Interregional Distribution Grid (IDG) Company of North-West

Consolidated Financial Statements
for the year ended 31 December 2010

Contents

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Independent Auditors' Report

Board of Directors

Open Joint Stock Company Interregional Distribution Grid Company of North-West

We have audited the accompanying consolidated financial statements of Open Joint Stock Company Interregional Distribution Grid Company of North-West (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

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29 April 2011

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2010

(in thousand of Russian roubles, except share and per share data)

	Notes	Year ended 31 December 2010	Year ended 31 December 2009
Revenue:			
Power transmitting		22,901,315	21,642,603
Sale of electricity		4,699,421	3,688,120
Connection to power network		668,035	496,586
Other revenue		631,001	921,700
Total revenue		**28,899,772**	**26,749,009**
Government subsidies received		62,345	65,210
Expenses:			
Power transmitting services		(8,331,793)	(7,183,403)
Salaries and other personnel expenses	6	(7,084,209)	(6,636,771)
Electric power to cover losses		(3,874,292)	(3,233,670)
Depreciation and amortization of non-current assets		(2,576,826)	(2,455,662)
Electric purchases for resale		(2,463,706)	(1,900,184)
Raw materials used		(1,411,422)	(1,292,460)
Network and equipment repair services		(521,688)	(615,071)
Taxes other than income tax		(158,171)	(160,220)
Other industrial services		(44,124)	(372,462)
Other services		(1,218,138)	(1,311,593)
Other operating expenses		(1,437,095)	(920,183)
Operating result		**(159,347)**	**732,540**
Other non-operating income/(expenses), net		284,079	(158,707)
Finance costs, net	7	(397,451)	(495,874)
(Loss)/profit before income tax		**(272,719)**	**77,959**

The accompanying notes on pages 13 to 63 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2010

(in thousand of Russian roubles, except share and per share data)

	Notes	Year ended 31 December 2010	Year ended 31 December 2009
Income tax expense	8	(39,992)	(29,696)
(Loss)/profit for the year		**(312,711)**	**48,263**
Other comprehensive income			
Changes in fair value of available-for-sale investments		5,456	15,154
Income tax on other comprehensive income	8	(1,091)	(3,031)
Other comprehensive income for the year, net of income tax		4,365	12,123
Total comprehensive (loss)/income for the year		**(308,346)**	**60,386**
(Loss)/profit attributable to:			
Equity holders of the Company		(312,725)	47,812
Non-controlling interests		14	451
		(312,711)	**48,263**
Total comprehensive (loss)/income attributable to:			
Equity holders of the Company		(308,360)	59,935
Non-controlling interests		14	451
		(308,346)	**60,386**
Earnings per share based on weighted average number of ordinary shares in issue			
Basic and diluted earnings per share (expressed in RUB)		(0.0033)	0.0005
Weighted average number of ordinary shares in issue	16	95,785,923,138	95,785,923,138

Deputy General Director - Chief Engineer Turlov G. V.

Deputy General Director for economy and finances Makarova O. V.

Chief Accountant Maksimova T. V.

29 April 2011

The accompanying notes on pages 13 to 63 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position
as at 31 December 2010

(in thousand of Russian roubles)

	Notes	31 December 2010	31 December 2009
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	9	27,223,239	27,058,826
Intangible assets	10	57,163	99,545
Deferred tax assets	8	3,626	4,956
Investment in securities and other financial assets	11	161,507	94,963
Other non-current assets	12	700,627	581,174
TOTAL NON-CURRENT ASSETS		**28,146,162**	**27,839,464**
CURRENT ASSETS			
Accounts receivable and prepayments	13	4,191,680	4,838,854
Income tax receivable		66,802	152,555
Inventories	14	689,151	695,855
Other current assets		252,752	122,228
Assets classified as held for sale	22	980	-
Cash and cash equivalents	15	1,154,604	569,207
TOTAL CURRENT ASSETS		**6,355,969**	**6,378,699**
TOTAL ASSETS		**34,502,131**	**34,218,163**
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Share capital	16	9,578,592	9,578,592
Retained earnings		751,502	1,064,227
Merger reserve	16	10,457,284	10,457,284
Other reserves		16,488	12,123
EQUITY ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY		**20,803,866**	**21,112,226**
Non – controlling interests		727	733
TOTAL EQUITY		**20,804,593**	**21,112,959**

The accompanying notes on pages 13 to 63 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position
as at 31 December 2010

(in thousand of Russian roubles)

	Notes	31 December 2010	31 December 2009
NON-CURRENT LIABILITIES			
Long-term loans and borrowings	17	4,372,530	2,809,394
Retirement benefit obligations	19	1,313,833	1,255,506
Deferred tax liabilities	8	1,824,985	1,945,777
Other non-current liabilities	20	812,861	630,596
TOTAL NON-CURRENT LIABILITIES		**8,324,209**	**6,641,273**
CURRENT LIABILITIES			
Accounts payable and advances received	21	4,345,352	3,938,385
Current obligations under finance leases	18	-	49,814
Current taxes payable		497,814	557,976
Income tax payable		154,161	1,270
Current loans and borrowings	17	308,069	1,916,486
Current provisions		64,758	-
Liabilities directly associated with assets classified as held for sale	22	3,175	-
TOTAL CURRENT LIABILITIES		**5,373,329**	**6,463,931**
TOTAL LIABILITIES		**13,697,538**	**13,105,204**
TOTAL EQUITY AND LIABILITIES		**34,502,131**	**34,218,163**

Deputy General Director - Chief Engineer — Turlov G. V.

Deputy General Director for economy and finances — Makarova O. V.

Chief Accountant — Maksimova T. V.

29 April 2011

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Consolidated Statement of Changes in Equity
for the year ended 31 December 2010

(in thousand of Russian roubles)

	Attributable to equity holders of the Company						
	Share capital	**Retained earnings**	**Merger reserve**	**Other reserves**	**Total**	**Non-controlling interests**	**Total equity**
Balance at 01 January 2009	**9,578,592**	**1,016,415**	**10,457,284**	**-**	**21,052,291**	**322**	**21,052,613**
Total comprehensive income for the year							
Profit for the year	-	*47,812*	-	-	*47,812*	*451*	*48,263*
Other comprehensive income for the year	-	-	-	*12,123*	*12,123*	-	*12,123*
Total comprehensive income for the year	-	47,812	-	12,123	59,935	451	60,386
Transactions with owners recognized directly in equity							
Payment of dividends	-	-	-	-	-	(40)	(40)
Balance at 31 December 2009	**9,578,592**	**1,064,227**	**10,457,284**	**12,123**	**21,112,226**	**733**	**21,112,959**

Consolidated Statement of Changes in Equity
for the year ended 31 December 2010

(in thousand of Russian roubles)

	Attributable to equity holders of the Company						
	Share capital	Retained earnings	Merger reserve	Other reserves	Total	Non-controlling interests	Total equity
Total comprehensive income for the year							
(Loss)/profit for the year	*-*	*(312,725)*	*-*	*-*	*(312,725)*	*14*	*(312,711)*
Other comprehensive income	*-*	*-*	*-*	*4,365*	*4,365*	*-*	*4,365*
Total comprehensive income for the year	-	(312,725)	-	4,365	(308,360)	14	(308,346)
Transactions with owners recognized directly in equity							
Payment of dividends	-	-	-	-	-	(20)	(20)
Balance at 31 December 2010	**9,578,592**	**751,502**	**10,457,284**	**16,488**	**20,803,866**	**727**	**20,804,593**

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29 April 2011

The accompanying notes on pages 13 to 63 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows
for the year ended 31 December 2010
(in thousand of Russian roubles)

	Year ended 31 December 2010	Year ended 31 December 2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
(Loss)/profit for the year	**(312,711)**	**48,263**
Adjustments for non-cash transactions:		
Income tax expense recognised in profit or loss	39,992	29,696
Net finance costs	397,451	495,874
Depreciation and amortisation of non-current assets	2,576,826	2,455,662
(Profit)/loss from disposal of PPE	(86,403)	56,660
Other non-cash losses	677	1,614
Operating cash flows before changes in working capital and provisions	**2,615,832**	**3,087,769**
Working capital changes		
Decrease /(increase) in accounts receivable and prepayments	713,352	(1,652,125)
Decrease in inventories	6,704	51,476
(Increase)/decrease in other current assets	(131,504)	79,553
Changes in retirement benefit obligations and related assets	(58,203)	(29,319)
Increase in accounts payable, advances received and provisions	674,608	1,637,856
Cash generated by operations	**3,820,789**	**3,175,210**
Interest paid	(471,074)	(675,483)
Income tax recovered/(paid)	78,099	(151,760)
Net cash generated by operating activities	**3,427,814**	**2,347,967**

Consolidated Statement of Cash Flows
for the year ended 31 December 2010
(in thousand of Russian roubles)

	Year ended 31 December 2010	Year ended 31 December 2009
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from disposal of property, plant and equipment	86,057	23,772
Purchase of property, plant and equipment and other non-current assets	(2,840,653)	(2,497,730)
Interest received	8,831	9,531
Other investment income received	48	165
Net cash used in investing activities	**(2,745,717)**	**(2,464,262)**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from loans and borrowings	9,723,954	9,705,709
Repayments of loans and borrowings	(9,766,718)	(9,673,114)
Repayments of finance leases	(49,814)	(53,556)
Dividends paid	(4,122)	(12,199)
Net cash used in financing activities	**(96,700)**	**(33,160)**
Net increase/(decrease) in cash and cash equivalents	**585,397**	**(149,455)**
Cash and cash equivalents at the beginning of the year (Note 15)	**569,207**	**718,662**
Cash and cash equivalents at the end of the year (Note 15)	**1,154,604**	**569,207**

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Deputy General Director for economy and finances Makarova O. V.

Chief Accountant Maksimova T. V.

29 April 2011

The accompanying notes on pages 13 to 63 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2010

1. THE GROUP AND ITS OPERATIONS

Background

Open Joint Stock Company Interregional Distribution Grid Company of North-West ("IDGC of North-West" or the "Company") was established in December 2004 in accordance with the laws of the Russian Federation. The Company was formed during the process of re-organization of JSC "RAO UES of Russia" ("RAO UES") as the owner and operator of the electric power transmission and distribution grid in the North-West Region of Russia.

The registered office of the Company is Sobornaya str. 31, Gatchina, Leningradskaya oblast, 188300, the Russian Federation. The Company's main offices are at Voronezhskaya str. 5, building "A", Saint Petersburg, 191119, the Russian Federation.

Formation of the Group

On 27 April 2007 the Board of Directors of RAO UES approved the structure of the Interregional Distribution Grid Companies. Under the approved structure, the IDGC Group (the "Group") incorporated IDGC of North-West with seven branches, located in Arkhangelsk, Vologda, Syktyvkar, Novgorod, Pskov, Petrozavodsk and Murmansk and subsidiaries. The principal subsidiaries are listed in Note 4.

The branches were formed on the basis of seven Regional Distribution Grid Companies: JSC "Arkhenergo", JSC "Vologdaenergo", JSC "AEK Komienergo", JSC "Novgorodenergo", JSC "Pskovenergo", JSC "Karelenergo", JSC "Kolenergo", all of which were subsidiaries of RAO UES prior to the formation of the Group. The merger was a business combination among entities under common control, and has been accounted for using the predecessor accounting method (see Note 2).

On 1 July 2008 RAO UES ceased to exist as a separate legal entity and transferred its 55.4% of the Company's shares to JSC IDGC Holding, a state-controlled entity.

Relations with the state and current regulations

The Group's business is a natural monopoly which is under the influence of the Russian government. The government of the Russian Federation directly affects the Group's operations through state tariffs.

In accordance with legislation, the Group's tariffs are controlled by the Federal Service on Tariffs and the Regional Energy Commissions.

The Russian electric utilities industry in general and the Group in particular are presently undergoing a reform process designed to introduce competition into the electricity sector and to create an environment in which the Group could raise the capital required to maintain and expand current capacity.

Currently, the system of tariff setting of the Russian electric utilities industry is undergoing a reform process. The Regulatory Asset Base ("RAB") tariffs setting system is being implemented in the Russian Federation.

Russian business environment

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

2. BASIS OF PREPARATION

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and its interpretations adopted by the International Accounting Standards Board ("IASB").

The Group companies maintain their accounting records in Russian Roubles ("RUB") in accordance with the accounting and reporting regulations of the Russian Federation. Russian statutory accounting principles and procedures differ substantially from those generally accepted under IFRS. Accordingly, the consolidated financial statements, which have been prepared using the Group's statutory accounting records, reflect adjustments necessary for such consolidated financial statements to be presented in accordance with IFRS.

Basis of measurement

The consolidated IFRS financial statements are prepared on the historical cost basis except for investments available-for-sale that are stated at fair value; property, plant and equipment was revalued as of 1 January 2007 by an independent appraiser to determine deemed cost as part of the adoption of IFRSs.

Functional and presentation currency

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

Predecessor accounting

In 2008 the Group accounted for the merger with entities controlled by RAO UES as business combination among entities under common control in accordance with its accounting policy using the predecessor values method. Accordingly, assets and liabilities of the contributed entities were combined from the earliest period presented and accounted for at the carrying value, as determined by RAO UES in its IFRS consolidated financial statements.

The difference between the consideration paid and the predecessor carrying values of the net assets relating to the merger of the entities under common control is recorded in equity as a merger reserve.

Use of estimates

In the application of the Group's accounting policies, which are described in Note 3 below, management is required to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

In particular, information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following areas.

Trade and other receivables

Accounts receivable are stated at their net realisable value after deducting an allowance for doubtful accounts. The allowance for doubtful accounts is the Group's best estimate of probable credit losses in the Group's existing accounts receivable balances. In estimating the allowance, management considers a number of factors including current overall economic conditions, industry-specific economic conditions and historical and anticipated customer performance. Uncertainties regarding changes in the financial condition of customers, either adverse or positive, could impact the amount and timing of any additional allowances for doubtful accounts that may be required.

Useful economic life and residual value of property, plant and equipment

The estimated useful lives are based on management's business plans and operational estimates, related to assets.

The factors that could affect the estimation of a non-current asset's useful life and its residual value include the following:

- changes in asset utilization rates;
- changes in maintenance technology;
- changes in regulations and legislation; and
- unforeseen operational issues.

Any of the above could affect the prospective depreciation of property, plant and equipment and their carrying and residual values.

At each reporting period end, management reviews the appropriateness of assets' useful economic lives. The review is based on the current condition of the assets and the estimated period during which they will continue to bring economic benefit to the Group.

Impairment of assets

The carrying amount 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. This requires the Group to make judgments regarding long-term forecasts of future revenues and costs related to the assets subject to review. In turn, these forecasts are uncertain in that they require assumptions about demand for products and future market conditions. Significant and unanticipated changes to these assumptions and estimates included within the impairment reviews could result in significantly different results than those recorded in the consolidated financial statements.

Taxation

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

In addition, the Group records deferred tax assets at each end of reporting period based on the amount that management believes will be utilised in future periods. This determination is based on estimates of future profitability. A change in these estimates could result in the write off of deferred tax assets in future periods for assets that are currently recognised in the consolidated statement of financial position. In estimating levels of future profitability, the Group has considered historical results of operations in recent years and would, if necessary, consider the implementation of prudent and feasible tax planning strategies to generate future profitability. If future profitability is less than the amount that has been assumed in determining the deferred tax asset, then all or part of the asset is derecognised, with a corresponding charge against income. On the other hand, if future profitability exceeds the level that has been assumed in calculating the deferred tax asset, the asset is recognised, with a corresponding credit to income.

Provisions

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

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

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

Present obligations arising under onerous contracts are recognised and measured as a provision. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

Allowance for slow-moving inventory

The Group recognises an allowance for obsolete and slow-moving raw materials. Estimates of net realisable value of inventories are based on the most reliable evidence available at the time the estimates are made. These estimates take into consideration fluctuations of prices or costs directly relating to events occurring subsequent to the end of reporting period to the extent that such events confirm conditions existing at the end of the reporting period. Changes in the supply and demand for the products, any subsequent changes to prices or costs may require adjustments to the estimated allowance for obsolete and slow-moving raw materials.

In management's view there are no assumptions or estimation uncertainties that may have a significant risk of resulting in a material adjustment within the year after the reporting period.

Changes in accounting policies and presentation

With effect from 1 January 2010, the Group changed its accounting policies in the following areas:

- accounting for business combinations
- accounting for leases of land

Accounting for business combinations

From 1 January 2010 the Group has applied IFRS 3 Business Combinations (2008) in accounting for business combinations. The change in accounting policy has been applied prospectively and has had no material impact on earnings per share.

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

Acquisitions on or after 1 January 2010

For acquisitions on or after 1 January 2010, the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus

  the recognised amount of any non-controlling interests in the acquiree; plus, if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less

- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination, are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

Accounting for leases of land

The amendment to IAS 17 Leases regarding the leases of land became effective from 1 January 2010. The amendment removed the earlier exemption which allowed leases of land to be classified as operating leases regardless of the length of the lease term. The amended guidance requires all existing leases of land to be reassessed and reclassified if necessary as finance leases if the finance lease classification criteria are met. At 1 January 2010, the Group reassessed all existing land lease contracts and as a result it was assessed that existing land lease contracts do not qualify as finance lease contracts and therefore, the classification was not changed (see note 25).

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities, except as explained in note 2, which addresses changes in the accounting policies

Basis of consolidation

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

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date control commences until the date control ceases. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group. All intra-group transactions and balances, and any unrealised income and expenses arising from intragroup transactions, are eliminated in full on consolidation.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group’s equity therein. Non-controlling interests are measured at the non-controlling interest’s proportionate share of the acquiree’s identifiable net assets. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in non-controlling interests having a deficit balance.

Acquisitions from entities under common control

A business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group is 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 their carrying amounts in the financial statements of the entities transferred. If these companies previously have not prepared IFRS financial statements, assets and liabilities are determined in accordance with IFRS 1. Any difference between the book value of net assets acquired and consideration paid is recognised as a part of merger reserve in equity.

Disposals to entities under common control

Disposals of controlling interests in entities to the same controlling shareholder that controls the Company are accounted for at the date of transfer of shares from the Group. The assets and liabilities sold are derecognised at their book values as recognised in the financial statements of the Group. Any difference between the book value of net assets sold and consideration received is recognised as a contribution from, or a distribution to, shareholders.

Foreign currencies

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each end of reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the end of reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction.

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.

Property, plant and equipment

Owned assets

Items of property, plant and equipment, except for land, are measured at historical cost (or deemed cost) less accumulated depreciation and impairment loss. Land is measured at cost less accumulated impairment loss. The deemed cost of property, plant and equipment of the branches, which were merged into the Group, was determined by reference to its fair value as at 1 January 2007, the date of transition to IFRS.

Cost includes expenditures that are 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 the items and restoring the site on which they are located, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Items of property, plant and equipment transferred from customers or purchased using cash transferred from customers are measured at fair value on initial recognition.

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 in “other non-operating income/expense” in the consolidated statement of comprehensive income.

Subsequent expenditure

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately is capitalised, with the carrying amount of the component replaced being written off. Other subsequent expenditure is capitalised if a future economic benefit will arise from the expenditure. All other expenditure, including repairs and maintenance expenditure, is recognised in the consolidated statement of comprehensive income as an expense as incurred.

Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Plant and equipment acquired by way of a finance lease is initially recognised at an amount equal to the lower of its fair value and the present value of the minimum lease payment at inception of the lease.

Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy for that asset.

The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and a reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized.

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 charged to comprehensive income on a straight-line basis over the estimated useful lives of each 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. Depreciation commences on the date when an asset is ready for its intended use. Land is not depreciated.

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

- Buildings and structures 7-50 years;
- Power conversion equipment 5-29 years;
- Power transmission equipment 7-33 years;
- Other 2-30 years.

The depreciation policy for depreciable leased assets is consistent with that for depreciable assets that are owned. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life.

Intangible assets

All of the Group's intangible assets have finite useful lives and are capitalised on the basis of the costs incurred to acquire and prepare them for their intended use. Intangible assets are amortised using the straight-line method from the date they are ready for use over their useful lives, for the current and comparative periods, as follows:

- Software 3-15 years;
- Licenses and certificates 3-5 years.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Immediately before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets (or disposal group) are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets and investment property, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains and losses on remeasurement are recognised in the consolidated statement of comprehensive income. Gains are not recognised in excess of any cumulative impairment loss.

Financial assets

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

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.

Held-to-maturity financial assets

Held-to-maturity financial assets are financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity other than loans and accounts receivable originated by the Group. 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 rate method less any impairment loss.

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

Income is recognised on an effective interest rate basis for debt instruments other than those financial assets designated as at FVTPL.

Available for sale financial assets

Available for sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the end of reporting period. Available-for-sale financial assets mainly include investments in listed and unlisted shares. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, listed shares held by the Group that are traded in an active market are stated at fair value. Gains and losses arising from changes in fair value are recognised in other comprehensive income in the investment revaluation reserve with the exception of impairment losses, interest calculated using the effective interest rate method and foreign exchange gains and losses on monetary assets, which are recognised directly in profit and loss. Where an investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investment revaluation reserve is included in profit and loss for the period. Dividends on available-for-sale equity instruments are recognized in the consolidated statement of comprehensive income when the Group's right to receive the dividends is established. Investments in unlisted shares that do not have a quoted market price in an active market and whose fair value can not be readily measured are stated at cost less impairment losses.

Financial assets at fair value through profit or loss

An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Upon initial recognition attributable transaction costs are recognised in profit or loss when incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

Loans and receivables

Trade and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as receivables. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, trade and other receivables are measured at amortised cost using the effective interest rate method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of 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, the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Group considers evidence of impairment for receivables and held-to-maturity investment securities at both a specific asset and collective level. All individually significant receivables and held-to-maturity investment securities are assessed for specific impairment. All individually significant 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. Receivables and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together 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 receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income, and presented in the fair value reserve in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognised in 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 time value 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.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Spare parts

Spare parts and servicing equipment are carried as inventory and recognized in profit or loss as consumed. However, major spare parts and stand-by equipment qualify as property, plant and equipment when an entity expects to use them during more than one period. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of inventories is calculated on the weighted average basis or using the specific identification method and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and cash deposits and highly liquid investments with original maturities of three months or less, those are readily convertible to known amount of cash and are subject to an insignificant risk of change in value. 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.

Impairment of 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, recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, cash generating units to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of cash generated units that are expected to benefit from the synergies of the combination.

The Group's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the cash generating unit to which the corporate asset belongs.

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

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

Goodwill that forms part of the carrying amount of an investment in an equity accounted investee is not recognised separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in an equity accounted investee is tested for impairment as a single asset when there is objective evidence that the investment in an equity accounted investee may be impaired.

Dividends

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

Financial liabilities

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. Other financial liabilities (including liabilities designated at fair value through profit or loss) are recognised on the trade date at which the Group becomes a party to the contractual provisions of the agreement.

Financial liabilities, including loans and borrowings, trade and other payables, are recognised initially at fair value plus any directly attributable transaction costs.

Financial liabilities are subsequently measured at amortised cost using the effective interest rate method, with interest expense recognised on an effective yield basis.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Retirement benefit obligations

Long-term employee benefits provided by the Group include defined contribution plans, defined benefit plans and other long-term employee benefits.

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 plans, including Russia's State pension fund, are recognised in as an employee benefit expense in profit and loss in the periods during which services are rendered by the employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Defined benefit post-employment 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 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 benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised in profit and 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 and loss.

The Group recognises all actuarial gains and losses in profit and loss for the reporting period under the 10% corridor of the post-employment benefit obligation.

Other long-term employee benefits

Other long-term defined benefit plans provided by an entity regulated by Collective Bargaining Agreements include: benefits in connection with the jubilee dates of employees' birthdays, one-time benefits paid in case of death, one-time benefits paid upon retirement or invalidity and financial support to honored workers. 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.

Share capital

Ordinary shares

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

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is stated net of value added tax (VAT).

Rendering of services

Revenue from transmitting electricity is recognised on a straight-line basis over the period the service was rendered based on the actual amount provided, determined based on measurements of a supply meter.

Revenue for connection to the power network is recognised either at the full amount at the moment of actual connection of the customer to the network or by reference to the stage of completion if those stages are specifically defined in the sales contract.

Dividends and interest income

Dividend revenue from investments is recognised when the shareholder’s right to receive payment has been established.

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

Government grants

Government grants are recognised initially as deferred income when there is reasonable assurance that they will be received and that the Group will comply with the conditions associated with the grant. Grants that compensate the Group for expenses incurred are recognised in profit or loss on a systematic basis in the same periods in which the expenses are recognised. Grants that compensate the Group for investment in property, plant and equipment are recognized as deferred income and amortized during the useful life of related asset.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in profit or loss using the effective interest method in the period in which they are incurred.

Income Tax

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

Current tax

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

Deferred tax

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

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

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

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Segment reporting

Under IFRS 8 operating segments are components of an enterprise that engage in business activities (from which they may earn revenues and incur expenses) and about which separate financial information is available that is evaluated regularly by the chief operating decision-maker (the "CODM") in deciding how to allocate resources and in assessing performance. Segment financial information is presented in the consolidated financial statements in a manner similar to those provided to the CODM. The amount of each segment item reported is the measure reported to the CODM. Total amounts of segment information are reconciled to those in the consolidated financial statements.

New standards and Interpretations not yet adopted

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

- Revised IAS 24 *Related Party Disclosures (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. The Group has not yet determined the potential effect of the amendment.

- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2011. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

4. GROUP SUBSIDIARIES

The Group's consolidated financial statements include the following subsidiaries that are incorporated in Russian Federation:

Subsidiary	Principal activity	Ownership as at 31 December 2010, %	Ownership as at 31 December 2009, %
CHOP Energia	Security services	80	80
Lesnaya skazka	Recreation	98	98
Pskovenergoagent	Collection services	100	100
Pskovenergosbyt	Sale of electricity	100	100
Pskovenergoavto	Transportation services	100	100

5. OPERATING SEGMENTS

The Management Board of the Company has been determined as the Group 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 IDGC North-West) and segments relating to other activities (represented by separate legal entities).

The Management Board regularly evaluates and analyzes financial information of the segments reported in the statutory financial statements of respective segment entities on at least a quarterly basis.

In accordance with the 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 - Arkhangelsk, Karelia, Komi, Murmansk, Novgorod, Pskov and Vologda – branches of IDGC North-West;
- Energy Retail Segment – Pskovenergosbyt;
- Other Segments – other Group companies.

Unallocated balances comprise mainly of corporate assets (primarily the Group headquarters), including cash balances, obligations on loans, deferred income tax assets and liabilities.

Segment items are based on financial information reported in statutory accounts and can differ significantly from those for consolidated financial statements prepared under IFRSs.

The major differences relate to:

- difference in the measurement of property, plant and equipment;
- recognition of employee benefits obligations; and
- differences in accounting of deferred tax.

Reconciliation of items measured as reported to the Management Board with similar items in these consolidated financial statements include 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 primarily measured based on segment revenues and profit before income tax, as included in the internal management reports that are reviewed by the Management Board. Revenues and segment profit are used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments between each other and relative to other entities that operate within those industries.

OJSC «IDGC of North-West»

Segment results for the year ended 31 December 2010 are presented below:

	Transmission										
	Arkhangelsk	Karelia	Komi	Murmansk	Novgorod	Pskov	Vologda	**Energy Retail**	**Other Segments**	**Unallocated**	**Total**
Revenues											
Power transmitting	3,636,118	3,518,967	4,905,844	3,506,159	2,553,028	39,765	4,741,434	-	-	-	22,901,315
Connection to power network	68,074	36,071	264,475	59,237	60,163	132,102	47,912	-	-	-	668,035
Sale of electricity	-	-	-	-	-	-	-	4,699,421	-	-	4,699,421
Other revenue	198,935	15,991	285,084	28,990	32,750	10,997	41,382	2,817	14,055	-	631,001
Intersegment revenue	-	5	-	-	-	2,484,635	1,093	404,797	260,973	-	3,151,503
Total revenues	**3,903,127**	**3,571,034**	**5,455,403**	**3,594,386**	**2,645,941**	**2,667,499**	**4,831,821**	**5,107,035**	**275,028**	**-**	**32,051,274**
Profit/(loss) before income tax	**(47,284)**	**138,856**	**(273,872)**	**(779,009)**	**15,694**	**302,152**	**295,711**	**46,915**	**864**	**-**	**(299,973)**
Depreciation	(300,576)	(200,328)	(567,050)	(248,886)	(414,384)	(241,368)	(547,857)	(499)	(6,593)	(16,722)	(2,544,263)
Finance income	982	1,051	2,021	1,474	799	697	1,768	39	-	48	8,879
Finance costs	(140,692)	(63,817)	(112,411)	(107,936)	(25,259)	(14,365)	(9,304)	(4,524)	-	-	(478,308)

OJSC «IDGC of North-West»

	Transmission										
	Arkhangelsk	Karelia	Komi	Murmansk	Novgorod	Pskov	Vologda	**Energy Retail**	**Other Segments**	**Unallocated**	**Total**
Income tax expense	(53,766)	(44,435)	(101,521)	(47,671)	(60,124)	(62,375)	(89,456)	(5,238)	(1,844)	-	(466,430)
Total assets	**4,075,619**	**3,929,353**	**9,043,776**	**3,970,043**	**4,845,071**	**3,464,621**	**7,712,103**	**305,253**	**70,175**	**1,285,693**	**38,701,707**
Including property, plant and equipment	*3,014,260*	*2,739,129*	*7,865,370*	*3,064,203*	*4,511,153*	*3,130,853*	*6,462,542*	*811*	*20,106*	*39,179*	*30,847,606*
Total liabilities	**454,723**	**894,730**	**1,070,021**	**654,870**	**232,445**	**150,090**	**882,049**	**284,729**	**27,371**	**6,638,569**	**11,289,597**
Capital expenditures	139,944	370,976	523,583	110,714	369,683	487,508	714,188	302	2,478	19,185	2,738,561

Segment results for the year ended 31 December 2009 are presented below:

	Transmission										
	Arkhangelsk	Karelia	Komi	Murmansk	Novgorod	Pskov	Vologda	**Energy Retail**	**Other Segments**	**Unallocated**	**Total**
Revenues											
Power transmitting	3,089,025	2,855,045	5,628,351	3,438,861	2,140,257	5,496	4,485,568	-	-	-	21,642,603
Connection to power network	42,949	26,616	63,700	21,331	266,134	64,709	11,147	-	-	-	496,586
Sale of electricity	-	-	-	-	-	-	-	3,688,085	-	-	3,688,085
Other revenue	229,222	12,273	468,051	17,449	22,930	22,052	28,672	35	20,741	2,680	824,105
Intersegment revenue	-	-	-	-	-	2,001,107	-	324,628	261,022	-	2,586,757
Total revenues	**3,361,196**	**2,893,934**	**6,160,102**	**3,477,641**	**2,429,321**	**2,093,364**	**4,525,387**	**4,012,748**	**281,763**	**2,680**	**29,238,136**
Profit/(loss) before income tax	**(201,893)**	**(81,570)**	**(143,546)**	**(167,142)**	**343,935**	**77,919**	**327,207**	**2,481**	**1,132**	**2,680**	**161,203**
Depreciation	(284,462)	(196,341)	(535,481)	(233,440)	(357,152)	(227,390)	(546,205)	(540)	(7,004)	(7,629)	(2,395,644)
Finance income	1,127	1,202	1,960	1,371	842	852	2,004	173	-	-	9,531
Finance costs	(172,384)	(96,517)	(156,924)	(117,382)	(30,379)	(32,251)	(47,024)	(7,183)	-	-	(660,044)

OJSC «IDGC of North-West»

	Transmission										
	Arkhangelsk	Karelia	Komi	Murmansk	Novgorod	Pskov	Vologda	**Energy Retail**	**Other Segments**	**Unallocated**	**Total**
Income tax expense	(737)	(436)	(1,159)	(2,711)	(577)	(640)	(899)	(697)	(2,054)	-	(9,910)
Total assets	**4,552,129**	**3,500,272**	**9,311,786**	**4,119,301**	**4,838,816**	**3,228,268**	**7,624,932**	**242,210**	**73,513**	**938,358**	**38,429,585**
Including property, plant and equipment	*3,189,465*	*2,558,090*	*7,988,220*	*3,210,051*	*4,581,044*	*2,884,418*	*6,287,528*	*1,008*	*24,224*	*37,171*	*30,761,219*
Total liabilities	**437,126**	**366,850**	**1,464,343**	**607,826**	**398,051**	**116,524**	**464,732**	**237,621**	**25,872**	**6,095,229**	**10,214,174**
Capital expenditures	192,841	110,516	594,907	206,617	829,228	348,585	353,866	160	473	21,313	2,658,506

The reconciliations of key segment items measured as reported to the Management Board with similar items in these Consolidated Financial Statements are presented in the tables below.

Reconciliation of revenues is presented below:

	Year ended 31 December 2010	Year ended 31 December 2009
Segment revenues	**32,051,275**	**29,238,136**
Intersegment revenue elimination	(3,151,503)	(2,586,757)
Reclassification from other income	-	97,630
Revenues per Statement of Comprehensive Income	**28,899,772**	**26,749,009**

Reconciliation of profit before income tax is presented below:

	Year ended 31 December 2010	Year ended 31 December 2009
Segment results - profit/(loss) before income tax	**(299,973)**	**161,203**
Accrued salaries and wages	267,301	(174,274)
Adjustment for depreciation of property, plant and equipment	42,644	70,899
Adjustments for financial costs	61,251	154,639
Bad debt allowance adjustment	(349,794)	6,986
Elimination of rent expenses on finance lease arrangements	18,580	55,591
Intragroup dividends	(24,021)	(38,367)
Other adjustments	11,294	(158,718)
Profit before income tax per Statement of Comprehensive Income	**(272,719)**	**77,959**

Reconciliation of depreciation and amortization is presented below:

	Year ended 31 December 2010	Year ended 31 December 2009
Segment depreciation	**(2,544,264)**	**(2,395,644)**
Adjustment for depreciation of property, plant and equipment	42,644	70,899
Amortization of intangible assets	(75,206)	(116,690)
Reclassification from other expenses	-	(14,227)
Depreciation and amortization per Statement of Comprehensive Income	**(2,576,826)**	**(2,455,662)**

Reconciliation of financial costs is presented below:

	Year ended 31 December 2010	Year ended 31 December 2009
Segment finance income	**8,879**	**9,531**
Segment finance costs	**(478,308)**	**(660,044)**
Amounts included in cost of qualifying assets	54,016	127,252
Discounting of accounts receivable	7,235	34,759
Interest expense on leasing	(1,771)	(7,537)
Other finance income/expense reclassification	12,498	165
Financial costs per Statement of Comprehensive Income	**(397,451)**	**(495,874)**

Reconciliation of income tax expense is presented below:

	Year ended 31 December 2010	Year ended 31 December 2009
Segment income tax expense	**(466,429)**	**(9,910)**
Adjustment due to different accounting principles for deferred tax calculation	426,437	(19,786)
Income tax expense per Statement of Comprehensive Income	**(39,992)**	**(29,696)**

Reconciliation of total assets is presented below:

	31 December 2010	31 December 2009
Total segment assets	**38,701,707**	**38,429,585**
Adjustment due to different accounting principles for deferred tax calculation	(155,037)	(363,729)
Adjustment for inventories valuation	(221,368)	(209,557)
Adjustment principally for differences in deemed cost and depreciation rates	(3,697,993)	(3,814,556)
Bad debt allowance	(399,167)	(49,373)
Discount of accounts receivable	(36,220)	(28,512)
Intersegment balances	(165,734)	(118,726)
Investments in subsidiaries	(51,922)	(51,922)
Recognition of assets related to employee benefits	531,886	415,356
Other adjustments	(4,021)	9,597
Total assets per Statement of Financial Position	**34,502,131**	**34,218,163**

Reconciliation of property, plant and equipment is presented below:

	31 December 2010	31 December 2009
Segment property, plant and equipment	**30,847,606**	**30,761,219**
Adjustment principally for differences in deemed cost and depreciation rates, borrowing cost capitalized	(3,697,994)	(3,814,556)
Advances for acquisition of property, plant and equipment	72,710	107,059
Reclassification from other non-current assets	1,474	5,104
Reclassification to assets classified as held for sale	(558)	-
Property, plant and equipment per Statement of Financial Position	**27,223,239**	**27,058,826**

Reconciliation of total liabilities is presented below:

	31 December 2010	31 December 2009
Total segment liabilities	**11,289,597**	**10,214,174**
Adjustment due to different accounting principles for deferred tax	786,006	1,002,278
Accrued salaries and wages	480,468	689,566
Finance lease liabilities	-	49,814
Intersegment balances	(165,734)	(118,726)
Retirement benefit obligations	1,313,833	1,255,506
Other adjustments	(6,632)	12,592
Total liabilities per Statement of Financial Position	**13,697,538**	**13,105,204**

Information on revenues for separate services and products of the Group is presented on the face of the Consolidated Statement of Comprehensive Income.

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

Significant customers of the Group are entities controlled by the Government of the Russian Federation. The amounts of revenues from such entities are disclosed in Note 23. Revenues from companies under government control are reported by all segments of the Group.

For the years ended 31 December 2010 and 2009 the Group had three major customers - distribution companies in three regions of the Russian Federation - with individual turnover over 10% of total Group revenues. Revenues from such customers are reported by transmission segments operating in the regions where these distribution companies are located: Arkhangelsk and Komi (2009: Arkhangelsk, Komi and Vologda). The total amounts of revenues for these major customers for the year ended 31 December 2010 were RUB 3,491,746 thousand (Arkhangelsk); RUB 3,163,208 thousand (Komi); for the year ended 31 December 2009 were RUB 3,072,727 thousand (Arkhangelsk); RUB 3,090,242 thousand (Komi) and RUB 3,438,634 thousand (Vologda).

6. SALARIES AND OTHER PERSONNEL EXPENSES

Salaries and other personnel expenses for the year ended 31 December 2010 and 2009 were:

	Year ended 31 December 2010	Year ended 31 December 2009
Post employment benefits:		
Defined contribution plan	1,285,702	1,068,690
Defined benefit plan (Note 19)	182,017	71,848
Wages, salaries and bonuses	5,616,490	5,496,233
Total	**7,084,209**	**6,636,771**

7. FINANCE COSTS, NET

Finance cost for the year ended 31 December 2010 and 2009 were:

	Year ended 31 December 2010	Year ended 31 December 2009
Interest expense on loans	466,786	660,044
Interest expense on leasing	1,771	7,537
Discounting of long-term accounts receivable	1,902	1,749
Less: amounts included in the cost of qualifying assets	(54,992)	(127,252)
Total Finance Costs	**415,467**	**542,078**
Unwinding of discount	(9,137)	(36,508)
Interest income	(8,831)	(9,531)
Other finance income	(48)	(165)
Total Finance Income	**(18,016)**	**(46,204)**
Total Finance Costs, Net	**397,451**	**495,874**

The annual capitalization rate for general purpose borrowings for the year ended 31 December 2010 was 9.67% (2009: 15.27%).

8. INCOME TAX

Income tax recognised in profit or loss for the year ended 31 December 2010 and 2009 was:

	Year ended 31 December 2010	Year ended 31 December 2009
Current tax	161,426	(17,898)
Fines	(881)	2,590
Deferred income tax	(120,553)	103,948
Adjustment in relation to prior year	-	(58,944)
Total income tax expense	**39,992**	**29,696**

Profit before income tax for the year is reconciled to income tax expense as follows:

	Year ended 31 December 2010	Year ended 31 December 2009
Profit before income tax	(272,719)	77,959
Theoretical income tax at the Russian statutory rate	(54,544)	15,592
Adjustments due to:		
Permanent tax differences (income and expenses not recognized for taxation purposes)	95,417	70,458
Adjustment in relation to prior year	-	(58,944)
Fines	(881)	2,590
Income tax expense	**39,992**	**29,696**

The statutory tax rate effective in the Russian Federation was 20% in 2010 and in 2009.

Differences between IFRS and statutory taxation regulations of the Russian Federation give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The statutory tax rate of 20% was applied in the calculation of deferred tax assets and liabilities as at 31 December 2010 and 31 December 2009. The tax effect of the movements in these temporary differences is detailed below:

	31 December 2010	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	31 December 2009
Accounts receivable	990	(2,204)	-	3,194
Financial lease liabilities	-	(9,963)	-	9,963
Pension plan	156,389	(11,641)	-	168,030
Other current liabilities and accrued expenses	99,156	(41,654)	-	140,810
Other assets/ liabilities	41,722	(13,223)	-	54,945
Tax loss carry-forwards	1,357	(186,498)	-	187,855
Deferred tax assets	**299,614**	**(265,183)**	**-**	**564,797**
Set-off	(295,988)	263,853		(559,841)
Net deferred tax assets	**3,626**	**(1,330)**	**-**	**4,956**
Property, plant and equipment	(2,092,363)	61,805	-	(2,154,168)
Accounts receivable	(20,620)	327,723	-	(348,343)
Accounts payable and advances received	(3,868)	(3,868)	-	
Other assets/ liabilities	(4,122)	76	(1,091)	(3,107)
Deferred tax liabilities	**(2,120,973)**	**385,736**	**(1,091)**	**(2,505,618)**
Set-off	295,988	(263,853)	-	559,841
Net deferred tax liabilities	**(1,824,985)**	**121,883**	**(1,091)**	**(1,945,777)**

	31 December 2009	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	31 December 2008
Accounts receivable	3,194	(22,193)	-	25,387
Financial lease liabilities	9,963	(10,711)	-	20,674
Pension plan	168,030	(5,864)	-	173,894
Other current liabilities and accrued expenses	140,810	34,912	-	105,898
Other assets/ liabilities	54,945	41,623	-	13,322
Tax loss carry-forwards	187,855	187,855	-	-
Deferred tax assets	**564,797**	**225,622**	**-**	**339,175**
Set-off	(559,841)	(221,235)	-	(338,606)
Net deferred tax assets	**4,956**	**4,387**	**-**	**569**
Property, plant and equipment	(2,154,168)	77,793	-	(2,231,961)
Accounts receivable	(348,343)	(348,343)	-	-
Other assets/ liabilities	(3,107)	(76)	(3,031)	-
Deferred tax liabilities	**(2,505,618)**	**(270,626)**	**(3,031)**	**(2,231,961)**
Set-off	559,841	221,235	-	338,606
Net deferred tax liabilities	**(1,945,777)**	**(49,391)**	**(3,031)**	**(1,893,355)**

The Group has recognised deferred tax assets as at 31 December 2010 in respect of tax losses carried forward of RUB 6,785 thousand (31 December 2009: RUB 939,275). The tax losses expire 10 years after their origination in 2019-2020.

Based upon historical taxable income and projections for future taxable income over the periods in which deferred income tax assets are deductable, management of the Group believes it is more likely than not that the Group will realize the benefits of the deductible differences.

9. PROPERTY, PLANT AND EQUIPMENT

	Building and structures	Power transmission lines	Power conversion equipment	Other	Assets under construction	Total
Cost/Deemed cost						
Opening balance as at 1 January 2010	**4,182,863**	**18,286,805**	**7,074,353**	**2,629,487**	**1,072,536**	**33,246,044**
Additions and transfers	275,360	953,989	1,100,103	247,035	211,717	**2,788,204**
Disposals	(11,685)	(50,219)	(3,769)	(43,815)	(50,482)	**(159,970)**
Closing balance as at 31 December 2010	**4,446,538**	**19,190,575**	**8,170,687**	**2,832,707**	**1,233,771**	**35,874,278**
Accumulated depreciation and impairment						
Opening balance as at 1 January 2010	**(601,248)**	**(3,481,229)**	**(1,203,643)**	**(901,098)**	**-**	**(6,187,218)**
Charge for the period	(244,063)	(1,325,259)	(661,200)	(270,392)	-	**(2,500,914)**
Disposals	2,544	13,448	1,097	20,004	-	**37,093**
Closing balance as at 31 December 2010	**(842,767)**	**(4,793,040)**	**(1,863,746)**	**(1,151,486)**	**-**	**(8,651,039)**
Net book value as at 1 January 2010	**3,581,615**	**14,805,576**	**5,870,710**	**1,728,389**	**1,072,536**	**27,058,826**
Net book value as at 31 December 2010	**3,603,771**	**14,397,535**	**6,306,941**	**1,681,221**	**1,233,771**	**27,223,239**

	Building and structures	Power transmission lines	Power conversion equipment	Other	Assets under construction	Total
Cost/Deemed cost						
Opening balance as at 1 January 2009	**3,861,098**	**17,233,634**	**5,484,808**	**2,589,373**	**1,570,356**	**30,739,269**
Additions and Transfers	323,653	1,073,500	1,593,448	119,758	(441,664)	2,668,695
Disposals	(1,888)	(20,329)	(3,903)	(79,644)	(56,156)	(161,920)
Closing balance as at 31 December 2009	**4,182,863**	**18,286,805**	**7,074,353**	**2,629,487**	**1,072,536**	**33,246,044**
Accumulated depreciation and impairment						
Opening balance as at 1 January 2009	**(347,946)**	**(2,239,335)**	**(650,298)**	**(645,641)**	**-**	**(3,883,220)**
Charge for the year	(253,605)	(1,246,415)	(554,814)	(284,138)	-	(2,338,972)
Disposals	303	4,521	1,469	28,681	-	34,974
Closing balance as at 31 December 2009	**(601,248)**	**(3,481,229)**	(1,203,643)	(901,098)	**-**	**(6,187,218)**
Net book value as at 1 January 2009	**3,513,152**	**14,994,299**	**4,834,510**	**1,943,732**	**1,570,356**	**26,856,049**
Net book value as at 31 December 2009	**3,581,615**	**14,805,576**	**5,870,710**	**1,728,389**	**1,072,536**	**27,058,826**

The Group leased vehicles under a number of finance lease agreements. Finance lease obligations were fully settled in 2010 and the Group purchased those leased vehicles at a beneficial price. Finance leases obligations were secured by the lessor's title to the leased assets (Note 18). The carrying value of such assets as at 31 December 2009 was RUB 107,490 thousand.

The amount of borrowing cost included in cost of qualifying assets for the year ended 31 December 2010 was: RUB 54,992 thousand (2009: RUB 127,252 thousand).

Included in the assets under construction as at 31 December 2010 are advances paid for the acquisition of property, plant and equipment in the amount of RUB 72,710 thousand (as at 31 December 2009: RUB 107,059 thousand).

As a result of observed impairment indicators impairment testing in respect of property, plant and equipment for specific cash-generating units of the Group was performed as at 31 December 2010. The majority of the Group's property, plant and equipment is specialized in nature and is rarely sold on the open market. The market for similar property, plant and equipment is not active and does not provide a sufficient number of sales transactions for use of a market-based approach for determination of the fair value. Therefore the value in use for property, plant and equipment as at 31 December 2010 was determined using projected cash flows. This method considers the future net cash flows expected to be generated through the usage of property, plant and equipment in the process of operating activities up to its ultimate disposal to determine the recoverable amount of the assets. As a result of impairment testing no impairment loss has been recognized.

10. INTANGIBLE ASSETS

	Software	Licenses and Certificates	Total
Cost			
Opening balance as at 1 January 2010	**129,420**	**61,148**	**190,568**
Additions	29,990	3,948	33,938
Disposals	(72,310)	(45,381)	(117,691)
Closing balance as at 31 December 2010	**87,100**	**19,715**	**106,815**
Accumulated amortization			
Opening balance as at 1 January 2010	**(46,293)**	**(44,730)**	**(91,023)**
Charge for the period	(63,188)	(12,724)	(75,912)
Disposals	71,931	45,352	117,283
Closing balance as at 31 December 2010	**(37,550)**	**(12,102)**	**(49,652)**
Net book value as at 1 January 2010	**83,127**	**16,418**	**99,545**
Net book value as at 31 December 2010	**49,550**	**7,613**	**57,163**
Opening balance as at 1 January 2009	**144,358**	**157,657**	**302,015**
Additions	78,140	1,887	80,027
Disposals	(93,078)	(98,396)	(191,474)
Closing balance as at 31 December 2009	**129,420**	**61,148**	**190,568**
Accumulated amortization			
Opening balance as at 1 January 2009	**(74,769)**	**(91,038)**	**(165,807)**
Charge for the year	(64,602)	(52,088)	(116,690)
Disposals	93,078	98,396	191,474
Closing balance as at 31 December 2009	**(46,293)**	**(44,730)**	**(91,023)**
Net book value as at 1 January 2009	**69,589**	**66,619**	**136,208**
Net book value as at 31 December 2009	**83,127**	**16,418**	**99,545**

11. INVESTMENTS IN SECURITIES AND OTHER FINANCIAL ASSETS

Investments in securities and other financial assets as at 31 December 2010 and 31 December 2009 were:

	31 December 2010	31 December 2009
Available-for-sale investments, at fair value		
Equity securities	27,378	22,599
Loans and receivables, at amortized cost		
Restructured trade receivables from principal activities	30,900	27,647
Other non-current receivables	98,706	40,681
Long-term promissory notes	4,523	4,036
Total	**161,507**	**94,963**

Equity securities represent investments in shares of TGC-1 and other securities, which are listed on MICEX and RTS, recorded at fair market value.

The restructured trade receivables amounts due for electricity for prior periods, which were past-due and in respect of which the agreement to settle such receivables in the course of several years was reached.

Other non-current receivables as at 31 December 2010 consists of the long-term portion of receivables from the sale of diesel electric power-stations in the amount of RUB 81,258 thousand (31 December 2009: nil) and receivables from sales of apartments to employees.

The receivables from sale of apartments to employees originate from long-term loans, granted to employees for the purpose of apartments purchases and repayable on the monthly basis from their salary. As at 31 December 2010 the receivables in the amount of RUB 15,346 thousand (2009: RUB 20,277 thousand) from sale of apartments are pledged by the amount of RUB 86,047 thousand (2009: RUB 99,887 thousand) of cost of these apartments.

Long-term promissory notes represent investments in non-interest-bearing promissory notes of MDM-Bank with the maturity date of 21 September 2016. All non-current receivables are RUB-denominated.

12. OTHER NON-CURRENT ASSETS

Other non-current assets as at 31 December 2010 and 31 December 2009 were:

	31 December 2010	31 December 2009
Assets related to long-term employee benefits	531,886	415,356
VAT recoverable	121,150	113,009
Other	47,591	52,809
Total	**700,627**	**581,174**

Assets related to long-term employee benefits represent available for sale financial investments in a non-state pension fund (see Note 19).

13. ACCOUNTS RECEIVABLE AND PREPAYMENTS

Accounts receivable and prepayments as at 31 December 2010 and 31 December 2009 were:

	31 December 2010	31 December 2009
Trade receivables	4,534,920	5,516,089
Other receivables	583,542	137,412
Less: allowance for doubtful debts	(1,095,866)	(944,177)
Subtotal financial assets	**4,022,596**	**4,709,324**
Prepayments	169,084	129,530
Total	**4,191,680**	**4,838,854**

All accounts receivable are RUB-denominated and relate to sales to enterprises located in Russian Federation.

Accounts receivable include amounts due from related parties (Note 23).

All impaired receivables have been provided for. Management has determined an allowance for doubtful debtors based on specific customer identification, current court practice, customer payment trends, subsequent receipts, and settlements and the analysis of expected future cash flows. Management believes that Group entities will be able to realize the net receivable amount through direct collections and other non-cash settlements, and that therefore, the recorded value approximates their fair value.

The Group's trade receivables as at 31 December 2010 include RUB 919,589 thousand related to amounts in litigation with retail electricity sales companies (31 December 2009: RUB 1,971,765 thousand) from which a provision in the amount of RUB 197,312 thousand has been recognized (31 December 2009: RUB 180,744 thousand). During 2010 some of the litigations that existed as at 31 December 2009 were won by the Group, some were lost by the Group while others remained unresolved. Additionally the Group entered into a number of new similar litigations. The main reasons for the litigation are disagreements over the amount of power consumed, application of tariffs for electricity transmission and provision of power and delays in customers' payments. No provision has been recognised for amounts considered to be probable of recovery by the Group.

Certain trade receivables and other accounts receivable have been restructured and are due to be realized more than one year from the end of reporting period (Note 11).

The ageing of receivables at the reporting date was:

	31 December 2010	31 December 2009
Less than 90 days	3,098,277	3,185,552
90 – 180 days	186,817	856,125
180– 365 days	429,146	963,022
Thereafter	1,404,222	648,802
Total	**5,118,462**	**5,653,501**

Ageing of impaired receivables:

	31 December 2010	31 December 2009
Less than 90 days	56,992	226,189
90 – 180 days	67,648	90,822
180– 365 days	222,022	116,046
Thereafter	749,204	511,120
Total	**1,095,866**	**944,177**

Based upon historic default rates, management believes that, apart from the above, no impairment allowance is necessary in respect of receivables.

Movement in the allowance for doubtful debt in respect of trade and other receivables:

	Year ended 31 December 2010	Year ended 31 December 2009
Balance at the beginning of the year	**(944,177)**	**(609,153)**
Provision accrual	(555,060)	(473,583)
Provision reversal	159,018	138,340
Amounts written-off as uncollectable	244,353	219
Balance at the end of the year	**(1,095,866)**	**(944,177)**

Recognition of the allowance for impaired receivables was included in other operating expenses in the Consolidated Statement of Comprehensive Income. The allowance account in respect of trade receivables is used to record impairment loss unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amount is considered irrecoverable and is written off against the financial asset directly.

14. INVENTORIES

Inventories as at 31 December 2010 and 31 December 2009 were:

	31 December 2010	31 December 2009
Spare parts and consumables for repairs	316,234	323,831
Fuel and oils	129,487	188,204
Emergency stock	114,339	72,410
Working clothes and fittings	55,819	47,010
Other inventories	76,514	66,822
Less: allowance for obsolete and slow-moving inventories	(3,242)	(2,422)
Total	**689,151**	**695,855**

As of 31 December 2010 certain inventories with a carrying amount of RUB 5,084 thousand (31 December 2009: RUB 15,000 thousand) have been pledged to secure bank loans and borrowings of the Group (Note 17).

15. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at 31 December 2010 and 31 December 2009 were:

	31 December 2010	31 December 2009
Current accounts RUB - denominated	1,152,413	566,789
Special bank accounts	810	1,026
Other cash and cash equivalents	1,381	1,392
Total	**1,154,604**	**569,207**

The Group has accounts in several Russian banks, including Sberbank, Vneshtorgbank, Bank of Moscow, Gasprombank, Alfa-Bank, Rosbank, Baltiiskii bank, Uralsib, Uhtabank and others. Management believes that they all are reliable counterparties with a stable position on the Russian market and that, accordingly, no impairment allowance is necessary.

16. EQUITY

Basis of presentation of movements in equity

The Group was formed by the combination of a number of businesses under common control. Because of the consequent use of the predecessor basis of accounting (Note 2), the principal component of the net equity recognized for the group is based on the historic carrying value of the net assets of the businesses contributed as recorded in the IFRS financial records of the predecessor enterprises, rather than the fair values of those net assets.

Authorised, issued and fully paid share capital

As at 31 December 2010 authorised and issued share capital comprised 95,785,923,138 ordinary shares (31 December 2009: 95,785,923,138) of which all ordinary shares were issued and fully paid. All shares have a par value of RUB 0.1.

Merger reserve

The Group was formed by the combination of a number of businesses under common control. Because of the consequent use of the predecessor basis of accounting, the principal component of net equity recognized for the Group is based on the historic carrying value of the net assets of the businesses contributed as recorded in the IFRS financial records of the predecessor enterprises, rather than the fair values of those net assets. Based on the application of predecessor accounting, the difference between the value of the share capital issued and the IFRS carrying values of the contributed assets and non-controlling interests was recorded as a merger reserve within equity.

Retained earnings and dividends

The Company's statutory financial statements form the basis for the distribution of profit and other appropriations. Due to differences between statutory accounting principles and IFRS, the Company's profit in the statutory accounts can differ significantly from that reported in the consolidated financial statements prepared under IFRS.

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 period, of RUB 61,612 thousand (31 December 2009: RUB 850,475 thousand).

No profits were distributed based on results for the year ended 31 December 2009. The decision was approved by annual shareholders meeting in June 2010. No other decisions on profit distribution were made at the date these consolidated financial statements were authorized for issue.

Voting rights of shareholders

The holders of fully paid ordinary shares are entitled to one vote per share at the Company's annual and general shareholders' meetings.

Earnings per share

Earnings per share were calculated using the weighted average number of ordinary shares. The Company has no dilutive potential ordinary shares; accordingly, diluted earnings per share are equal to basic earnings per share.

17. LOANS AND BORROWINGS

This note provides information about the contractual terms of the Group's loans and borrowings and financial lease liabilities, which are measured at amortised cost.

	31 December 2010	31 December 2009
Non-current liabilities		
Secured bank loans	-	212,144
Unsecured bank loans	4,372,530	2,594,000
Secured loans from related parties	-	3,250
	4,372,530	**2,809,394**
Current liabilities		
Current portion of secured loans from related parties	3,250	144,678
Current portion of unsecured loans	141,428	9,200
Unsecured bank loans	163,391	1,762,608
	308,069	**1,916,486**

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

	Currency	Year of maturity	31 December 2010 Effective interest rate	31 December 2009 Effective interest rate	31 December 2010 Face value	31 December 2010 Carrying amount	31 December 2009 Face value	31 December 2009 Carrying amount
Bank loan								
Secured bank loan	RUB	2010	-	13.5%	-	-	141,428	141,428
	RUB	2011	-	13.5%	-	-	141,428	141,428
	RUB	2012	-	13.5%	-	-	70,716	70,716
					-	-	**353,572**	**353,572**
Unsecured bank loans								
Unsecured bank loans	RUB	2010	9.6%-14.4%	11.2%-15.3%	-	-	1,762,608	1,762,608
Unsecured bank loans	RUB	2011	4.5%-8.8%	12.6%	304,819	304,819	2,130,000	2,130,000
Unsecured bank loans	RUB	2012	8.8%-9.3%	12.5%-13.5%	1,270,715	1,270,715	464,000	464,000
Unsecured bank loans	RUB	2013	9.0%-9.8%	-	610,000	610,000	-	-
Unsecured bank loans	RUB	2015	7.5%-8.2%	-	2,491,815	2,491,815	-	-
					4,677,349	**4,677,349**	**4,356,608**	**4,356,608**
Non-banking loans								
Secured loans from related parties	RUB	2011	6.7%	6.7%	3,250	3,250	6,500	6,500
Unsecured loans from related parties	RUB	2011	-	0%	-	-	9,200	9,200
					3,250	**3,250**	**15,700**	**15,700**
Total debt					**4,680,599**	**4,680,599**	**4,725,880**	**4,725,880**

Loans are attracted at market interest rates. Annual interest rates are equivalent to effective interest rates.

The effective interest rate is the market interest rate on main and additional loan agreements effective at the reporting date for fixed rate loans and the current market rate for floating rate loans. The Group has not entered into any hedging arrangements in respect of interest rate exposures.

For more information about the Group's exposure to interest rate and foreign currency risk, see Note 27.

All loans and borrowings are RUB-denominated.

The following items of inventories and future revenues were pledged to secure loans and borrowings:

	31 December 2010	31 December 2009
Inventories (refer to Note 14)	5,084	15,000
Future cash collections	-	652,726
Total	**5,084**	**667,726**

The pledge of future cash collections is the right of the creditor to receive cash, which will be earned by the Group in the future.

18. OBLIGATION UNDER FINANCE LEASES

	Future minimum lease payments 31 December 2009	Present value of minimum lease payments 31 December 2009
Less than one year	51,585	49,814
Between one and five years	-	-
	51,585	**49,814**
Interest	(1,771)	-
Present value of minimum lease payments	**49,814**	**49,814**
Included in the consolidated statement of financial position:		
current obligations under finance leases	49,814	49,814

In 2010 the Group settled all its obligations under finance lease.

The Group has not entered any new finance lease arrangements in 2010.

19. RETIREMENT BENEFIT OBLIGATIONS

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 Industry); and
- defined benefit pension plans regulated by Collective Bargaining Agreements that include lump sum benefits for pensioners, benefits paid in connection with the jubilee dates birthday of

employees and pensioners, and financial support for pensioners, one-time benefits paid in case of death.

The table below summarizes the amounts of defined benefit obligations recognized in the financial statements.

Amounts recognized in the Consolidated Statement of Financial Position

	31 December 2010	31 December 2009
Total present value of obligations	1,097,059	1,205,792
Net actuarial gains not recognized in the Consolidated Statement of Financial Position	644,943	623,336
Unrecognized past service cost	(428,169)	(573,622)
Recognized liability in the Consolidated Statement of Financial Position for defined benefit obligations	**1,313,833**	**1,255,506**

Movements in the present value of the defined benefit obligations

	Year ended 31 December 2010	Year ended 31 December 2009
Defined benefit obligations at 1 January	1,205,792	1,635,228
Correction of defined benefit obligations at 1 January	-	(191,469)
Benefits paid by the plan	(123,690)	(82,155)
Current service costs	48,607	51,885
Interest on obligation	101,638	128,576
Actuarial gains	(73,761)	(457,587)
Past service cost	(61,527)	121,314
Defined benefit obligations at 31 December	**1,097,059**	**1,205,792**

Expense recognized in the Consolidated Statement of Comprehensive Income

	Year ended 31 December 2010	Year ended 31 December 2009
Current service costs	48,607	51,885
Interest on obligation	101,638	128,576
Actuarial gains and losses	(52,154)	7,471
Recognized past service cost	83,926	75,385
Correction on defined benefit obligations	-	(191,469)
Total	**182,017**	**71,848**

Principal actuarial assumptions used in calculation of defined benefit obligations and related expenses (expressed as weighted averages):

	31 December 2010	31 December 2009
Discount rate	8.00%	8.70%
Future salary increases	5.00%	5.50%
Inflation rate	5.00%	5.50%
Average future working life (years)	10	10
Vesting period	7	7
Mortality table	2002	2002

Changes in the net liability in the Consolidated Statement of Financial Position are as follows:

	Year ended 31 December 2010	Year ended 31 December 2009
Net liability in the Consolidated Statement of Financial Position as at 1 January	1,255,506	1,265,813
Net periodical cost	182,017	71,848
Benefits paid	(123,690)	(82,155)
Net liability in the Consolidated Statement of Financial Position as at 31 December	**1,313,833**	**1,255,506**

Contributions expected to be paid by the entity to NSPF in the year ended 31 December 2011 amount to RUB 62,777 thousand. Those contributions can be used by the fund both for financing defined benefit and defined contribution plans and contributions related to defined benefit plan only can not be reliably identified.

20. OTHER NON-CURRENT LIABILITIES

Other non-current liabilities as at 31 December 2010 and 31 December 2009 were:

	31 December 2010	31 December 2009
Advances from customers	765,081	577,585
Other	47,780	53,011
Total	**812,861**	**630,596**

21. ACCOUNTS PAYABLE AND ADVANCES RECEIVED

Accounts payable and advances received as at 31 December 2010 and 31 December 2009 were:

	31 December 2010	31 December 2009
Trade payables	1,471,181	1,605,122
Advances received	1,344,456	572,630
Payables to employees	756,909	952,144
Unsettled liabilities for the acquisition of property, plant and equipment	634,721	708,224
Dividends payable	1,069	5,171
Other payables	137,016	95,094
Total	**4,345,352**	**3,938,385**

No interest charge on the outstanding balance for trade and other payables during credit period. All payables are RUB-denominated.

22. ASSETS CLASSIFIED AS HELD FOR SALE AND RELATED LIABILITIES

In February 2010 the Board of Directors of the Company approved the sale of an 80% interest in the subsidiary CHOP Energia and an active program to locate a buyer was initiated. As at 31 December 2010 assets of CHOP Energia were included in assets classified as held for sale in the Consolidated Statement of Financial Position. Related liabilities were included in liabilities directly associated with assets classified as held for sale in the Consolidated Statement of Financial Position. The disposal of the subsidiary is not expected to have a significant effect on financial position and financial results of the Group. For segment reporting purposes financial information of CHOP Energia was included in Other Segments.

23. RELATED PARTIES TRANSACTIONS AND OUTSTANDING BALANCES

Related parties include shareholders, affiliates and entities under common ownership and control with the Group and members of key management personnel.

The Government of the Russian Federation, through the Federal Agency for the Management of Federal Property, is the ultimate controlling party of the Company. As at 31 December 2010 and 31 December 2009 the Group was controlled by JSC IDGC Holding, a state-controlled entity (Note 1). In the normal course of business the Group enters into transactions with other entities under common government control including the Federal Grid Company, Russian railways, state-controlled banks and various governmental bodies. Prices for electricity and heat are based on tariffs set by federal and regional tariff regulatory bodies. The Group purchase prices for goods and services received from state monopolies are subject to government regulations. Other sales and purchases are based on market prices.

Bank loans are provided on the basis of market rates. Taxes are accrued and settled in accordance with Russian tax legislation.

During the year ended 31 December 2010 and 2009, Group entered into the following transactions with related parties:

Transactions with related parties

	Sales of goods and services		Purchase of goods and services	
	Year ended 31 December 2010	Year ended 31 December 2009	Year ended 31 December 2010	Year ended 31 December 2009
Companies under common control				
Electricity transportation and connection to power network	2,151,294	1,051,561	8,021,937	6,121,945
Electricity sales	1,609,043	1,256,648	2,271,532	1,083,629
Capital expenditures and repairs	87,759	286,275	272,897	235,374
Contributions to NSPF	-	-	92,640	84,484
Interest expensed and capitalized	-	-	378,770	656,637
Other	186,502	126,918	424,986	480,875
The Owners				
Services provided by the parent	-	-	279,960	279,960
Total	**4,034,598**	**2,721,402**	**11,742,722**	**8,942,904**

Balances with related parties

	Amounts owed to the Group		Amounts owed by the Group	
	31 December 2010	31 December 2009	31 December 2010	31 December 2009
Companies under common control				
Loans and borrowings	-	-	2,869,113	4,716,714
Electricity transportation and connection to power network	314,305	185,892	1,798,333	835,809
Electricity sales	131,096	112,848	-	17,623
Capital expenditures and repairs	100,851	150,190	25,103	31,802
Other	115,545	121,776	162,318	77,161
The Owners				
Settlement on services		-	16,518	16,518
Total	**661,797**	**570,706**	**4,871,385**	**5,695,627**

The outstanding amounts of accounts receivable and accounts payable are unsecured and will be settled in cash within next 12 months.

Amounts owed to the Group as at 31 December 2010 are shown net of allowance for doubtful debts in the amount of RUB 677,337 thousand (31 December 2009: RUB 505,951 thousand).

Expenses recognized in respect of bad debt allowance for receivables from related parties for the year ended 31 December 2010 amounted to RUB 208,936 thousand (for the year ended 31 December 2009 amounted to RUB 38,284 thousand). During the year ended 31 December 2010 the Group reversed RUB 37,550 thousand of bad debt allowance for related parties' receivables (during the year ended 31 December 2009: RUB 85,609 thousand).

Compensation of key management personnel

The remuneration of key management personnel of the Group is represented by contractual salary and discretionary bonuses and amounted to:

	Year ended 31 December 2010	Year ended 31 December 2009
Key management personnel		
Amounts owed by the Group	13,515	37,003
Salaries and related expenses	53,044	93,867

In addition to the above key management is entitled to benefits under defined benefit plans. The related defined benefit obligations primarily relate to benefits upon retirement or discontinuance of the labour contracts of the key managers. These obligations amount to RUB 49,619 thousand as at 31 December 2010 (121,314 thousand as at 31 December 2009).

24. COMMITMENTS AND CONTINGENCIES

Political environment

The operations and earnings of the Group are affected by political, legislative, fiscal and regulatory developments, including those related to environmental protection. Because of the capital-intensive nature of the industry, the Group is also subject to physical risks of various kinds. The nature and frequency of these developments and events associated with these risks, which generally are not covered by insurance, as well as their effect on future operations and earnings, are not predictable.

Taxation contingencies in Russian Federation

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.

Litigation

During the year, the Group was involved in a number of court proceedings (both as a plaintiff and as a defendant) arising in the ordinary course of business. In the opinion of management of the Group, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations, financial position or cash flows of the Group and which have not been accrued or disclosed in these consolidated financial statements.

Other contingencies

The Group is a defendant in several lawsuits with counterparties, where the Group management believes that the outcome in favour of the plaintiff is possible. Possible contingencies as at 31 December 2010 amount to RUB 29,077 thousand (as at 31 December 2009: RUB 17,688 thousand). Management has not provided any amounts in respect of such obligations in the consolidated financial statements as it believes that it is possible, but not probable, that an outflow of economic benefits will be required to settle such obligations.

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 has individual legal circumstances and respective estimation should 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.

Capital expenditure commitments

As at 31 December 2010 the Group has outstanding commitments under contracts for the purchase and construction of property, plant and equipment of RUB 1,117,681 thousand (as at 31 December 2009: RUB 439,002 thousand).

Environmental matters

Group entities and their predecessor entities 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. 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.

Insurance policies

The Russian insurance market is in the development stage and some forms of insurance protection common in other parts of the world are not yet generally available in the Russian Federation.

The Group has entered into insurance contracts to insure property, plant and equipment, and land transport and purchased accident, health and medical insurance for employees. Furthermore, the Group has purchased civil liability coverage for operating entities with dangerous production units.

As at 31 December 2010 the Group has insured its industrial assets for the amount of RUB 41,859,502 thousand (as at 31 December 2009: RUB 41,859,502 thousand). Also, as at 31 December 2010 the Group has insured vehicles below 10 years of age for the amount of RUB 280,426 thousand (as at 31 December 2009: RUB 185,260 thousand).

25. OPERATING LEASE ARRANGEMENTS

The Group mainly leases land from municipal authorities. The leases provide an option to renew the lease after the end of lease term. The Group does not have an option to purchase the leased assets at the expiry of the lease period.

	Year ended 31 December 2010	Year ended 31 December 2009
Rental land lease payments for the year	48,212	62,856
Other rent	87,950	90,268
Total	**136,162**	**153,124**

Non-cancellable operating lease rentals are payable as follows:

	31 December 2010	31 December 2009
Less than one year	43,619	51,339
Between one and five years	166,390	132,759
More than five years	1,323,071	1,019,514
Total	**1,533,080**	**1,203,612**

26. FAIR VALUE OF FINANCIAL INSTRUMENTS

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 their quoted closing bid price; and
- The fair value of other financial assets and financial liabilities is estimated at the present value of future cash flows, discounted at the market rate of interest at the reporting date.

Management believes that the carrying values of financial assets (refer to Note 27) and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

The fair value of financial assets recognised in the consolidated statement of financial position at fair value (refer to Notes 11 and 27) was determined based on quoted closing bid prices on MICEX at the reporting date (level 1 of fair value measurement hierarchy in accordance with IFRS 7).

27. FINANCIAL RISK MANAGEMENT

Risk management framework

The Management Board 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.

Major categories of financial instruments

The Group holds a number of financial instruments with specific characteristics and financial risk factors associated with them. The Group's principal financial liabilities comprise loans and borrowings, finance lease liabilities, trade and other payables. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various financial assets such as trade receivables and loans given, cash and cash equivalents, and promissory notes. Financial instruments per categories as at 31 December 2010 and 31 Dec ember 2009 were:

Financial assets per category	**31 December 2010**	**31 December 2009**
Available-for-sale financial assets		
Available-for-sale investments	27,378	22,599
Assets related to long-term employee benefits	531,886	415,356
Loans and receivables		
Trade and other receivables	4,156,725	4,781,688
Cash and cash equivalents		
Cash and cash equivalents	1,154,604	569,207
Total financial assets	**5,870,593**	**5,788,850**

Financial liabilities per category	**31 December 2010**	**31 December 2009**
Financial liabilities at amortized cost		
Loans and borrowings	(4,680,599)	(4,725,880)
Trade and other payables	(2,242,918)	(2,408,440)
Finance lease liabilities	-	(49,814)
Total financial liabilities	**(6,923,517)**	**(7,184,134)**

Financial risk factors

The Group's activities expose it to a variety of financial risks, including:

- Liquidity risk – the threat of temporary inability to pay financial liabilities when they fall due;
- Credit risk – the threat of non-payment by counterparties on their liabilities;
- Market risks:
    - Interest rate risk – the threat of losses as a result of increases in the interest rates paid out by the Group on the borrowed funds;
    - Currency risks – the threat of losses during implementation of foreign economic or other currency transactions associated with changing of exchange rates of foreign currencies;

The Group does not hedge financial risks.

Capital risk management

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

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

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

Foreign currency risk

Currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed. The foreign currency transactions, undertaken by the Group, are absolutely minimal and thus the Group has limited exposure to foreign currency risk.

Interest rate risk

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). Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

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

Credit risk

Credit risk is the risk that a counterparty will default on its obligations to the Group, leading to financial losses to the Group. Credit risk arises from cash and cash equivalents, deposits with banks as well as credit exposure to customers, including outstanding unsecured trade and other receivables. The carrying amount of financial assets represents the maximum credit exposure.

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

Before accepting any new customer, the Group uses an internal credit system to assess the potential customer's credit quality and defines credit limits separately for each individual customer. Credit limits attributable to customers are regularly reviewed at least on an annual basis. Of the receivables balance as at 31 December 2010, the Group's ten largest electricity retail customers (individually 1% and above of the total balance) represent 69% (31 December 2009: 93%) of the outstanding balance.

The credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, arises from the risk of default of the counterparty, with the maximum exposure being equal to the carrying value of these instruments. The maximum exposure to credit risk as at 31 December 2010 is RUB 5,311,329 thousand (31 December 2009: RUB 5,350,895 thousand).

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. 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.

The Group's liquidity position is carefully monitored and managed. The Group has in place a detailed budgeting and cash forecasting process to help ensure that it has adequate cash available to meet its payment obligations.

Available loan facilities

As at 31 December 2010 the Group available loan facilities (unutilised credit lines from Gasprombank, Bank of Moscow, VTB Severo-Zapad, Svyazbank and other banks), which is planned to be subsequently utilised by the Group amount to RUB 3,360,000 thousand (31 December 2009: RUB 4,894,660 thousand).

Liquidity analysis of the Group's obligations

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

31 December 2010	**Carrying amount**	**Contractual cash flows**	**up to 6 month**	**6 month-1 year**	**1-2 years**	**2-3 years**	**3-4 years**	**4-5 years**	**Over 5 years**
Non-derivative financial liabilities									
Loans and borrowings	4,680,599	5,816,245	401,784	245,074	1,576,094	804,715	185,984	2,602,594	-
Trade and other payables	2,242,918	2,242,918	2,222,936	19,189	793	-	-	-	-
	6,923,517	**8,059,163**	**2,624,720**	**264,263**	**1,576,887**	**804,715**	**185,984**	**2,602,594**	

31 December 2009	**Carrying amount**	**Contractual cash flows**	**up to 6 month**	**6 month-1 year**	**1-2 years**	**2-3 years**	**3-4 years**	**4-5 years**	**Over 5 years**
Non-derivative financial liabilities									
Loans and borrowings	4,725,880	5,582,569	1,235,736	1,259,406	2,498,705	588,722	-	-	-
Financial lease liabilities	49,814	51,585	33,450	18,135	-	-	-	-	-
Trade and other payables	2,408,440	2,408,440	2,328,458	79,982	-	-	-	-	-
	7,184,134	**8,042,594**	**3,597,644**	**1,357,523**	**2,498,705**	**588,722**	**-**	**-**	**-**

28. EVENTS AFTER THE REPORTING PERIOD

New financing facilities

During the first quarter of 2011 the Group has not signed any new loan agreements. New finance in the amount of RUB 140,000 thousand was raised in 2011 under the agreements existing at the reporting date.

Regulatory Asset Base tariff setting implementation

Starting 1 January 2011 a RAB tariff setting system was implemented for Vologdaenergo and Pskovenergo (branches of IDGC of North-West). RAB tariff setting system in the long-term perspective drives reduction by IDGCs of its operational charges, as well as improvement of quality of provided services and increase in investments into grid infrastructure development.

Changes in Group structure

The 100% - subsidiary of The Group JSC "Energoservice North-West" with share capital RUB 2,000 thousand was registered at 28 January 2011. The primary activity of OJSC "Energoservice North-West" will be electricity metering services.