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 comprise category the following clauses of assets trade and other receivables, cash and cash equivalents.

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see note 3(h)) and foreign currency differences on available-for-sale debt instruments (see note 3(b)), are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised or impaired, the cumulative gain or loss in other comprehensive income is transferred to profit or loss. Unquoted equity instruments whose fair value cannot reliably be measured are carried at cost. Available-for-sale financial assets comprise equity securities.

(ii) Non-derivative financial liabilities

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) 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.

Financial assets and liabilities are offset and the net amount presented in the 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.

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

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

(d) 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 deemed 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 its intended use, and the costs of dismantling and removing of assets 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.

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

(ii) Subsequent costs

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

(iii) 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, 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. Depreciation commences on the month following the acquisition or, in respect of internally constructed assets, from the month following the month an assets is completed and ready for use. Land is not depreciated.

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

Type of property, plant and equipment	Useful lives (in years)
Buildings	7-50
Transmission networks	5-40
Equipment for electricity transformation	5-40
Other	1-50

(e) 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.

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

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 since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset. The estimated useful lives for the current and comparative periods are 3 to 10 years.

(f) 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. Operating lease payments (net of benefits granted by the lessor) are recognised in profit or loss on a straight line basis over the lease term.

(g) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventory is determined on the weighted average cost method and includes expenditures incurred in acquiring the inventories and bringing them to their existing location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less selling expenses.

(h) Impairment

(i) Non-derivative financial assets

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

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the Group, economic conditions that correlate with defaults or 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.

Loans and receivables and held-to-maturity investment securities

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

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

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables or held-to-maturity investment securities. 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.

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve in equity, to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to application of the effective interest method are reflected as a component of interest income. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

(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. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU 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 or CGU. 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 or CGU. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(i) Employee 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.

In calculating the Company's obligation in respect of a plan, to the extent that any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the defined benefit obligation and the fair value of plan assets, that portion is recognised in the profit or loss over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognised. Actuarial gains and losses on other long-term obligations are recognised immediately.

(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 the 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.

(j) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Repurchase share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to / from retained earnings.

(k) Revenue

Revenue from electricity transmission is recognised in profit or loss when the customer acceptance of the volume of electricity transmitted is received. The tariffs for energy transmission are approved by the Federal Tariff Agency and Regional Energy Commission of each region of the Group's operations.

Revenue from connection services represents a non-refundable fee for connecting the customer to the electricity grid network. The tariffs for connection services are approved by the Federal Tariff Agency and Regional Energy Commission of each region of the Group's operations. The terms, conditions and amounts of these fees are negotiated separately and are independent from fees generated by electricity transmission services. Revenue is recognised when electricity is activated and the customer is connected to the grid network or, for contracts where connection services are performed in stages, revenue is recognised in proportion to the stage of completion when an act of acceptance is signed by the customer.

Revenue from installation, repair and maintenance services and other sales is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer or when the services are provided.

(l) 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.

Determining whether an arrangement contains a lease

At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Group the right to control the use of the underlying asset.

At inception or upon reassessment of the arrangement, the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the Group's incremental borrowing rate.

(m) Finance income and costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, fair value gains on financial assets at fair value through profit or loss and gains on the remeasurement to fair value of any pre-existing interest in an acquiree.. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions and contingent consideration, losses on disposal of available-for-sale financial assets, dividends on preference shares classified as liabilities, fair value losses on financial instruments at fair value through profit or loss and impairment losses recognised on financial assets (other than trade receivables).

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

(n) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax is 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. Current tax payable also includes any tax liability arising from the declaration of dividends.

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 and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to 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.

(o) Dividends

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

(p) 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.

(q) 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 the Company by the weighted average number of shares outstanding during the period.

(r) 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 revenues and expenses that relate to transactions with any of the Group's other components. All operating segment's results are reviewed regularly by the Management Board to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. Segment financial information is presented in the Financial Statements in a manner similar to those provided to the Management Board. The amount of each segment item reported is the measure reported to the Management Board. Total amounts of segment information are reconciled to those in the Financial Statements (see note 5).

(s) New Standards and Interpretations not yet adopted

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

- Revised IAS 24 *Related Party Disclosures* (2010) introduces an exemption from the basic disclosure requirements in relation to related party disclosures and outstanding balances, including commitments, for government-related entities. Additionally, the standard has been revised to simplify some of the presentation guidance that was previously non-reciprocal. The revised standard is to be applied retrospectively for annual periods beginning on or after 1 January 2011. The Group has not yet determined the potential effect of the amendment.

- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in 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. The Group does not intend to adopt this standard early.

- Amendments to IFRIC 14: *IAS 19 – The limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* clarifies the accounting treatment for prepayments made when there also is a minimum funding requirement. The amendment becomes effective for annual periods beginning on or after 1 January 2011 and is applied retrospectively.

- 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.

Note 4. Determination of fair values

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

(a) Equity and debt securities

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

(b) Trade and other receivables

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

(c) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option. For finance leases the market rate of interest is determined by reference to similar lease agreements.

Note 5. Operating segments

The Management Board of the Company has been determined as the Group is Chief Operating Decision-Maker.

The Group's primary activity is the provision of electricity transmission services within regions of the Russian Federation. The internal management reporting system is based on segments relating to electric energy transmission in separate regions of the Russian Federation (branches of the Company) and segments relating to other activities (represented by separate legal entities).

The Management Board regularly evaluates and analyzes the financial information of the segments reported in statutory financial statements of respective segments.

In accordance with requirements of IFRS 8 based on the information on segment revenue, profit before income tax and total assets reported to Management Board the following reportable segments were identified:

- Transmission Segments - Ivanovo region, Kaluga region, Kirov region, Mari El region, Nizhniy Novgorod region, Ryazan region, Tula region, Udmurtiya region, Vladimir region – branches of IDGC of Center and Volga Region;
- Other Segments – other Group companies.

Unallocated items consist of corporate balances of the Company's headquarters which do not constitute an operating segment under IFRS 8 requirements.

Segment items are based on financial information reported in statutory accounts and can differ significantly from those for financial statements prepared under IFRS. The reconciliation of items measured as reported to Management Board with similar items in these Financial Statements includes those reclassifications and adjustments that are necessary for financial statements to be presented in accordance with IFRS.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment revenues and profit before income tax, as included in the internal management reports that are reviewed by the Management Board. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

(in thousands of Russian Roubles, unless otherwise stated)

(i) Information about reportable segments for the year ended 31 December 2010

	Transmission										
	Nizhniy Novgorod region	**Vladimir region**	**Tula region**	**Kaluga region**	**Kirov region**	**Udmurtiya region**	**Mari El region**	**Ivanovo region**	**Ryazan region**	**Other**	**Total**
Power transmitting	18,272,540	5,487,011	6,289,818	4,693,404	4,769,247	5,460,339	2,113,368	1,856,303	4,163,536	24,689	**53,130,255**
Connection to the power network	190,286	60,571	31,166	310,208	74,192	18,592	13,429	74,134	181,757	-	**954,335**
Other revenue	47,206	34,566	31,752	68,896	34,300	46,769	18,485	14,290	38,885	681,016	**1,016,165**
Total segment revenues	**18,510,032**	**5,582,148**	**6,352,736**	**5,072,508**	**4,877,739**	**5,525,700**	**2,145,282**	**1,944,727**	**4,384,178**	**705,705**	**55,100,755**
Segment operating profit/(loss)	**710,586**	**389,706**	**1,348,735**	**987,089**	**85,750**	**323,349**	**35,547**	**(57,833)**	**354,865**	**22,079**	**4,199,873**
Segment finance income	68	-	-	-	19	7	-	1	18	246	**359**
Segment finance costs	(384,172)	(72,385)	(158,471)	(80,810)	(42,848)	(59,614)	(18,981)	(20,284)	(149,781)	(668)	**(988,014)**
Segment profit/(loss) before income tax	**(262,340)**	**274,460**	**1,219,965**	**732,315**	**332,201**	**211,699**	**(276,975)**	**(85,078)**	**269,259**	**21,282**	**2,436,788**
Segment depreciation	**1,243,772**	**291,355**	**401,427**	**325,565**	**245,496**	**274,681**	**110,136**	**182,478**	**393,790**	**49,260**	**3,517,960**
Segment assets	**21,944,364**	**5,006,734**	**8,053,142**	**7,575,704**	**3,824,198**	**4,096,255**	**1,821,891**	**2,831,362**	**6,448,383**	**528,246**	**62,130,279**
Including property, plant and equipment	**19,326,835**	**4,458,238**	**7,135,709**	**6,631,846**	**2,939,158**	**3,378,338**	**1,401,789**	**2,528,984**	**5,912,688**	**328,057**	**54,041,642**
Segment liabilities	**1,449,641**	**510,215**	**509,058**	**1,719,854**	**471,201**	**526,044**	**228,618**	**247,573**	**549,110**	**95,427**	**6,306,741**
Capital expenditures	**1,643,454**	**826,235**	**2,195,308**	**1,622,856**	**340,629**	**768,916**	**159,194**	**171,467**	**673,476**	**58,228**	**8,459,763**

(in thousands of Russian Roubles, unless otherwise stated)

(ii) Information about reportable segments for the year ended 31 December 2009

	Transmission										
	Nizhniy Novgorod region	**Vladimir region**	**Tula region**	**Kaluga region**	**Kirov region**	**Udmurtiya region**	**Mari El region**	**Ivanovo region**	**Ryazan region**	**Other**	**Total**
Power transmitting	17,236,222	4,674,016	5,362,240	3,596,289	4,128,732	3,875,955	1,988,166	1,486,895	3,340,033	21,624	**45,710,172**
Connection to the power network	222,266	79,237	55,043	233,496	52,145	66,707	6,153	182,694	277,049	-	**1,174,790**
Other revenue	44,833	35,507	34,954	65,384	36,279	48,335	17,403	16,067	29,190	511,632	**839,584**
Total segment revenues	**17,503,321**	**4,788,760**	**5,452,237**	**3,895,169**	**4,217,156**	**3,990,997**	**2,011,722**	**1,685,656**	**3,646,272**	**533,256**	**47,724,546**
Segment operating profit/(loss)	**1,043,096**	**105,623**	**1,091,460**	**459,344**	**87,720**	**(108,961)**	**272,848**	**(21,254)**	**251,201**	**9,336**	**3,190,413**
Segment finance income	375	-	-	-	8	5,962	-	23	53	1,336	**7,757**
Segment finance costs	(309,449)	(77,022)	(125,576)	(47,172)	(47,927)	(60,257)	(17,678)	(22,638)	(91,209)	(924)	**(799,852)**
Segment profit/(loss) before income tax	**532,594**	**(113,221)**	**693,199**	**360,027**	**(294,606)**	**(245,842)**	**183,736**	**(55,709)**	**118,447**	**11,561**	**1,190,186**
Segment depreciation	**1,129,649**	**259,626**	**352,853**	**298,767**	**239,494**	**269,306**	**108,594**	**187,668**	**330,127**	**38,423**	**3,214,507**
Segment assets	**22,081,570**	**4,343,584**	**6,143,214**	**6,194,730**	**4,033,306**	**3,724,985**	**2,858,963**	**2,891,574**	**5,832,589**	**470,353**	**58,574,868**
Including property, plant and equipment	**19,346,825**	**3,923,436**	**5,347,998**	**5,340,851**	**2,849,426**	**2,885,171**	**1,355,671**	**2,540,473**	**5,361,876**	**320,429**	**49,272,156**
Segment liabilities	**1,958,925**	**426,587**	**552,724**	**1,531,856**	**500,680**	**448,522**	**507,150**	**218,592**	**556,512**	**73,861**	**6,775,409**
Capital expenditures	**2,348,195**	**348,503**	**969,974**	**1,338,434**	**119,170**	**256,261**	**83,664**	**119,624**	**1,058,712**	**57,635**	**6,700,172**

(in thousands of Russian Roubles, unless otherwise stated)

(iii) Reconciliations of reportable segment revenues, profit or loss, assets and liabilities and other material items

Reconciliation of key segment items measured as reported to the Management Board with similar items in these Financial Statements is presented in the tables below.

Reconciliation of revenues:

	Year ended 31 December 2010	**Year ended 31 December 2009**
Total revenue for reportable segments	**55,100,755**	**47,724,546**
Inter-segment revenue elimination	(555,636)	(371,686)
Reclassification from other income	84,391	543
Revenues per Statement of Comprehensive Income	**54,629,510**	**47,353,403**

Reconciliation of profit before income tax:

	Year ended 31 December 2010	**Year ended 31 December 2009**
Total profit before income tax for reportable segments	**2,436,788**	**1,190,186**
Adjustment for depreciation of property, plant and equipment	(59,205)	(408,720)
Adjustment for allowance for impairment of debt	(542,906)	848,423
Adjustment for accrued liabilities	(231,400)	-
Retirement benefit obligations recognition	(188,797)	(239,020)
Other adjustments	(125,931)	(75,659)
Unallocated amounts	(109,935)	(23,592)
Other adjustments	37,216	(52,586)
Profit before tax per Statement of Comprehensive Income	**1,215,830**	**1,239,032**

Reconciliation of depreciation and amortization:

	Year ended 31 December 2010	**Year ended 31 December 2009**
Total depreciation for reportable segments	**3,517,960**	**3,214,507**
Adjustment for depreciation of property, plant and equipment	59,205	408,720
Other adjustments	51,845	114,307
Unallocated amounts	11,242	5,234
Amortization of intangible assets	-	2,940
Depreciation and amortization per Statement of Comprehensive Income	**3,640,252**	**3,745,708**

Reconciliation of total assets:

	31 December 2010	**31 December 2009**
Total assets for reportable segments	**62,130,279**	**58,574,868**
Inter-segment balances	(74,995)	(63,285)
Adjustment due to different accounting principles:		
Statutory deferred expenses write-off	(375,097)	(349,501)
Adjustment for net book value of property, plant and equipment	(10,175,815)	(10,228,981)
Adjustment for allowance for impairment of debt	(541,974)	94
Adjustments for finance lease	152,042	194,974
Recognition of assets related to employee benefits	475,243	436,504
Other adjustments	(18,906)	(71,116)
Unallocated amounts	3,891,435	3,416,135
Elimination of investments in subsidiaries	(345,972)	(335,772)
Statutory deferred expenses write-off	(5,889)	(122,825)
Other adjustments	(91,149)	(147,513)
Total assets per Statement of Financial Position	**55,019,202**	**51,303,582**

(in thousands of Russian Roubles, unless otherwise stated)

Reconciliation of property, plant and equipment:

	31 December 2010	31 December 2009
Total property, plant and equipment for reportable segments	**54,041,642**	**49,272,156**
Adjustment for net book value of property, plant and equipment	(10,175,815)	(10,228,981)
Advances for acquisition of property, plant and equipment	1,054,879	1,175,776
Adjustment for finance lease	159,197	209,399
Other adjustments	31,293	1,557
Unallocated amounts	23,914	16,767
Other adjustments	-	(284)
Property, plant and equipment per Statement of Financial Position	**45,135,110**	**40,446,390**

Reconciliation of capital expenditures:

	Year ended 31 December 2010	Year ended 31 December 2009
Total capital expenditures for reportable segments	**8,459,763**	**6,700,172**
Advances for acquisition of property, plant and equipment	(120,897)	(2,176,161)
Other adjustments	131,748	90,617
Unallocated amounts	12,767	5,937
Reclassification on other non-current assets	-	-
Total capital expenditures per Statement of Financial Position	**8,483,381**	**4,620,565**

Reconciliation of total liabilities:

	31 December 2010	31 December 2009
Total liabilities for reportable segments	**6,306,741**	**6,775,409**
Intersegment balances	(74,995)	(63,285)
Accrued salaries and wages	413,003	218,757
Accrued liabilities	255,652	-
Retirement benefit obligations	1,200,188	972,652
Other adjustments	(60,418)	(31,597)
Unallocated amounts	17,437,619	14,372,324
Adjustment due to different accounting principles for deferred tax calculation	878,467	1,415,868
Discounting of promissory notes payable	(95,585)	(266,815)
Total liabilities per Statement of Financial Position	**26,260,672**	**23,393,313**

The Group performs most of its activities in the Russian Federation and does not have any significant revenues from foreign customers or non-current assets located in foreign countries.

For the years ended 31 December 2010 and 2009 the group had one major customer – a distribution company in the Nizhniy Novgorod region of the Russian Federation - with individual turnover over 10% of total Group revenues. Revenues from this customer is reported by the transmission segments operating in the Nizhniy Novgorod region. The total amount of revenues for this major customer for the year ended 31 December 2010 was RUB 10,644,360 thousand or 19.5% of the Group’s total revenues (2009: RUB 10,120,378 thousand or 21.4%).

Note 6. Financial 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 Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks 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 training and management standards and procedures, 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 cash and cash equivalents, receivables from customers and investment securities.

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. To manage credit risk, the Group attempts, to the fullest extent possible, to demand prepayments from customers.

Prepayments for connection services are routinely included in the customer service contracts.

The customer base for electricity transmission services for each of the Group's entities is limited to several distribution companies and a small number of large manufacturing enterprises. Payments are tracked regularly and electricity transmission customers are advised of any failures to submit timely payments.

The Group does not require collateral in respect of trade and other receivables.

The Group establishes an allowance for impairment that represents its estimate of anticipated losses in respect of trade and other receivables that relate to individually significant exposures.

Cash and cash equivalents

The Group attempts to minimise the credit risk exposure for current and deposit accounts with banks by placing temporarily available funds only with the banks that are lendors to the Group.

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, without incurring losses.

(d) Market risk

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

Currency risk

The Group does not have significant exposure to currency risk on sales, purchases and borrowings, because no significant sales, purchases and borrowings are denominated in a currency other than the functional currency of the merged entities, which is Russian roubles.

Interest rate risk

The Group's interest rate risk arises from short-term and long-term borrowings. Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). The majority of interest rates on current and non-current borrowings are fixed. The Group's operating profits and cash flows from operating activities are largely not dependent on the changes in market interest rates.

(e) Capital management

Management's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Management monitors the level of dividends to ordinary shareholders. Management seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. Neither the Company nor any Group companies are subject to externally imposed capital requirements.

(in thousands of Russian Roubles, unless otherwise stated)

Note 7. Property, plant and equipment

Cost	Land and buildings	Transmission networks	Equipment for electricity transformation	Assets under construction	Other	Total
Balance at 1 January 2009	**3,890,590**	**20,801,887**	**9,086,512**	**7,975,239**	**5,522,739**	**47,276,967**
Additions	10,548	19,110	166,428	4,038,601	385,878	4,620,565
Transfers	1,008,749	1,996,073	3,221,696	(6,464,299)	237,781	-
Disposals	(7,072)	(8,052)	(5,457)	(16,273)	(58,124)	(94,978)
Balance at 31 December 2009	**4,902,815**	**22,809,018**	**12,469,179**	**5,533,268**	**6,088,274**	**51,802,554**
Balance at 1 January 2010	**4,902,815**	**22,809,018**	**12,469,179**	**5,533,268**	**6,088,274**	**51,802,554**
Additions	87,463	109,787	137,323	7,587,890	560,918	8,483,381
Transfers	351,312	3,374,496	1,782,839	(6,541,911)	1,033,264	-
Disposals	(4,118)	(15,963)	(8,063)	(174,904)	(34,968)	(238,016)
Balance at 31 December 2010	**5,337,472**	**26,277,338**	**14,381,278**	**6,404,343**	**7,647,488**	**60,047,919**
Accumulated depreciation						
Balance at 1 January 2009	**(451,822)**	**(4,340,633)**	**(1,722,159)**	**-**	**(1,198,905)**	**(7,713,519)**
Depreciation for the year	(225,166)	(1,751,533)	(1,169,882)	-	(524,225)	(3,670,806)
Disposals	1,313	2,007	2,654	-	22,187	28,161
Balance at 31 December 2009	**(675, 675)**	**(6,090,159)**	**(2,889,387)**	**-**	**(1,700,943)**	**(11,356,164)**
Balance at 1 January 2010	**(675, 675)**	**(6,090,159)**	**(2,889,387)**	**-**	**(1,700,943)**	**(11,356,164)**
Depreciation for the year	(241,257)	(1,730,508)	(901,941)	-	(716,144)	(3,589,850)
Disposals	514	5,900	4,653	-	22,138	33,205
Balance at 31 December 2010	**(916,418)**	**(7,814,767)**	**(3,786,675)**	**-**	**(2,394,949)**	**(14,912,809)**
Net book value						
At 1 January 2009	**3,438, 768**	**16,461,254**	**7,364,353**	**7,975,239**	**4,323, 834**	**39,563,448**
At 31 December 2009	**4,227, 140**	**16,718,859**	**9,579,792**	**5,533,268**	**4,387, 331**	**40,446,390**
At 31 December 2010	**4,421,054**	**18,462,571**	**10,594,603**	**6,404,343**	**5,252,539**	**45,135,110**

As at 31 December 2010 construction in progress includes advance prepayments for property, plant and equipment less bad debt provision of RUB 1,054,879 thousand (as at 31 December 2009: RUB 1,175,776 thousand).

As at 31 December 2010 construction in progress includes construction materials of RUB 1,121 thousand (as at 31 December 2009: RUB 0 thousand).

Borrowing costs totalling RUB 230,544 thousand with a capitalisation rate of 7.5% - 10.91% were included in cost of property, plant and equipment and represent interest on loans (2009: RUB 618,657 thousand with a capitalisation rate of 11.95% - 14%).

(in thousands of Russian Roubles, unless otherwise stated)

Security

As at 31 December 2010 equipment with a carrying amount of RUB 5,146 thousand is pledged as collateral according the bank loan agreements (as at 31 December 2009: RUB 7,433 thousand) (see Note 18).

Leased plant and machinery

The Group leases production equipment and transport under a number of finance lease agreements. At the end of each of the leases the Group has the option to purchase the equipment at a beneficial price.

The net book value of leased property, plant and equipment, accounted for as part of the Group's property, plant and equipment follows:

	31 December 2010	**31 December 2009**
Cost	170,634	261,207
Accumulated depreciation	(31,780)	(37,017)
Net book value	**138,854**	**224,190**

Note 8. Intangible assets

	Patents and licenses	**Computer software**	**Total**
Cost			
Balance as 1 January 2009	**208,637**	**24,610**	**233,247**
Additions	1,230	35,668	36,898
Disposals	(55,591)	-	(55,591)
Balance as 31 December 2009	**154,276**	**60,278**	**214,554**
Balance as 1 January 2010	**154,276**	**60,278**	**214,554**
Additions	-	14,409	14,409
Disposals	(150,145)	-	(150,145)
Balance as 31 December 2010	**4,131**	**74,687**	**78,818**
Accumulated amortisation			
Balance as at 1 January 2009	**(111,562)**	**(9,352)**	**(120,914)**
Amortisation for the year	(64,001)	(10,901)	(74,902)
Disposals	55,591	-	55,591
Balance at 31 December 2009	**(119,972)**	**(20,253)**	**(140,225)**
Balance as at 1 January 2010	**(119,972)**	**(20,253)**	**(140,225)**
Amortisation for the year	(33,663)	(16,739)	(50,402)
Disposals	150,145	-	150,145
Balance at 31 December 2010	**(3,490)**	**(36,992)**	**(40,482)**
Net book value			
At 1 January 2009	**97,075**	**15,258**	**112,333**
At 31 December 2009	**34,304**	**40,025**	**74,329**
At 31 December 2010	**641**	**37,695**	**38,336**

Intangible assets include mandatory licenses for electricity transmission and capitalised SAP/R3 implementation expenses.

(in thousands of Russian Roubles, unless otherwise stated)

Note 9. Investments in equity accounted investees

The Group has the following investments in equity accounted investees:

	Country	Ownership/Voting
OJSC "Tulenergokomplect"	Russia	50.00%

In November 2010 the last stage of bankruptcy procedure was started in respect of OJSC "Tulenergokomplect" and the Company's management made a decision to recognise an impairment loss of the investment in OJSC "Tulenergokomplect". The summarised financial information of at the November 2010 are as follows:

	30 November 2010	31 December 2009
Total assets	30,118	43,305
Total liabilities	(34,547)	(37,426)
Revenue	256	3,644
Loss	(8,756)	(19,762)

The impairment loss of the investment in OJSC "Tulenergokomplect" in the amount of RUB 28,009 thousand was recognised within Operating expenses as Impairment of investments (see note 22).

Note 10. Other investments

	31 December 2010	31 December 2009
Available-for-sale investments stated at fair value	64,141	52,637
Financial assets related to the employee benefit fund (available for sale)	475,243	436,504
Total	**539,384**	**489,141**

The fair value of available-for-sale investments with a initial cost as at 31 December 2009 and 31 December 2010 of RUB 5,143 thousand was determined by reference to their quoted market prices; these investments are listed on the Moscow Interbank Currency Exchange (MICEX).

Financial assets related to the employee benefit fund relate to the Group is contributions accumulated in "solidary" and employees' individual pension accounts with the Non-State Pension Fund (employee benefit fund). Subject to certain restrictions 80% of contributions to the employee benefit fund can be withdrawn at the discretion of the Group.

Note 11. Other non-current assets

	31 December 2010	31 December 2009
Unfinished intangible assets	290,118	215,317
Other receivables	13,051	104,271
Trade receivables	12,506	15,592
Non-current portion of value added tax recoverable	8,534	-
Less: Accounts receivable impairment allowance	(1,598)	(17,247)
Total	**322,611**	**317,933**

Unfinished intangible assets represent SAP/R3 software development costs.

The Group's exposure to credit and currency risks and impairment losses related to non-current accounts receivable are disclosed in Note 31.

Note 12. Cash and cash equivalents

	31 December 2010	31 December 2009
Bank balances	3,156,587	2,496,075
Bank promissory notes	-	5,236
Call deposits	22,000	-
Petty cash	164	222
Total	**3,178,751**	**2,501,533**

All cash and cash equivalents are denominated in RUB.

(in thousands of Russian Roubles, unless otherwise stated)

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 31.

Note 13. Trade and other receivables

	31 December 2010	31 December 2009
Trade receivables	4,582,146	5,492,658
Other receivables	234,890	492,826
VAT receivable	826,598	688,882
Taxes receivable	37,805	28,088
Finance lease receivables	1,334	2,750
Less: Allowance for impairment of trade receivable	(852,425)	(460,877)
Less: Allowance for impairment of other receivable	(22,619)	(17,185)
Total	**4,807,729**	**6,227,142**

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in Note 31.

Note 14. Prepayments for current assets

	31 December 2010	31 December 2009
Prepayments	133,445	144,735
Less: Allowance for impairment of prepayments	(4,555)	(13,570)
Total	**128,890**	**131,165**

Note 15. Inventories

	31 December 2010	31 December 2009
Raw materials and supplies	691,146	670,521
Spare parts	123,953	120,338
Other inventories	40,768	35,113
Total	**855,867**	**825,972**

Note 16. Equity

Share capital

	31 December 2010	31 December 2009
Number of ordinary shares authorised, issued and fully paid	112,697,817,043	112,697,817,043
Par value (in RUB)	0.10	0.10
Total share capital (in RUB)	**11,269,781,704**	**11,269,781,704**

Dividends paid and declared

In accordance with Russian legislation the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with Russian Accounting Principles. As at 31 December 2010 the Company had retained earnings, including the profit for the current year, of RUB 5,520,957 thousand (as at 31 December 2009: RUB 4,121,542 thousand).

In 2009 and 2010 the Company did not declare dividends for the years ended 31 December 2008 and 31 December 2009.

Dividends per share at 31 December 2010 and 31 December 2009 were nil.

(in thousands of Russian Roubles, unless otherwise stated)

Earnings per share

The calculation of earnings per share is based upon the profit for the year and the outstanding number of ordinary shares. The Company has no dilutive potential ordinary shares.

	Year ended 31 December 2010	Year ended 31 December 2009
Weighted average number of ordinary shares issued	112,697,817,043	112,697,817,043
Profit attributable to the shareholders	834,887	764,089
Weighted average earnings per ordinary share – basic and diluted (in RUB)	0.0074	0.0068

Note 17. Employee benefits

The Group provides the following long-term pension and social benefit plans:

- defined contribution pension plan and defined benefit pension plan (Non-State Pension Fund of the Electric Power and Non-State Pension Fund "Professionalny"); and
- defined benefit pension plans and other long-term defined benefit plans regulated by Collective Bargaining Agreements that include lump sum benefit for pensioners upon retirement, benefits paid in connection with the jubilee dates of pensioners and employees, financial support for pensioners and one-time benefits paid in case of the death of pensioners.

The table below summarises the amounts of defined benefit obligations recognised in the financial statements.

Amounts recognised in the consolidated statement of financial position:

	31 December 2010		31 December 2009	
	Post-employment benefits	Other benefits	Post-employment benefits	Other benefits
Present value of funded defined benefit obligations	2,186,413	54,889	1,861,434	41,698
Net actuarial loss not recognised in the Statement of financial position	(520,246)	-	(347,958)	-
Past service cost not recognised in the Statement of financial position	(520,868)	-	(582,522)	-
Net liability in the Statement of financial position	**1,145,299**	**54,889**	**930,954**	**41,698**

Amounts recognised in the consolidated statement of comprehensive income:

	Year ended 31 December 2010		Year ended 31 December 2009	
	Post-employment benefits	Other benefits	Post-employment benefits	Other benefits
Current service cost	126,570	3,407	106,374	2,853
Interest expenses	160,774	3,467	151,290	1,732
Recognised actuarial loss	17,979	13,416	-	7,226
Recognised past service cost	61,654	-	(8,010)	14,951
Total	**366,977**	**20,290**	**249,654**	**26,762**

(in thousands of Russian Roubles, unless otherwise stated)

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

	Year ended 31 December 2010		Year ended 31 December 2009	
	Post-employment benefits	Other benefits	Post-employment benefits	Other benefits
Benefit obligations				
Benefit obligations as at the beginning of the year	1,861,434	41,698	1,716,873	21,352
Current service cost	126,570	3,407	106,374	2,853
Interest cost	160,774	3,467	151,290	1,732
Actuarial losses	190,267	13,416	239,647	7,226
Benefits paid	(152,632)	(7,099)	(121,135)	(6,416)
Past service cost	-	-	(231,615)	14,951
Benefit obligations as at the end of the year	**2,186,413**	**54,889**	**1,861,434**	**41,698**

Changes in the Group's net benefit obligations are as follows:

	Year ended 31 December 2010		Year ended 31 December 2009	
	Post-employment benefits	Other benefits	Post-employment benefits	Other benefits
Net benefit obligations				
Net benefit obligations as at the beginning of the year	930,954	41,698	802,435	21,352
Net costs for the year	366,977	20,290	249,654	26,762
Benefits paid	(152,632)	(7,099)	(121,135)	(6,416)
Net benefit obligations as at the end of the year	**1,145 299**	**54,889**	**930,954**	**41,698**

Principal actuarial estimations are as follows:

	Year ended 31 December 2010		Year ended 31 December 2009	
	Post-employment benefits	Other benefits	Post-employment benefits	Other benefits
Discount rate	8.00%	8.00%	8.70%	8.70%
Future Salary increase	5.00%	5.00%	5.50%	5.50%
Future inflation rate	5.00%	5.00%	5.50%	5.50%
Mortality table	Russian 2002	Russian 2002	Russian 2002	Russian 2002
Average working life (in years)	12	12	13	13
Average period until benefits become vested	9	9	5	5

(in thousands of Russian Roubles, unless otherwise stated)

Note 18. Loans and borrowings

Non-current borrowings

	Effective interest rate,%	Currency	Year of maturity	31 December 2010	31 December 2009
Loans and borrowings					
including:					
OJSC Sberbank	8-12	RUB	2011	79,760	2,545,000
OJSC Gazprombank	7.5-8.8	RUB	2012-2014	6,049,649	4,300,500
OJSC Eurofinance	12.25-16	RUB	2010	-	174,548
OJSC TransCreditBank	7.61-12.61	RUB	2011-2012	1,000,000	1,784,000
OJSC Sviaz-Bank	7-13.71	RUB	2012-2013	5,297,916	701,702
Barclays Bank	7.65-7.92	RUB	2013-2014	2,000,000	-
OJSC Rosselkhozbank	16	RUB	2011-2012	3,277	4,915
Promissory notes	10-15.61	RUB	2011-2020	499,164	1,259,855
Non-current finance lease liability				21,112	51,848
Total non-current debt				**14,950,878**	**10,822,368**
Less current portion of non-current loans				(1,081,398)	(3,425,426)
Total				**13,869,480**	**7, 396,942**

Current borrowings

Creditor	Effective interest rate,%	Currency	31 December 2010	31 December 2009
Current borrowings				
including:				
OJSC Sberbank	8-12	RUB	45	7,644
OJSC Alfa-Bank	8.3-14	RUB	-	1,000,767
OJSC Gazprombank	7.5-8.8	RUB	29,220	51,136
OJSC Sviaz-Bank	8.58-12.8	RUB	881	1,024
Promissory notes	10.0	RUB	538,748	794,784
Current portion of non-current loans		RUB	1,081,398	3,425,426
Current Finance lease liability			27,821	56,465
Total			**1,678,113**	**5,337,246**

All loans and borrowings listed above are fixed interest rate instruments.

The Group has not entered into any hedging arrangements in respect of its fair value exposure.

As at 31 December 2009 the bank loans in the amount of RUB 370,000 thousand are secured by cash flows on certain power supply contracts in the amount of RUB 513,375 thousand.

As at 31 December 2010 the bank loans in the amount of RUR 3,277 thousand (as at 31 December 2009: RUR 4,915 thousand) are secured by equipment in the carryng amount of RUR 5,146 thousand (as at 31 December 2009: RUR 7,433 thousand) (see Note 7).

(in thousands of Russian Roubles, unless otherwise stated)

The Group leases production equipment and transport under a number of finance lease agreements. Finance lease liabilities are payable as follows:

	31 December 2010			31 December 2009		
	Minimum lease payments	**Interest**	**Principal**	**Minimum lease payments**	**Interest**	**Principal**
Less than one year	33,456	2,636	30,820	72,607	8,090	64,517
Between one and five years	23,029	4,916	18,113	59,918	15,695	44,223
	56,485	**7,552**	**48,933**	**132,525**	**23,785**	**108,740**

The finance lease liabilities are secured by leased assets.

The Group's exposure to currency, liquidity and interest rate risk related to borrowings and finance lease liabilities is disclosed in Note 31.

Note 19. Trade and other payables

Non-current payables

	31 December 2010	**31 December 2009**
Advances from customers	521,935	369,211
Other payables	126,646	116,721
Total	**648,581**	**485,932**

Current payables

	31 December 2010	**31 December 2009**
Trade payables	2,684,021	3,124,389
Advances from customers	2,385,817	2,457,108
Payables to employees	764,682	530,584
Dividends payable	56,160	61,780
Other payables	201,635	68,037
Total	**6,092,315**	**6,241,898**

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 31.

Note 20. Current tax liabilities

	31 December 2010	**31 December 2009**
Unified social tax payable	173,122	128,835
Other taxes payable	81,925	78,824
Property tax payable	38,471	29,529
Fines and other penalties payable	16,159	7,808
Value added tax payable	15,666	182,275
Total	**325,343**	**427,271**

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 31.

Note 21. Revenue

	Year ended 31 December 2010	**Year ended 31 December 2009**
Electricity transmission	53,190,697	45,688,797
Connection services	952,137	1,174,789
Other revenue	486,676	489,817
Total	**54,629,510**	**47,353,403**

Other revenues are comprised of repair, construction, maintenance services, rent services and transport services.

(in thousands of Russian Roubles, unless otherwise stated)

Note 22. Operating expenses

	Year ended 31 December 2010	Year ended 31 December 2009
Electricity transmission	19,628,861	16,436,408
Purchased electricity	12,581,903	9,979,481
Personnel costs	9,976,415	8,649,819
Depreciation and amortisation	3,640,252	3,745,708
Repair and maintenance	1,581,571	1,456,056
Materials	1,537,805	1,097,180
Allowance for impairment of debts	676,501	(59,243)
Consulting, legal and audit services	582,296	937,448
Electricity and heat power for own needs	424,876	329,716
Management fee	321,000	321,000
Rent	237,318	226,740
Insurance	205,429	237,614
Taxes other than income tax	186,931	192,294
Electricity metering services	145,620	546,962
Security services	126,104	112,257
Communication services	124,806	109,036
Land surveying	114,570	155,302
(Gain)/loss on the disposal of property, plant and equipment	(59,366)	37,177
Transportation expenses	45,648	136,373
Bank commission	42,134	49,426
Impairment of investments	32,969	-
Social expenditures and charity expenses	32,171	68,634
Other expenses	596,748	584,714
Total	**52,782,562**	**45,350,102**

Note 23. Personnel costs

	Year ended 31 December 2010	Year ended 31 December 2009
Wages and salaries	7,883,082	6,887,912
Insurance contributions (Unified social tax in 2009)	1,706,066	1,485,491
Expense in respect of post-employment defined benefit plan	387,267	276,416
Total	**9,976,415**	**8,649,819**

The average number of employees (including production and non-production staff) was 22,939 for year ended 31 December 2010 (21,198 for year ended 31 December 2009).

Note 24. Other income and expenses, net

	Year ended 31 December 2010	Year ended 31 December 2009
Other penalties	209,463	92,212
Surplus of assets	136,892	4,427
Accounts payable written-off	11,377	8,387
Other income and expenses, net	55,563	92,428
Total	**413,295**	**197,454**

The surplus of assets is represented by ownerless property identified by the Group during the stock take. The Group used the services of independent appraisers to determine the fair value of the identified assets recognized in the Statement of financial position.

(in thousands of Russian Roubles, unless otherwise stated)

Note 25. Finance income and costs

	Year ended 31 December 2010	Year ended 31 December 2009
Finance income		
Interest income	47,712	24,773
	47,712	**24,773**
Finance costs		
Interest expense	(1,071,020)	(950,115)
Interest expense of finance lease liabilities	(16,727)	(26,500)
	(1,087,747)	**(976,615)**
Net finance costs recognised in profit or loss	**(1,040,035)**	**(951,842)**

Note 26. Income tax expense

	Year ended 31 December 2010	Year ended 31 December 2009
Current income tax charge	616,850	356,573
(Over)/Underprovided in prior years	(48)	42,808
Deferred income tax (benefit)/charge	(235,859)	75,562
Income tax charge	**380,943**	**474,943**

The Group's applicable tax rate in the Russian Federation is the income tax rate of 20%.

Reconciliation of effective tax rate:

	Year ended 31 December 2010	%	Year ended 31 December 2009	%
Profit before income tax	**1,215,830**	**100**	**1,239,032**	**100**
Income tax at applicable tax rate	243,166	(20)	247,806	(20)
(Over)/Underprovided in prior years	(48)	0	42,808	(3)
Tax effect of items which are not deductible or taxable for taxation purposes	137,825	(11)	184,329	(15)
Welfare, social and discretionary payments to employees	*58,336*	*(5)*	*47,148*	*(4)*
Written-off receivables	-	-	*48,565*	*(4)*
Non-refundable VAT	*4,773*	*(0)*	*1,481*	*0*
Other	*74,716*	*(6)*	*87,135*	*(7)*
Total	**380,943**	**(31)**	**474,943**	**(38)**

Deferred tax assets and liabilities

For the year ended 31 December 2010 deferred tax assets and liabilities are attributable to the following items:

	31 December 2010	Recognised in profit or loss	Recognised in other comprehensive income	1 January 2010
Trade and other receivables	154,740	(84,497)	-	70,243
Inventories	51,325	1,442	-	52,767
Trade and other payables	233,870	(200,721)	-	33,149
Employee benefit obligation	240,037	(45,507)	-	194,530
Deferred tax assets	**679,972**	**(329,283)**	**-**	**350,689**
Property, plant and equipment	(2,845,898)	87,980	-	(2,757,918)
Trade and other payables	(25,134)	(3,525)	-	(28,659)
Employee benefit fund	(95,049)	7,748	-	(87,301)
Available-for-sale investments	(12,717)	1,221	3,344	(8,152)
Deferred tax liabilities	**(2,978,798)**	**93,424**	**3,344**	**(2,882,030)**
Net deferred tax liabilities	**(2,298,826)**	**(235,859)**	**3,344**	**(2,531,341)**

(in thousands of Russian Roubles, unless otherwise stated)

For the year ended 31 December 2009 deferred tax assets and liabilities are attributable to the following items:

	31 December 2009	**Recognised in profit or loss**	**Recognised in other comprehensive income**	**1 January 2009**
Trade and other receivables	70,243	53,394	-	123,637
Inventories	52,767	38,164	-	90,931
Trade and other payables	33,149	(5,583)	-	27,566
Employee benefit obligation	194,530	(29,773)	-	164,757
Other	-	11,019	-	11,019
Deferred tax assets	**350,689**	**67,221**	**-**	**417,910**
Property, plant and equipment	(2,757,918)	72,582	-	(2,685,336)
Trade and other receivables	-	(203)	-	(203)
Trade and other payables	(28,659)	(46,008)	-	(74,667)
Employee benefit fund	(87,301)	(18,030)	-	(105,331)
Available-for-sale investments	(8,152)	-	4,877	(3,275)
Deferred tax liabilities	**(2,882,030)**	**8,341**	**4,877**	**(2,868,812)**
Net deferred tax liabilities	**(2,531,341)**	**75,562**	**4,877**	**(2,450,902)**

Note 27. Related parties

(a) Control relationships

As at 31 December 2010 and 31 December 2009, IDGC Holding was the parent company of the Company.

The party with ultimate control over the Company is the Government of the Russian Federation, which held the majority of the voting rights of IDGC Holding.

(b) Transactions with the parent and entities under common control of the parent

Transactions with the Parent's subsidiaries and associates were as follows:

	Year ended 31 December 2010	**Year ended 31 December 2009**
Expenses	**321,048**	**321,000**
Other expenses	321,048	321,000

All outstanding balances with related parties are to be settled in cash within a year of the Statement of financial position date. None of the balances are secured.

Balances on settlements were as follows:

	31 December 2010	**31 December 2009**
Accounts receivable and prepayments	2,540	2,315
Less: Allowance for impairment of debts	(2,148)	-
Accounts payable and accrued liabilities	(18,941)	(20,323)

Related party revenue for electricity transmission and connection services is based on the tariffs determined by the Government; other related party transmissions are based on normal market prices.

(c) Transactions with other state controlled entities

In the normal course of business the Group enters into transactions with other entities under Government control. Prices for electricity and heat are based on tariffs set by the Federal Service on Tariffs and the regional services on tariffs. Bank loans are provided on the basis of market rates.

(in thousands of Russian Roubles, unless otherwise stated)

The Group had the following significant transactions with state-controlled entities:

	Year ended 31 December 2010	Year ended 31 December 2009
Revenue		
Electricity transmission	2,803,934	65,595
Connection services	284,368	255,478
Other sales	75,050	86,347
Interest income	42,099	8,782
Expenses		
Electricity transmission fee	(12, 839,630)	(9,963,820)
Purchased electricity	(125,408)	-
Other expenses	(316,235)	(118,142)
Interest expenses	(785,151)	(542,661)

The Group had the following significant balances with state-controlled entities:

	31 December 2010	31 December 2009
Accounts receivable and prepayments	1,104,053	1,321,781
Allowance for impairment of debts	(71,806)	(88,960)
Loans and borrowings	(12,470,138)	(9,391,006)
Accounts payable and accrued liabilities	(1,546,782)	(1,487,978)

(d) Transactions with management and close family members

There are no transactions or balances with key management and their close family members, except for remuneration in the form of salary and bonuses.

Compensation is paid to members of the Board of Directors and Top management for their services in full time management positions. The compensation is made up of a contractual salary, non-cash benefits, and performance bonuses depending on results for the period according to Russian statutory financial statements.

Members of the Board of Directors and the Top management of the Group received the following remuneration:

	Year ended 31 December 2010		Year ended 31 December 2009	
	Members of Board of Directors	Top management	Members of Board of Directors	Top management
Salaries and bonuses	17,837	141,539	11,776	155,800

Note 28. Operating leases

The Group leases a number of land plots owned by local governments under operating lease.

Land lease payments are determined by lease agreements and are as follows:

	31 December 2010	31 December 2009
Less than one year	195,663	161,969
Between one year and five years	549,113	338,185
After five years	5,023,183	2,819,739
Total	**5,767,959**	**3,319,893**

The land areas leased by the Group are the territories on which the Group electricity grids, substations and other assets are located. Some contracts for land lease are concluded for 49 years, other contracts are concluded for one year with prolongation. Lease payments are reviewed regularly to reflect market rentals.

In accordance with contracts for land lease the land title does not pass. After contract term expiration it can be terminated. The rent paid to the landlord of the land is increased to market rent at regular intervals, and the Group does not participate in the value of the land, it was determined that substantially all the risks and rewards of the land are with the landlord. As such, the Group determined that the leases are operating leases.

During the year ended 31 December 2010 RUB 237,318 thousand (2009: RUR 226,740 thousand) was recognised in profit or loss in respect of operating lease.

(in thousands of Russian Roubles, unless otherwise stated)

Lease payments of contractors when the Company acts as a lessor are as follows:

	31 December 2010	31 December 2009
Less than one year	48,353	61,313
Between one year and five years	22,603	15,573
After five years	225,596	147,238
Total	**296,552**	**224,124**

Note 29. Commitments

Capital commitments

As at 31 December 2010 the Group has outstanding commitments under contracts for the purchase and construction of property, plant and equipment for RUB 4,468,206 thousand (as at 31 December 2009: RUB 5,031,120 thousand).

Note 30. Contingencies

Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its stations, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

Legal proceedings

The Group is a party to certain legal proceedings arising in the ordinary course of business.

In the opinion of management, there are no current legal proceedings or other claims outstanding, which, upon final disposition, will have a material adverse effect on the financial position of the Group.

As at 31 December 2010 one of the Group's customers is proceeding with litigation against the Company and is seeking the reimbursement of RUR 527,830 thousand. In the opinion of management, after taking appropriate legal advice, this case will be resolved in the Group's favour.

Taxation

The taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes 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 and substance-based position in their interpretation and enforcement of tax legislation.

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

Environmental matters

The Group and its predecessors have operated in the electric power industry in the Russian Federation for many years. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group entities periodically evaluate their obligations under environmental regulations.

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

(in thousands of Russian Roubles, unless otherwise stated)

Other contingencies

The Group believes that all Group's sales arrangements are generally in compliance with the Russian legislation regulating electric power transmission. However, based on uncertainty of legislation that regulates the lease of Unified National Electricity Network property ("last-mile") by the Group there is a risk that customers may challenge that the Group has no legal ground to invoice them and hence recognize revenue for electric power transmission services provided via leased "last-mile" grids and courts agree with the customers' view. The potential amount of such claims could be significant, but cannot be reliably estimated as each claim would have individual legal circumstances and respective estimation would be based on variety of assumptions and judgments, which makes it impracticable. The Group did not recognize as at the reporting date any provision for those actual and potential claims as it believes that it is not probable that related outflow of resources or decrease of benefits inflow will take place. The Group believes that expected changes in legislation will further reduce the level of risk.

Note 31. Financial instruments

(a) Fair value hierarchy

The fair value of financial assets and liabilities is determined as follows:

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- The fair value of other financial assets and financial liabilities (excluding derivatives) are determined in accordance with generally accepted pricing models based on a discounted cash flow analysis using prices from observable current market transactions.

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

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

	31 December 2010	31 December 2009
Level 1	539,384	489,141
Total	**539,384**	**489,141**

The financial instruments of the Group carried at fair value represent available-for-sale investments.
Management believes that at the reporting date the fair value of the Group's financial assets and liabilities approximates their carrying amounts.

(b) Credit risk

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

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk as of the reporting date is represented in the table below:

	31 December 2010	31 December 2009
Cash and cash equivalents	3,178,751	2,501,533
Available-for-sale investments	64,141	52,637
Accounts receivables (net of allowance for impairment)	3,941,992	5,507,422
Other non-current assets (net of allowance for impairment)	23,959	102,616
Financial assets related to employee benefit fund (available for sale)	475,243	436,504
Total	**7,684,086**	**8,600,712**

(in thousands of Russian Roubles, unless otherwise stated)

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

	31 December 2010	31 December 2009
Electricity transmission	4,168,470	5,087,730
Connection services	155,314	180,265
Electricity and heat power	127,825	156,073
Other sales	143,043	84,182
Less: Allowance for impairment of accounts receivable	(853,894)	(474,858)
Total	**3,740,758**	**5,033,392**

The aging of trade and other receivables not impaired at the reporting date was:

	31 December 2010	31 December 2009
Not past due	3,645,505	4,029,538
Past due not more 3 months	67,524	478,643
Past due more than 3 months and not more than 6 months	62,100	388,471
Past due more than 6 months and not more than 1 year	111,868	465,129
Past due more than one year	78,954	248,257
Total	**3,965,951**	**5,610,038**

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

	31 December 2010	31 December 2009
Opening balance	**495,309**	**826,512**
Charge of additional allowance for doubtful debtors	758,154	407,703
Reversal of the allowance for doubtful debtors	(103,005)	(466,946)
Accounts receivable written off through allowance for bad debts	(273,816)	(271,960)
Closing balance	**876,642**	**495,309**

The allowance accounts in respect of trade and other receivables are used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amounts considered irrecoverable and is written off against the financial asset directly.

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group monitors the risk of cash shortfalls by means of current liquidity planning. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. This approach is used to analyze payment dates associated with financial assets, and also to forecast cash flows from operating activities.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements.

As at 31 December 2010:

	Carrying amount	Forecast cash flows	12 months	1-2 years	2-5 years	Over 5 years
Financial liabilities:						
Loans and borrowings	15,498,660	16,290,077	1,727,476	3,178,482	11,384,119	-
Finance lease liabilities	48,933	56,485	33,456	22,256	773	-
Trade and other payables	2,812,814	2,908,399	2,687,192	36,031	126,833	58,343
Total	**18,360,407**	**19,254,961**	**4,448,124**	**3,236,768**	**11,511,725**	**58,343**

(in thousands of Russian Roubles, unless otherwise stated)

As at 31 December 2009:

	Carrying amount	Forecast cash flows	12 months	1-2 years	2-5 years	Over 5 years
Financial liabilities:						
Loans and borrowings	12,625,875	13,957,624	5,388,422	1,159,911	7,409,291	-
Finance lease liabilities	108,313	132,591	72,673	36,959	22,959	-
Trade and other payables	3,370,927	3,422,261	3,193,134	7,920	126,833	94,374
Total	**16,105,115**	**17,512,476**	**8,654,229**	**1,204,790**	**7,559,083**	**94,374**

(d) Foreign exchange risk

The Group primarily operates within the Russian Federation. The majority of the Group's operations are denominated in RUB.

(e) 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 through market value fluctuations of interest-bearing long-term borrowings. The majority of interest rates on long term and short term borrowings are fixed, these are disclosed in Note 18. The Group has no significant interest-bearing assets. Currently the Group does not operate a formal management program focusing on the unpredictability of financial markets or seeking to minimise potential adverse effects on the financial performance of the Group.

Fair values sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit and loss. Therefore a change in interest rates at the reporting date would not affect profit or loss.

(f) Capital management

Management's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Management monitors the return on capital, which the Group defines as net profit after tax divided by total shareholders' equity.

Management seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

There were no changes in the Group's approach to capital management during the year.

No Group's entity is subject to externally imposed capital requirements.