JSC "IDGC of Centre"

Consolidated Financial Statements
for the year ended 31 December 2010

Contents

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Independent Auditors' Report

To the Board of Directors of Joint-Stock Company "IDGC of Centre"

We have audited the accompanying consolidated financial statements of Joint-Stock Company "IDGC of Centre" (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as 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.

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

Opinion

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

ZAO KPMG

ZAO KPMG
29 April 2011

Thousands of Russian Roubles, unless otherwise stated

	Note	Year ended 31 December 2010	Year ended 31 December 2009
Revenue	7	60,613,618	49,313,709
Operating expenses	8	(54,102,790)	(45,266,019)
Other income		1,385,833	722,325
Results from operating activities		**7,896,661**	**4,770,015**
Finance income	10	134,962	98,748
Finance costs	10	(1,641,844)	(2,123,278)
Net finance costs		**(1,506,882)**	**(2,024,530)**
Profit before income tax		**6,389,779**	**2,745,485**
Income tax expense	11	(1,288,502)	(639,478)
Profit and total comprehensive income for the year		**5,101,277**	**2,106,007**
Profit and total comprehensive income attributable to:			
Owners of the Company		5,097,201	2,105,390
Non-controlling interests		4,076	617
Profit and total comprehensive income for the year		**5,101,277**	**2,106,007**
Earnings per share – basic and diluted (in Russian Roubles)	21	0.12	0.050

These consolidated financial statements were approved on 29 April 2011:

General Director

D.O. Gudzhoyan

Accounting Policy Director-

Chief accountant

S. U. Puzenko

The consolidated statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 – 44.

Thousands of Russian Roubles, unless otherwise stated

	Note	31 December 2010	31 December 2009
ASSETS			
Non-current assets			
Property, plant and equipment	12	51,778,672	43,395,105
Intangible assets	13	1,111,530	1,262,685
Investments and financial assets	15	614,380	755,261
Other non-current assets	16	134,198	106,095
Total non-current assets		**53,638,780**	**45,519,146**
Current assets			
Cash and cash equivalents	17	258,889	368,171
Trade and other receivables	18	7,197,565	5,035,467
Income tax receivable		478,380	79,743
Inventories	19	1,350,425	1,232,130
Other current assets		48,039	91,635
Total current assets		**9,333,298**	**6,807,146**
Total assets		**62,972,078**	**52,326,292**
EQUITY AND LIABILITIES			
Equity	20		
Share capital		4,221,794	4,221,794
Additional paid-in capital		88,660	88,660
Retained earnings		29,336,103	24,238,902
Total equity attributable to equity holders of the Company		**33,646,557**	**28,549,356**
Non-controlling interests		7,900	3,824
Total equity		**33,654,457**	**28,553,180**
Non-current liabilities			
Loans and borrowings	22	13,770,000	5,163,144
Finance lease liability	23	866,735	1,447,002
Employee benefits	24	1,828,754	1,447,817
Deferred tax liabilities	14	3,076,995	1,888,303
Other non-current liabilities		231,631	93,098
Total non-current liabilities		**19,774,115**	**10,039,364**
Current liabilities			
Loans and borrowings	22	1,166,003	5,963,106
Finance lease liability	23	580,984	762,393
Trade and other payables	26	6,807,445	5,877,949
Employee payables	25	827,267	480,874
Income tax payable		498	5,003
Other taxes payable	27	161,309	644,423
Total current liabilities		**9,543,506**	**13,733,748**
Total liabilities		**29,317,621**	**23,773,112**
Total equity and liabilities		**62,972,078**	**52,326,292**

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 – 44.

Thousands of Russian Roubles, unless otherwise stated

CASH FLOWS FROM OPERATING ACTIVITIES	Note	Year ended 31 December 2010	Year ended 31 December 2009
Profit before income tax		6,389,779	2,745,485
Adjustments for:			
Depreciation and amortization	8	5,011,364	4,631,208
Allowance for impairment of accounts receivable	8	272,690	768,261
Net finance costs	10	1,506,882	2,024,530
Provision for inventory obsolescence		(97,515)	130,860
Loss on disposal of property, plant and equipment		101,084	183,783
Bad debts written-off	8	6,120	5,478
Gain on bargain purchase on acquisition of subsidiary	5	(448,521)	-
Adjustment for other non-cash transactions		(259,508)	(388,369)
Cash flows from operating activities before changes in working capital		**12,482,375**	**10,101,236**
Change in trade and other receivables		(2,293,630)	(594,521)
Change in inventories		24,993	4,943
Change in other assets		355,305	(164,855)
Change in trade and other payables		83,123	(652,850)
Change in employee payables		346,393	7,071
Change in employee benefits		245,549	150,688
Change in other liabilities		(238,422)	50,182
Change in other taxes payable		(494,039)	130,955
Cash flows from operations before income taxes and interest paid		**10,511,647**	**9,032,849**
Interest paid		(1,517,150)	(2,174,455)
Income tax paid		(576,812)	(758,402)
Cash flows from operating activities		**8,417,685**	**6,099,992**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment and intangible assets		(10,589,519)	(6,593,902)
Proceeds from disposal of property, plant and equipment		43,386	76,024
Acquisition of subsidiaries, net of cash acquired	5	(1,075,117)	8,603
Interest received		35,512	2,823
Cash flows used in investing activities		**(11,585,738)**	**(6,506,452)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loans and borrowings		9,858,996	16,501,767
Repayment of loans and borrowings		(6,038,549)	(14,736,144)
Repayment of finance lease liabilities		(761,676)	(1,065,664)
Cash flows from financing activities		**3,058,771**	**699,959**
Net (decrease)/increase in cash and cash equivalents		(109,282)	293,499
Cash and cash equivalents at beginning of year		368,171	74,672
Cash and cash equivalents at end of year		**258,889**	**368,171**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 – 44.

Thousands of Russian Roubles, unless otherwise stated

	Attributable to shareholders of the Company					
	Ordinary share capital	**Additional paid in capital**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
At 1 January 2009	4,221,794	**88,660**	**21,777,436**	**26,087,890**	-	**26,087,890**
Profit for the year	-	-	2,105,390	2,105,390	617	2,106,007
Total comprehensive income	-	-	2,105,390	2,105,390	617	2,106,007
Acquisition of non-controlling interests	-	-	-	-	3,207	3,207
Other movements	-	-	356,076	356,076	-	356,076
At 31 December 2009	4,221,794	**88,660**	**24,238,902**	**28,549,356**	**3,824**	**28,553,180**
Profit for the year	-	-	5,097,201	5,097,201	4,076	5,101,277
Total comprehensive income	-	-	5,097,201	5,097,201	4,076	5,101,277
At 31 December 2010	4,221,794	**88,660**	**29,336,103**	**33,646,557**	**7,900**	**33,654,457**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 – 44.

1 BACKGROUND

(a) The Group and its operations

Joint-Stock Company "IDGC of Centre" (hereafter, the "Company") and its subsidiaries (together referred to as the "Group") comprise Russian open joint stock companies as defined in the Civil Code of the Russian Federation. The Company was set up on 17 December 2004 based on Resolution no. 154p of 9 December 2004 and pursuant to the Board of Directors' decision (board of directors' meeting minutes no. 178 of 1 October 2004) and Management Board decision (Management Board minute no. 1102 of 15 November 2004) of the Russian Open Joint-Stock Company RAO "United Energy Systems of Russia" (hereafter, "RAO UES").

The Company's registered office is 4/2, Glukharev Lane, Moscow, 129090, Russia.

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

The Group consists of the Company and three subsidiaries – OJSC "Energetic", OJCS "Yaroslavskaya Setevaya Company" and OJSC "Yargorelectroset".

The reorganisation of the Company was completed on 31 March 2008 as a result of the merger of the following entities with the Company: OJSC "Belgorodenergo"; OJSC "Bryanskenergo";OJSC "Voronezhenergo"; OJSC "Kostromaenergo"; OJSC "Kurskenergo"; OJSC "Lipetskenergo"; OJSC "Orelenergo"; OJSC "Smolenskenergo"; OJSC "Tambovenergo"; OJSC "Tverenergo"; OJSC "Yarenergo".

The merger was effected through the conversion of shares issued by the Company in exchange for shares in the merged entities. As a result of the merger, the above-mentioned companies ceased to exist as separate legal entities and the Company became their legal successor.

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

As at 31 December 2010 and 2009, the Government of the Russian Federation owned 54.99% shares of JSC IDGC Holding, which in turn owned 50.23% of the Company.

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

(b) Russian business environment

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

2 BASIS OF PREPARATION

(a) Statement of compliance

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

(b) Basis of measurement

The Financial Statements are prepared on the historical cost basis except for investments at fair value through profit or loss; and property, plant and equipment which was revalued to determine deemed cost as part of the adoption of IFRS as at 1 January 2007.

(c) 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 Financial Statements are presented.

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

(d) Use of judgements, estimates and assumptions

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

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

- Note 28 – allowances for impairment of trade and other receivables;
- Note 29 – lease classification.

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

- Note 31 – contingencies.

(e) 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 acquisitions of non-controlling interests;
- accounting for leases of land.

(i) 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.

(ii) Accounting for acquisitions of non-controlling interests

From 1 January 2010 the Group has applied IAS 27 *Consolidated and Separate Financial Statements* (2008) in accounting for acquisitions of non-controlling interests. The change in accounting policy has been applied prospectively and has had no impact on earnings per share.

Under the new accounting policy, acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result of such transactions. The adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary.

Previously, goodwill was recognised on the acquisition of non-controlling interests in a subsidiary, which represented the excess of the cost of the additional investment over the carrying amount of the interest in the net assets acquired at the date of the transaction.

(iii) Accounting for leases of land

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

At 1 January 2010, the Group reassessed all existing land lease contracts and as a result it was assessed that existing land lease contracts do not qualify as finance leases and therefore, the classification was not changed (refer to Note 29).

3 SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of consolidation

(i) Subsidiaries

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

(ii) Transactions eliminated on consolidation

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

(iii) Business combinations involving entities under common control

A business combination involving entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party both before and after the business combination, and that control is not transitory.

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

(b) Financial instruments

(i) Non-derivative financial instruments

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

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

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

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

The Group has the following non-derivative financial assets: financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets.

Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets 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 as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

Financial assets designated at fair value through profit or loss comprise equity securities that otherwise would have been classified as available-for-sale.

Loans and receivables

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

Loans and receivables category comprise the following classes of assets: trade and other receivables as presented in Note 16 and Note 18, and cash and cash equivalents as presented in Note 17.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and highly liquid investments with maturities at initial recognition of three months or less.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the above categories. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see note 3(f)(i)), are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised or impaired, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

Investments in equity securities that are not quoted on a stock exchange and where fair value cannot be reliably measured are stated at cost less impairment losses.

(ii) Non-derivative financial liabilities

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

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

The Group classifies non-derivative financial liabilities into the other financial liability category.

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

Other financial liabilities comprise loans and borrowings, and trade and other payables.

(c) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment, except for land, are measured at cost less accumulated depreciation and impairment losses.

The cost of property, plant and equipment at 1 January 2007, the date of transition to IFRSs, was determined by reference to its fair value at that date.

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, the costs of dismantling and removing of assets and restoring the site on which they are located, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

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

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within other income/other expenses in profit or loss.

(ii) Subsequent costs

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

(iii) Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

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

The estimated useful lives of property, plant and equipment by type of facility are as follows:

• Buildings	15 – 50 years
• Transmission networks	5 – 20 years
• Equipment for electricity transformation	5 – 20 years
• Other	1 – 30 years

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

(iv) Leased assets

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

Leases, other than finance leases, are treated as operating leases, and leased assets are not recognized in the Group's consolidated statement of financial position. Operating lease payments (net of benefits granted by the lessor) are recognized in profit or loss on a straight line basis over the lease term.

(d) Intangible assets

(i) Goodwill

Goodwill that arises on the acquisition of subsidiaries is included in intangible assets. For the measurement of goodwill at initial recognition, see 2 (e) (i).

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses.

(ii) Other intangible assets

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

(iii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognized in profit or loss as incurred.

(iv) Amortization

Amortisation is calculated over the cost of the asset, or other amount substituted for cost, less its residual value.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset.

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

- Patents and licenses 1 – 12 years
- Computer software 1 – 10 years

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

(e) Inventories

Inventories are measured at the lower of cost and net realizable value.

The cost of inventories includes all acquisition costs, production costs and other costs incurred to bring inventories to their existing condition and location. The cost of inventories is determined using the weighted average cost method.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(f) Impairment

(i) Financial assets

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

Objective evidence that financial assets (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.

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 equity securities are recognised by reclassifying the losses accumulated in the fair value reserve in equity, to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, and the current fair value, less any impairment loss previously recognised in profit or loss. Any subsequent recovery in fair value of an impaired available-for-sale equity securities is recognised in other comprehensive income.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

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 or cash generating unit. 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").

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

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

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

(g) Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

(h) Revenue

Revenue from electricity transmission is recognized in the consolidated statement of comprehensive income when the customer acceptance of the volume of electricity transmitted is obtained. The tariffs for energy transmission are approved by the Federal Tariff Agency and Regional Energy Commission of each region of the Group's operations.

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

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

(i) Finance income and costs

Finance income comprises interest income on cash balances and bank deposits, dividend income and changes in the fair value of financial assets at fair value through profit and loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established.

Finance costs comprise interest expense on borrowings, employee benefits, finance leases, changes in the fair value of financial assets at fair value through profit and loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualified asset are recognised in profit or loss using the effective interest method.

(j) Income tax

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

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future;
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

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

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(k) Employee benefits

(i) Defined contribution plans

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

(ii) Defined benefits plan

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and any unrecognised past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the net total of any unrecognised past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

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

The Group recognises all actuarial gains and losses arising from defined benefit plans in profit or loss in the period in which they arise.

The Group recognises gains and losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs.

(iii) Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted.

The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations as at reporting date and that are denominated in the same currency in which the benefits are expected to be paid.

The Group calculates obligation in respect of other long-term employee benefits using the projected unit credit method.

Interest cost as a result of discount release is recognized as finance costs in profit or loss.

Actuarial gain and losses and past benefit costs that are measured because of introduction of new or changes in existing social programs, are recognized in full amount in profit or loss in the period in which they occur.

(iv) Short-term benefits

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

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

(l) Share capital

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.

(m) Earnings per share

The Group presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held.

(n) Segment reporting

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

(o) New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2010, and have not been applied in preparing 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 (2009)* 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 several phases and is intended to replace International Financial Reporting Standard IAS 39 Financial Instruments: Recognition and Measurement once the project is completed by the end of 2010. The first phase of IFRS 9 was issued in November 2009 and relates to the recognition 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.

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

4 DETERMINATION OF FAIR VALUES

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

(a) Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly. The fair value of items of plant, equipment, fixtures and fittings is based on market approach and cost approaches using quoted market prices for similar items when available.

When no quoted market prices are available, the fair value of property, plant and equipment is primarily determined using depreciated replacement cost. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation, and obsolescence.

(b) Investments in equity

The fair value of financial assets at fair value through profit or loss and available-for-sale financial assets is determined by reference to their quoted bid price at the reporting date.

(c) Trade and other receivables

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

(d) Inventories

The fair value of inventories acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

(e) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

5 ACQUISITION OF SUBSIDIARY

In the fourth quarter of 2010 the Group obtained control of OJSC "Yargorelectroset" by acquiring 100 % of the shares in the company from Committee for the Management of Municipal Property of Yaroslavl city. The acquisition is not considered as acquisition under common control.

The purpose of the acquisition was to benefit from the synergies of the combination in order to optimise the Group's transmission process through access to territorial grids.

From the date of acquisition to 31 December 2010 OJSC "Yargorelectroset" contributed revenue of RUB 208,025 thousand and loss of RUB 3,623 thousand. If the acquisition had occurred on 1 January 2010, management estimates that consolidated revenue would have been RUB 61,000,853 thousand, and consolidated profit for the year would have been RUB 5,141,753 thousand. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2010.

Thousands of Russian Roubles, unless otherwise stated

(a) Identifiable assets acquired and liabilities assumed

The identifiable assets acquired and the liabilities assumed were as follows:

	Recognised fair value on at acquisition
Non-current assets	
Intangible assets	395
Property, plant and equipment	1,709,987
Deferred tax assets	12,935
Other non-current assets	273,729
Total non-current assets	**1,997,046**
Current assets	
Inventories	45,772
Income tax receivable	10,054
Other taxes receivable	348
Trade and other receivables	149,110
Cash and cash equivalents	24,883
Other current assets	513
Total current assets	**230,680**
Non-current liabilities	
Deferred tax liabilities	88,487
Other non-current liabilities	377,920
Total non-current liabilities	**466,407**
Current liabilities	
Trade and other payables	197,060
Employee payables	4,813
Taxes payable	10,925
Total current liabilities	**212,798**
Net identifiable assets and liabilities	**1,548,521**

The trade and other receivables comprise gross contractual amounts due of RUB 186,326 thousand, of which RUB 37,216 thousand was expected to be uncollectable at the acquisition date.

(b) Goodwill

Goodwill (negative goodwill) was recognised as a result of the acquisition as follows:

Total consideration transferred (settled in cash)	1,100,000
Fair value of identifiable net assets	1,548,521
Gain on bargain purchase	**(448,521)**

As OJSC "Yargorelectroset" was acquired at auction where the selling price was determined by the forces of demand, the transaction resulted in a gain. The gain of RUB 448,521 thousand was recognised within other income in the consolidated statement of comprehensive income.

6 OPERATING SEGMENTS

The Group has eleven reportable segments representing branches of the Company, as described below. These are the Group's strategic business units. The strategic business units offer similar services representing transmission of electric power and connection services, and are managed separately. For each of the strategic business units, the Board of Experts, the Group's operating decision making body, reviews internal management reports on at least a quarterly basis.

"Others" include operations of subsidiaries and the head office branch. None of them meets any of the quantitative thresholds for determining reportable segments in 2010 or 2009.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the Board of Experts.

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

Thousands of Russian Roubles, unless otherwise stated

(i) *Information about reportable segments*

As at and for the year ended 31 December 2010:

	Belgorod-energo	Bryansk-energo	Voronezh-energo	Kostroma-energo	Kurskenergo	Lipetsk-energo	Orelenergo	Smolensk-energo	Tambov-energo	Tverenergo	Yarenergo	Others	Total
Revenue from electricity transmission	9,775,272	4,733,174	6,807,153	3,082,771	4,899,351	7,227,147	2,637,602	3,859,267	2,885,417	6,406,131	5,249,866	262,186	**57,825,337**
Revenue from connection services	100,996	725,164	319,062	65,233	95,453	98,149	12,639	61,727	8,336	173,966	524,812	188,560	**2,374,097**
Other revenue	201,923	31,951	69,273	20,924	12,896	36,831	10,613	206,778	16,997	29,567	18,448	82,664	**738,865**
Total external revenues	**10,078,191**	**5,490,289**	**7,195,488**	**3,168,928**	**5,007,700**	**7,362,127**	**2,660,854**	**4,127,772**	**2,910,750**	**6,609,664**	**5,793,126**	**533,410**	**60,938,299**
Results from operating activities	**2,040,013**	**1,439,642**	**568,246**	**359,951**	**(264,474)**	**1,571,498**	**67,737**	**(91,564)**	**(145,117)**	**287,596**	**748,530**	**(3,115)**	**6,578,943**
Finance income	53	-	-	203	2	-	-	6	-	-	29	35,219	**35,512**
Finance costs	(193,159)	(14,908)	(48,243)	(83,181)	(64,632)	(52,524)	(86,867)	(105,811)	(102,990)	(183,845)	(50,120)	(28,655)	**(1,014,935)**
Reportable segment profit/(loss) before income tax	**1,846,907**	**1,424,734**	**520,003**	**276,973**	**(329,104)**	**1,518,974**	**(19,130)**	**(197,369)**	**(248,107)**	**103,751**	**698,439**	**3,449**	**5,599,520**
Depreciation and amortization	1,176,483	195,279	367,973	220,485	428,995	545,056	164,675	372,782	195,938	340,675	334,270	31,580	**4,374,191**
Reportable segment assets	**15,366,630**	**4,068,434**	**6,889,075**	**3,298,969**	**6,337,531**	**9,705,393**	**2,584,246**	**4,071,055**	**3,008,469**	**8,055,018**	**5,516,936**	**4,106,558**	**73,008,314**
Property, plant and equipment	14,465,129	2,766,793	5,736,632	2,700,315	4,964,015	7,832,785	2,064,423	3,122,690	2,632,047	4,157,777	4,044,484	1,099,249	**55,586,339**
Reportable segment liabilities	**1,616,115**	**320,828**	**1,102,305**	**335,762**	**1,268,529**	**1,108,503**	**264,071**	**619,211**	**346,984**	**2,269,721**	**1,205,656**	**15,312,272**	**25,769,957**
Capital expenditure	3,682,325	733,283	945,980	410,874	1,221,730	1,370,454	309,745	455,086	224,087	860,101	900,512	1,183,209	**12,297,386**

Thousands of Russian Roubles, unless otherwise stated

As at and for the year ended 31 December 2009:

	Belgorod-energo	Bryanskenergo	Voronezhenergo	Kostromaenergo	Kurskenergo	Lipetskenergo	Orelenergo	Smolenskenergo	Tambovenergo	Tverenergo	Yarenergo	Others	Total
Revenue from electricity transmission	7,536,615	3,496,307	5,960,673	2,668,654	3,647,160	5,063,352	2,284,146	3,457,572	2,731,409	5,363,316	4,660,730	11,897	**46,881,831**
Revenue from connection services	231,497	83,678	360,556	88,696	115,000	97,836	21,473	55,247	30,684	246,231	315,796	59	**1,646,753**
Other revenue	220,876	22,027	7,744	10,609	29,701	28,089	6,861	160,997	12,828	14,296	22,620	32,730	**569,378**
Total external revenues	**7,988,988**	**3,602,012**	**6,328,973**	**2,767,959**	**3,791,861**	**5,189,277**	**2,312,480**	**3,673,816**	**2,774,921**	**5,623,843**	**4,999,146**	**44,686**	**49,097,962**
Results from operating activities	**1,151,886**	**117,663**	**572,039**	**73,995**	**163,538**	**245,856**	**22,098**	**87,441**	**(108,913)**	**630,134**	**555,510**	**111,576**	**3,622,823**
Finance income	44	1	-	307	2	-	-	4	-	-	13	2,750	**3,121**
Finance costs	(138,848)	(43,462)	(72,607)	(105,880)	(69,819)	(99,571)	(144,585)	(155,437)	(108,808)	(204,988)	(84,386)	(4)	**(1,228,395)**
Reportable segment profit/(loss) before income tax	**1,013,082**	**74,202**	**499,432**	**(31,578)**	**93,721**	**146,285**	**(122,487)**	**(67,992)**	**(217,721)**	**425,146**	**471,137**	**114,322**	**2,397,549**
Depreciation and amortization	1,057,735	181,557	318,777	201,409	430,976	505,000	139,457	371,296	188,391	310,741	290,689	11,460	**4,007,488**
Reportable segment assets	**12,997,598**	**3,387,491**	**6,083,090**	**3,159,800**	**5,580,320**	**8,826,623**	**2,495,025**	**4,110,094**	**2,951,214**	**5,606,942**	**4,914,660**	**996,937**	**61,109,794**
Property, plant and equipment	12,130,101	2,437,699	5,224,500	2,620,583	4,260,733	7,381,976	1,876,184	3,173,060	2,573,951	3,671,534	3,740,003	31,140	**49,121,464**
Reportable segment liabilities	**1,842,165**	**771,365**	**1,035,939**	**719,902**	**552,921**	**532,104**	**867,262**	**921,706**	**383,835**	**1,308,372**	**1,532,339**	**9,382,688**	**19,850,598**
Capital expenditure	2,466,632	323,769	603,017	229,695	490,877	654,901	266,388	304,472	169,936	536,083	473,074	11,717	**6,530,561**

Thousands of Russian Roubles, unless otherwise stated

(ii) Major customer

In 2010 revenue from one customer of the Group's segment (Belgorodenergo) represented approximately 14% (RUB 8,452,582 thousand) of the Group's total revenue (in 2009 - RUB 6,450,482 thousand or 13% of the Group's total revenue).

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

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

Revenues	**Year ended 31 December 2010**	**Year ended 31 December 2009**
Total revenue for reportable segments	60,938,299	49,097,962
Elimination of inter-segment revenue	(389,933)	(12,271)
Reclassification	65,252	228,018
Consolidated revenue	**60,613,618**	**49,313,709**

Profit before income tax	**Year ended 31 December 2010**	**Year ended 31 December 2009**
Total profit before income tax for reportable segments	5,599,520	2,397,549
Adjustments for depreciation of property, plant and equipment	(167,951)	(179,378)
Recognition of financial assets related to employee benefit fund	(240,331)	179,970
Unused vacation and annual bonus provision	195,960	(13,265)
Recognition of employee benefit obligations	(372,585)	(301,741)
Adjustment for finance lease	580,324	718,190
Adjustment for allowance for impairment of account receivables	293,285	57,303
Provision for inventory obsolescence	97,515	(130,860)
Other adjustments	404,042	17,717
Consolidated profit before income tax	**6,389,779**	**2,745,485**

Assets	**31 December 2010**	**31 December 2009**
Total assets for reportable segments	73,008,314	61,109,794
Elimination of investments in subsidiaries	(1,116,295)	(16,295)
Elimination of other inter-segment assets	(274,135)	(25,973)
Adjustments for deemed cost of property, plant and equipment	(11,137,976)	(11,913,095)
Adjustments for property, plant and equipment under finance lease	2,601,091	3,278,837
Recognition of financial assets related to employee benefit fund	384,734	625,065
Adjustment for allowance for impairment of account receivables	(51,064)	(307,134)
Provision for inventory obsolescence	(194,548)	(275,607)
Adjustment for deferred tax	(215,385)	(136,000)
Other adjustments	(32,658)	(13,300)
Consolidated total assets	**62,972,078**	**52,326,292**

Thousands of Russian Roubles, unless otherwise stated

Liabilities	31 December 2010	31 December 2009
Total liabilities for reportable segments	25,769,957	19,850,598
Elimination of inter-segment liabilities	(274,135)	(25,973)
Adjustment for finance lease	1,444,635	2,209,395
Unused vacation and annual bonus provision	4,398	190,919
Recognition of employee benefit obligations	1,828,754	1,447,817
Adjustment for deferred tax	573,243	138,993
Other adjustments	(29,231)	(38,637)
Consolidated total liabilities	**29,317,621**	**23,773,112**

7 REVENUE

	Year ended 31 December 2010	Year ended 31 December 2009
Electricity transmission	57,436,585	46,777,977
Connection services	2,249,873	1,646,753
Rent	164,977	293,767
Repairs and maintenance	188,994	159,753
Other	573,189	435,459
	60,613,618	**49,313,709**

Revenue from connection services represents a non-refundable fee for connecting the customer to the electricity grid network.

8 OPERATING EXPENSES

	Year ended 31 December 2010	Year ended 31 December 2009
Electricity transmission	16,813,340	12,853,883
Purchased electricity	13,032,523	9,767,839
Personnel costs (Note 9)	11,635,300	8,687,723
Depreciation and amortization	5,011,364	4,631,208
Raw materials and supplies	1,735,089	1,471,110
Outsourcing services	763,246	1,300,180
Electricity metering services	-	864,177
Allowance for impairment of accounts receivable	272,690	768,261
Repairs, maintenance and installation services	533,581	567,494
Electricity for own needs	441,100	420,871
Rent	477,251	413,622
Transportation costs	416,462	405,700
Information services	221,586	289,179
Consulting, legal and audit services	75,604	64,439
Insurance	167,424	239,072
Taxes other than income tax	337,303	214,519
Security	214,618	194,027
Provision for inventory obsolescence	-	130,860
Telecommunication services	102,152	120,008

Thousands of Russian Roubles, unless otherwise stated

	Year ended 31 December 2010	Year ended 31 December 2009
Agent's fees on purchases	-	16,353
Membership fee	9,140	14,227
Bad debt written-off	6,120	5,478
Other	1,836,897	1,825,789
	54,102,790	**45,266,019**

9 PERSONNEL COSTS

	Year ended 31 December 2010	Year ended 31 December 2009
Salaries and wages	7,928,959	6,381,304
Contribution to the state pension fund	1,452,049	1,066,215
Recognized actuarial loss	248,336	495,127
Insurance contributions (Unified Social Tax in 2009)	426,969	389,051
Finance aid to employees and pensioners	369,249	236,072
Current service cost	84,783	61,902
Unused vacation provision	41,556	56,508
Annual bonus provision	312,945	(43,243)
Past service cost	95,328	(188,703)
Other personnel costs	675,126	233,490
	11,635,300	**8,687,723**

The average number of employees (including production and non production staff) was 29,256 in 2010 (2009: 25,412 employees).

10 FINANCE INCOME AND COSTS

Finance income	Year ended 31 December 2010	Year ended 31 December 2009
Net change in fair value of financial investments at fair value through profit and loss	99,450	95,925
Interest income	35,512	2,823
	134,962	**98,748**
Finance costs		
Interest expense	1,013,303	1,228,395
Interest on finance lease liabilities	493,153	743,828
Interest expense on employee benefits obligation	135,388	151,055
	1,641,844	**2,123,278**

Thousands of Russian Roubles, unless otherwise stated

11 INCOME TAX EXPENSE

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

	Year ended 31 December 2010	Year ended 31 December 2009
Current tax expense		
Current year	(1,071,666)	(773,309)
Adjustment for prior years	896,304	58,830
	(175,362)	(714,479)
Deferred tax expense		
Origination and reversal of temporary differences	(485,541)	75,001
Change in tax the base of property, plant and equipment	(627,599)	-
	(1,113,140)	75,001
	(1,288,502)	**(639,478)**

In 2010 the Group recalculated income tax for prior periods (2006-2008) related to the deductibility for tax purposes of certain operating expenses which were previously capitalized in the tax value of property, plant and equipment and accelerated depreciation of property, plant and equipment operated in an aggressive environment.

As a result, income tax overprovided in prior periods, in accordance with the adjusted tax declarations submitted to the tax authorities, amounted to RUB 896,304 thousand. Also the Group corrected the tax value of property, plant and equipment which resulted in an increase of deferred tax liabilities of the Group in the amount of RUB 627,599 thousand.

Reconciliation of effective tax rate:

	Year ended 31 December 2010	%	Year ended 31 December 2009	%
Profit before income tax	6,389,779	100	2,745,485	100
Income tax expense at applicable tax rate	(1,277,956)	(20)	(549,097)	(20)
Adjustment for prior years	896,304	14	58,830	2
Change in tax base of property, plant and equipment	(627,599)	(10)	-	-
Net effect of other items which are not deductible/not taxable for taxation purposes	(279,251)	(4)	(149,211)	(5)
Welfare, social and discretionary payments to employees	*(135,344)*	(2)	*(109,014)*	*(4)*
Other	*(143,907)*	(2)	*(40,197)*	*(1)*
	(1,288,502)	**(20)**	**(639,478)**	**(23)**

Thousands of Russian Roubles, unless otherwise stated

12 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Transmission networks	Equipment for electricity transformation	Other	Construction in progress	Total
Deemed cost						
At 1 January 2009	7,905,226	21,973,609	9,089,922	4,409,660	4,146,965	47,525,382
Additions	72,745	202,302	242,507	29,487	6,107,348	6,654,389
Transfers	2,021,709	1,919,576	2,496,963	1,044,981	(7,483,229)	-
Disposals	(29,433)	(61,563)	(39,683)	(149,185)	(44,336)	(324,200)
Balance as at 31 December 2009	**9,970,247**	**24,033,924**	**11,789,709**	**5,334,943**	**2,726,748**	**53,855,571**
At 1 January 2010	9,970,247	24,033,924	11,789,709	5,334,943	2,726,748	53,855,571
Acquisitions through business combinations	419,131	842,111	336,416	35,913	76,416	1,709,987
Additions	60,183	173,595	50,785	-	11,194,145	11,478,708
Transfers	2,484,866	2,465,660	2,959,677	1,550,594	(9,460,797)	-
Disposals	(10,127)	(30,795)	(17,548)	(116,668)	(57,419)	(232,557)
Balance as at 31 December 2010	**12,924,300**	**27,484,495**	**15,119,039**	**6,804,782**	**4,479,093**	**66,811,709**
Accumulated depreciation						
At 1 January 2009	(705,399)	(3,403,160)	(1,218,919)	(853,270)	-	(6,180,748)
Depreciation for the year	(574,860)	(2,131,305)	(976,890)	(679,553)	-	(4,362,608)
Disposals	4,068	23,814	14,901	40,107	-	82,890
At 31 December 2009	**(1,276,191)**	**(5,510,651)**	**(2,180,908)**	**(1,492,716)**	**-**	**(10,460,466)**
At 1 January 2010	(1,276,191)	(5,510,651)	(2,180,908)	(1,492,716)	-	(10,460,466)
Depreciation for the year	(633,243)	(2,342,980)	(876,016)	(809,255)	-	(4,661,494)
Disposals	1,914	17,465	6,683	62,861	-	88,923
At 31 December 2010	**(1,907,520)**	**(7,836,166)**	**(3,050,241)**	**(2,239,110)**	**-**	**(15,033,037)**
Net book value						
At 1 January 2009	**7,199,827**	**18,570,449**	**7,871,003**	**3,556,390**	**4,146,965**	**41,344,634**
At 31 December 2009	**8,694,056**	**18,523,273**	**9,608,801**	**3,842,227**	**2,726,748**	**43,395,105**
At 31 December 2010	**11,016,780**	**19,648,329**	**12,068,798**	**4,565,672**	**4,479,093**	**51,778,672**

As at 31 December 2010 construction in progress includes advance payments for property, plant and equipment of RUB 47,603 thousand (as at 31 December 2009: RUB 54,898 thousand).

The amount of capitalized interest in 2010 was RUB 91,858 thousand (in 2009: RUB 183,103 thousand).

Leased property, plant and equipment

The Group leases production equipment and transportation vehicles under a number of finance lease agreements. Title to the leased assets transfers to the Group at the end of each lease.

Thousands of Russian Roubles, unless otherwise stated

As at 31 December 2010 and 31 December 2009 the net book value of leased property, plant and equipment, accounted for as part of the Group's property, plant and equipment, was as follows:

	Land and Buildings	Transmission networks	Equipment for electricity transformation	Other	Total
Cost	111,551	363,915	2,821,671	638,248	3,935,385
Accumulated depreciation	(14,607)	(37,953)	(299,960)	(149,519)	(502,039)
Net book value at 31 December 2009	**96,944**	**325,962**	**2,521,711**	**488,729**	**3,433,346**
Cost	84,704	363,915	2,533,484	313,440	3,295,543
Accumulated depreciation	(14,538)	(52,356)	(425,557)	(81,006)	(573,457)
Net book value at 31 December 2010	**70,166**	**311,559**	**2,107,927**	**232,434**	**2,722,086**

13 INTANGIBLE ASSETS

	Software	Licenses	Other intangible assets	Total
Cost				
At 1 January 2009	333,642	198,088	558,469	1,090,199
Reclassification	(56,622)	(4,716)	61,338	-
Additions	182,714	2,277	464,044	649,035
Disposals	(35,097)	(37,616)	(8,307)	(81,020)
At 31 December 2009	**424,637**	**158,033**	**1,075,544**	**1,658,214**
At 1 January 2010	424,637	158,033	1,075,544	1,658,214
Acquisitions through business combinations	189	206	-	395
Additions	69,588	10,362	119,208	199,158
Disposals	(11,323)	(51,588)	(24,882)	(87,793)
At 31 December 2010	**483,091**	**117,013**	**1,169,870**	**1,769,974**
Accumulated amortization				
At 1 January 2009	(37,633)	(86,523)	(65,294)	(189,450)
Reclassification	5,379	392	(5,771)	-
Amortization for the year	(100,498)	(54,014)	(114,088)	(268,600)
Disposals	35,097	19,117	8,307	62,521
At 31 December 2009	**(97,655)**	**(121,028)**	**(176,846)**	**(395,529)**
At 1 January 2010	(97,655)	(121,028)	(176,846)	(395,529)
Amortization for the year	(74,216)	(21,265)	(254,389)	(349,870)
Disposals	11,323	50,750	24,882	86,955
At 31 December 2010	**(160,548)**	**(91,543)**	**(406,353)**	**(658,444)**
Net book value				
At 1 January 2009	**296,009**	**111,565**	**493,175**	**900,749**
At 31 December 2009	**326,982**	**37,005**	**898,698**	**1,262,685**
At 31 December 2010	**322,543**	**25,470**	**763,517**	**1,111,530**

Thousands of Russian Roubles, unless otherwise stated

14 DEFERRED TAX ASSETS AND LIABILITIES

(a) Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following items:

	Assets		Liabilities		Net	
	2010	2009	2010	2009	2010	2009
Property, plant and equipment	18.350	23.186	(3.541.618)	(2.751.091)	(3.523.268)	(2.727.905)
Other non-current assets	719	1.158		-	719	1.158
Inventories	39.052	55.171	-	-	39.052	55.171
Trade and other receivables	15.460	270.852	(122.218)	-	(106.758)	270.852
Other current assets	-	66	-	-	-	66
Finance lease liabilities	288.927	441.879	-	-	288.927	441.879
Post employment benefit liability	186.083	155.172	-	-	186.083	155.172
Employee payables	110.972	39.541	-	-	110.972	39.541
Other	3.802	776	(76.524)	(125.013)	(72.722)	(124.237)
Deferred tax assets/(liabilities)	**663,365**	**987,801**	**(3,740,360)**	**(2,876,104)**	**(3,076,995)**	**(1,888,303)**

(b) Movements in temporary differences during the year

	1 January 2010	Recognised in profit or loss	Acquisition of subsidiary	31 December 2010
Property, plant and equipment	(2.727.905)	(707.493)	(87.870)	(3.523.268)
Other non-current assets	1.158	(439)	-	719
Inventories	55.171	(19.410)	3.291	39.052
Trade and other receivables	270.852	(385.053)	7.443	(106.758)
Other current assets	66	(66)	-	-
Finance lease liabilities	441.879	(152.952)	-	288.927
Post employment benefit liability	155.172	29.241	1.670	186.083
Employee payables	39.541	70.900	531	110.972
Other	(124.237)	52.132	(617)	(72.722)
	(1,888,303)	**(1,113,140)**	**(75,552)**	**(3,076,995)**

Thousands of Russian Roubles, unless otherwise stated

	1 January 2009	Recognised in profit or loss	Recognised directly in equity	31 December 2009
Property, plant and equipment	(2,667,603)	(60,302)	-	(2,727,905)
Other non-current assets	1,236	(78)	-	1,158
Inventories	31,770	23,401	-	55,171
Trade and other receivables	79,393	191,459	-	270,852
Other current assets	79	(13)	-	66
Finance lease liabilities	625,257	(183,378)	-	441,879
Post employment benefit liability	19,057	136,115	-	155,172
Employee payables	36,888	2,653	-	39,541
Other	(362)	(34,856)	(89,019)	(124,237)
	(1,874,285)	**75,001**	**(89,019)**	**(1,888,303)**

15 INVESTMENTS AND FINANCIAL ASSETS

	31 December 2010	31 December 2009
Financial assets related to the employee benefit fund	384,734	625,065
Investments designated at fair value through profit and loss	227,712	128,191
Available-for-sale financial assets	1,934	2,005
	614,380	**755,261**

Investments designated at fair value through profit and loss represent investments in shares of JSC OGC-4 and other securities, which are listed on MICEX and RTS, recorded at fair market value (belong to Level 1 and Level 2 in the fair value hierarchy).

Financial assets related to employee benefit fund

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

The Group's exposure related to credit risks and impairment losses related to other investments and financial assets is disclosed in Note 28.

16 OTHER NON-CURRENT ASSETS

	31 December 2010	31 December 2009
Non-current advances receivable	1,538	-
Other accounts receivable	47,693	61,858
Other accounts receivable impairment allowance	(1,658)	(3,854)
Other assets	76,665	47,036
Trade accounts receivable	9,960	1,055
	134,198	**106,095**

Thousands of Russian Roubles, unless otherwise stated

17 CASH AND CASH EQUIVALENTS

Cash and cash equivalents mainly represent cash in bank accounts amounted to RUB 258.889 thousand denominated in roubles (31 December 2009: RUB 368,171 thousand).

18 TRADE AND OTHER RECEIVABLES

	31 December 2010	31 December 2009
Trade receivables	7.363.454	5.339.951
Trade receivables impairment allowance	(1.712.608)	(1.387.140)
Advances issued	487.994	378.600
Advances issued impairment allowance	(17.210)	(62.295)
VAT recoverable	468.095	327.055
Taxes receivable	137.875	14.812
Other receivables	488.134	470.721
Other receivables impairment allowance	(18.169)	(46,237)
	7,197,565	**5,035,467**

For more detailed information concerning the Group's exposure to credit risks and impairment losses related to trade and other receivables refer to Note 28.

19 INVENTORIES

	31 December 2010	31 December 2009
Materials and supplies	1.543.857	1.505.427
Inventory for resale	1.116	2.310
Total inventories	**1,544,973**	**1,507,737**
Less: provision for inventory obsolescence	(194.548)	(275.607)
Total	**1,350,425**	**1,232,130**

At 31 December 2010 no inventories were pledged as collateral for bank loans (31 December 2009: RUB 964,108 thousand) (refer to Note 22).

Thousands of Russian Roubles, unless otherwise stated

20 EQUITY

(a) Share capital

	Ordinary shares	
	31 December 2010	31 December 2009
Issued shares, fully paid	42,217,941,468	42,217,941,468
Par value (in RUB)	0.10	0.10

(b) Dividends

In accordance with Russian legislation the Company's distributable reserves are limited to the balance of accumulated 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 profit for the current year, of RUB 8,281,725 thousand (31 December 2009: RUB 3,634,541 thousand).

At the annual shareholders meeting held on 11 June 2009 the decision was made not to declare dividends for the year 2008. At the annual shareholders meeting held on 22 June 2010 the decision was made not to declare dividends for the year 2009.

21 EARNINGS PER SHARE

The calculation of earnings per share was based on the profit attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding during the year. The Company has no dilutive potential ordinary shares.

Number of shares unless otherwise stated	Ordinary shares	Ordinary shares
	31 December 2010	31 December 2009
Authorized shares	42,217,941,468	42,217,941,468
Par value (in RUB)	0.10	0.10
Weighted average number of shares	42,217,941,468	42,217,941,468
Profit for the year attributable to shareholders	**5,097,201**	**2,105,390**
Earning per share (in RUB): basic and diluted	**0.12**	**0.050**

Thousands of Russian Roubles, unless otherwise stated

22 LOANS AND BORROWINGS

This note provides information about the contractual terms of the Group's loans and borrowings. For more information about the Group's exposure to interest rate risk, refer to Note 28.

Long-term loans and borrowings

Name of lender		Effective interest rate 31 December 2010	Effective interest rate 31 December 2009	Maturity	31 December 2010	31 December 2009
Finance department of Belgorodskaya oblast	Secured	9.45%	9.45%	2011	345,738	345,738
OJSC "Alfa-Bank"	Unsecured	7.65-7.8%	-	2017	2,472,103	-
OJSC "Bank of Moscow"	Unsecured	12-12.5%	12-12.50%	2010	-	109,816
OJSC "Bank VTB"	Unsecured	9.70%	9.70%	2010	-	380,606
OJSC "Gazprombank"	Unsecured	8.00%	11-17%	2012	1,052,751	1,227,098
OJSC "Ogresbank" (OJSC "Nordeabank")	Unsecured	8.00%	11.10-19.50%	2011	410,000	410,000
OJSC "Rosbank"	Unsecured	8.00%	10.90–18%	2012	3,800,000	1,508,637
OJSC "Sberbank"	Secured	13.5-18%	13.50-18%	2014	-	1,428,295
OJSC "Sberbank"	Unsecured	7.5-8.4%	13.50-18%	2014	6,855,411	4,254,684
OJSC "Svyazbank"	Unsecured	8.80%	11.45%	2011	-	228,082
OJSC "Transcreditbank"	Unsecured	8.8-9.6%	11-17.95%	2011	-	833,294
					14,936,003	**10,726,250**
Less: current portion						
Finance department of Belgorodskaya oblast	Secured	9.45%	9.45%	2010-2011	345,738	5,738
OJSC "Alfa-Bank"	Unsecured	7.65-7.8%	-	2011	2,103	
OJSC "Bank of Moscow"	Unsecured	12-12.5%	12-12.50%	2010	-	109,816
OJSC "Bank VTB"	Unsecured	9.70%	9.70%	2010	-	380,606
OJSC "Gazprombank"	Unsecured	8.00%	11-17%	2010-2011	402,751	402,099
OJSC "Ogresbank" (OJSC "Nordeabank")	Unsecured	8.00%	11.10-19.50%	2011	410,000	-
OJSC "Rosbank"	Unsecured	8.00%	10.90–18%	2010	-	1,395,895
OJSC "Sberbank"	Secured	13.5-18%	13.50-18%	2010	-	1,428,295
OJSC "Sberbank"	Unsecured	7.5-8.4%	13.50-18%	2010-2011	5,411	899,420
OJSC "Svyazbank"	Unsecured	8.8%	11.45%	2010	-	224,561
OJSC "Transcreditbank"	Unsecured	8.8-9.6%	11-17.95%	2010	-	716,676
					1,166,003	**5,563,106**
Total long-term borrowings					**13,770,000**	**5,163,144**

Thousands of Russian Roubles, unless otherwise stated

All the Group's borrowings are denominated in RUB and bear a fixed interest rate. The effective interest rate is the market interest rate applicable to the loan on the date of its receipt.

The carrying value of borrowings approximates their fair value.

Current borrowings and current portion of long-term borrowings

Name of lender		Effective interest rate	Effective interest rate	31 December 2010	31 December 2009
Finance department of Belgorodskaya oblast	Secured	9.45%	9.45%	345,738	5,738
OJSC "Alfa-Bank"	Unsecured	7.65-7.8%		2,103	
OJSC "Bank of Moscow"	Unsecured	12-12.5%	12-12.50%	-	109,816
OJSC "Bank VTB"	Unsecured	9.70%	9.70%	-	380,606
OJSC "Gazprombank"	Unsecured	8.00%	11-17%	402,751	802,099
OJSC "Ogresbank"(OJSC "Nordeabank")	Unsecured	8.00%	11.10-19.50%	410,000	-
OJSC "Rosbank"	Unsecured	8.00%	10.90-18%	-	1,395,895
OJSC "Sberbank"	Secured	13.5-18%	13.5-18%	-	1,428,295
OJSC "Sberbank"	Unsecured	7.5-8.4%	13.5-18%	5,411	899,420
OJSC "Svyazbank"	Unsecured	8.8%	11.45%	-	224,561
OJSC "Transcreditbank"	Unsecured	8.8-9.6%	11-17.95%	-	716,676
				1,166,003	**5,963,106**

As at 31 December 2010 and 2009 the bank loans in the amount of RUB 345,738 thousand are secured over bank guarantees received.

As at 31 December 2010 no bank loans are secured over inventories (31 December 2009: RUB 964,108 thousand) (refer to Note 19).

23 FINANCE LEASE

The finance lease liabilities are secured by the leased assets.

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

	At 31 December 2010		
	Minimum lease payments	Present value of minimum lease payments	Interest
Less than one year	902,489	580,984	321,505
Between one and five years	1,124,304	866,735	257,569
	2,026,793	**1,447,719**	**579,074**

	At 31 December 2009		
	Future minimum lease payments	Present value of minimum lease payments	Interest
Less than one year	1,261,347	762,393	498,954
Between one and five years	2,020,275	1,447,002	573,273
	3,281,622	**2,209,395**	**1,072,227**

Thousands of Russian Roubles, unless otherwise stated

24 EMPLOYEE BENEFITS

The tables below provide information about the employee benefit obligations and actuarial assumptions used for the years ended 31 December 2010 and 31 December 2009.

The defined benefits obligations arise from unfunded plans. Other benefits include jubilee benefits and funeral compensations in the case of death in the employee's immediate family.

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

	31 December 2010	31 December 2009
Present value of defined benefit obligation	2,100,824	1,815,215
Unrecognized past service cost	(272,070)	(367,398)
	1,828,754	**1,447,817**

(b) Amounts recognized in profit or loss

	Year ended 31 December 2010	Year ended 31 December 2009
Current service cost	84,783	61,902
Interest expense	135,388	151,055
Past service cost	95,328	(188,703)
Adjustment for obligations to pensioners	69,481	-
Recognized actuarial losses	248,336	495,127
Net expense	**633,316**	**519,381**

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

	31 December 2010	31 December 2009
Present value of defined benefit obligation at 1 January	1,815,215	1,756,253
Current service cost	84,783	61,902
Interest expense	135,388	151,055
Adjustment for obligations to pensioners	69,481	-
Acquisition of subsidiary	8,352	-
Actuarial losses	248,336	495,127
Benefits paid	(260,731)	(217,638)
Past service cost	-	(431,484)
Present value of defined benefit obligation at 31 December	**2,100,824**	**1,815,215**

Thousands of Russian Roubles, unless otherwise stated

(d) Actuarial assumptions

Principal actuarial assumptions are as follows:

	2010	2009
Discount rate, annual	8.00%	8.70%
Future salary increase, per year	5.00%	5.50%
Inflation rate, per year	5.00%	5.50%

(e) Expense recognised in profit or loss

	Year ended 31 December 2010	Year ended 31 December 2009
Operating expenses	497,928	368,326
Finance costs	135,388	151,055
	633,316	**519,381**

25 EMPLOYEE PAYABLES

	31 December 2010	31 December 2009
Salaries and wages payable	272,408	289,955
Unused vacation provision	241,914	190,919
Annual bonus provision	312,945	-
	827,267	**480,874**

Provision for annual bonuses includes bonuses and other similar payments accrued (including unified social tax) based on employees' performance.

26 TRADE AND OTHER PAYABLES

	31 December 2010	31 December 2009
Trade accounts payable	3,934,567	3,887,181
Advances received	2,391,391	1,634,660
Other payables and accrued expenses	481,487	356,108
	6,807,445	**5,877,949**

27 OTHER TAXES PAYABLE

	31 December 2010	31 December 2009
Value added tax	27,851	440,903
Employee taxes	15,489	66,242
Property tax	50,339	42,876
Other taxes	67,630	94,402
	161,309	**644,423**

Thousands of Russian Roubles, unless otherwise stated

28 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(a) Overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk;
- market risk.

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

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

The Group's principal objective when managing capital risk is to sustain its creditworthiness and a normal level of capital adequacy for doing business as a going concern, in order to ensure returns for shareholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of borrowed capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

(b) Credit risk

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

(i) Trade and other receivables

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

To manage credit risk the Group attempts, to the fullest extent possible, to demand prepayments from customers. As a rule, prepayment for connection services is set in a contract and depends on the amount of capacity to be connected.

The customer base for electricity transmission services is limited to several distribution companies and a small number of large manufacturing/extraction enterprises. Payments are tracked weekly and electricity transmission customers are advised of any failures to submit timely payments. For quick collection and complete control of accounts receivable collection a working team was formed to reduce the Company's finance losses, caused by non-fulfilment or insufficient fulfilment by some contractors of their contractual obligations.

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

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

(ii) Exposure to credit risk

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

	31 December 2010	31 December 2009
Trade and other receivables	6,176,806	4,436,354
Investments and financial assets	614,380	755,261
Cash and cash equivalents	258,889	368,171
	7,050,075	**5,559,786**

Financial guarantees are disclosed in Note 31.

Thousands of Russian Roubles, unless otherwise stated

The Group's two most significant customers, regional distribution entities, account for RUB 3,031,388 thousand of the trade receivables carrying amount at 31 December 2010 (31 December 2009: RUB 1,482,111 thousand).

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

	Carrying amount at 31 December 2010	Carrying amount at 31 December 2009
Electricity transmission customers	5,350,827	3,735,659
Connection services customers	187,268	150,701
Other customers	122,711	67,506
	5,660,806	**3,953,866**

Impairment losses

The tables below analyze the Group's trade and other receivables into relevant groups based on the past due periods:

	At 31 December 2010		At 31 December 2009	
	Gross	Allowance	Gross	Allowance
Not past due	2,207,375	(11,801)	2,526,250	(49,674)
Past due 0-3 months	533,928	(797)	35,790	(11,511)
Past due 3-6 months	3,211,085	(273)	553,166	(96,419)
Past due 6-12 months	216,037	(87,989)	1,844,302	(431,891)
Past due more than 12 months	1,740,816	(1,631,575)	914,077	(847,736)
	7,909,241	**(1,732,435)**	**5,873,585**	**(1,437,231)**

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

	Year ended 31 December 2010	Year ended 31 December 2009
Balance at 1 January	1,437,231	774,576
Increase during the period	605,084	1,069,338
Amounts written-off against receivables	(25,187)	(94,146)
Decrease due to reversal	(284,693)	(312,537)
Balance at 31 December	**1,732,435**	**1,437,231**

(c) Liquidity risk

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

To manage the liquidity risk, the Group has negotiated long-term and short-term credit lines with a pool of commercial banks, designated as highly rated banks.

As at 31 December 2010 the Group's unused portion of long-term and short-term credit line facilities amounted to RUB 8,800,000 thousand (31 December 2009: RUB 5,495,768 thousand).

Thousands of Russian Roubles, unless otherwise stated

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

	Carrying amount	Contractual cash flows	12 months or less	Between 1 and 5 years	More than 5 years
Liabilities as at 31 December 2010					
Long-term municipal loans	345,738	352,221	352,221	-	-
Long-term bank loans including current portion	14,590,265	19,851,345	1,960,666	13,834,547	4,056,132
Finance lease liabilities	1,447,719	2,026,793	902,489	1,124,304	-
Trade and other payables	4,192,865	4,192,865	4,183,739	647	8,479
	20,576,587	**26,423,224**	**7,399,115**	**14,959,498**	**4,064,611**
Financial guarantees	**1,203,717**	**1,203,717**	**1,203,717**	-	-

	Carrying amount	Contractual cash flows	12 months or less	Between 1 and 5 years	More than 5 years
Liabilities as at 31 December 2009					
Long-term municipal loans	345,738	388,587	27,200	361,387	-
Long-term bank loans including current portion	10,380,512	13,078,384	5,825,617	7,252,767	-
Short-term bank loans	400,000	404,734	404,734	-	-
Finance lease liabilities	2,209,395	3,281,622	1,261,347	2,020,275	-
Trade and other payables	4,039,055	4,039,055	4,029,470	-	9,585
	17,374,700	**21,192,382**	**11,548,368**	**9,634,429**	**9,585**
Financial guarantees	**1,781,552**	**1,781,552**	**1,781,552**	-	-

(d) Market risk

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

(i) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group is exposed to interest rate risk only through market value fluctuations of loans and borrowings. The interest rates on most long- and short-term loans and borrowings are fixed. 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.

Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

Fixed rate instruments	Carrying amount 31 December 2010	Carrying amount 31 December 2009
Financial liabilities	16,383,722	13,335,645

Fair value sensitivity analysis for fixed rate instruments

Thousands of Russian Roubles, unless otherwise stated

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit and 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.

(e) Fair values

Management believes that at the reporting date the fair value of the Group's financial assets and liabilities approximates their carrying amounts.

(f) Capital management

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

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

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

The Company and its subsidiaries are subject to external capital requirements that require that their net assets as determined in accordance with Russian Accounting Principles must exceed their charter capital at all times.

29 OPERATING LEASES

The Group leases a number of land plots owned by local governments under operating leases. In addition, the Group leases non-residential premises and vehicles.

Land leases were entered in prior periods and represented land plots on which power lines, equipment for electricity transformation and other assets are located. The land leases typically run for an initial period of 5 to 49 years, with an option to renew the lease after that date. Lease payments are reviewed regularly to reflect market rentals.

The land title does not pass and the landlord retains control over land usage. The Group determined that substantially all the risks and rewards of the land plots are with the landlord, therefore the leases are considered as operating leases.

Operating lease rentals under non-cancellable leases are payable as follows:

	31 December 2010	31 December 2009
Less than one year	512.581	286.303
Between one year and five years	1.210.693	601.235
More than five years	3.139.098	2.758.529
	4,862,372	**3,646,067**

The amount of lease expense under operating leases recognized in profit or loss in 2010 was RUB 477,251 thousand (in 2009: RUB 413,622 thousand).

30 COMMITMENTS

The Group has outstanding commitments under the contracts for the purchase and construction of property, plant and equipment for RUB 1,865,776 thousand as at 31 December 2010 (net of VAT) (as at 31 December 2009: RUB 2,337,551 thousand).

31 CONTINGENCIES

(a) Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group has full insurance coverage for its production facilities and third party liability in respect of property, health and environmental damage arising from operation of dangerous production units. The Group has no insurance coverage against losses caused by business interruption.

(b) Litigation

The Group is a party to certain legal proceedings arising in the ordinary course of business. Management does not believe than these matters will have a material adverse effect on the Group's financial position and operating results.

(c) Taxation contingencies

The taxation system in the Russian Federation is 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 position in their interpretation and enforcement of tax legislation.

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

(d) Environmental matters

The Company and its predecessors have operated in the electric transmission industry in the Russian Federation for many years. The enforcement of environmental regulations in the Russian Federation is evolving and the enforcement posture of Government authorities is continually being reconsidered. Management periodically evaluates its 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.

(e) Other contingencies

The Group believes that all Group's sales arrangements on electricity transmission are in compliance with the Russian legislation regulating electric power transmission. However, based on uncertainty of legislation that regulates the lease of Unified National (All-Russia) Electricity Network property ("last-mile") by the Group there is a risk that certain customers may take legal actions against the Group on the basis 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 may agree with the customers' view. Since a draft decree "On confirmation of the Procedure for agreeing the leasing of electricity network facilities belonging to the Unified National (All-Russia) Electricity Network to territorial network organizations" is currently awaiting approval from the Government of the Russian Federation, the Group assesses these risks as low.

Thousands of Russian Roubles, unless otherwise stated

(f) Guarantees

The Group issued financial guarantees for loans received by a lessor of the Group.

	Amount on contract 31 December 2010	Amount on contract 31 December 2009
OJSC "Rosbank"	1,009,201	1,267,130
Belgorodskoe OSB №8582	194,516	463,051
CJSC "Gazenergoprombank"	-	51,371
	1,203,717	**1,781,552**

32 RELATED PARTY TRANSACTIONS

(a) Control relationships

The Company's parent as at 31 December 2010 and 2009 was JSC IDGC Holding. The party with the ultimate control over the Company is the Government of the Russian Federation, which held the majority of the voting rights of JSC IDGC Holding.

(b) Transactions with management and close family members

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

(i) Management compensation

Total remuneration paid to the members of the Board of Directors and the Management Board for the year ended 31 December 2010 was RUB 220,555 thousand (2009: RUB 157,929 thousand).

(c) Transactions with other related parties

(i) Revenue

	Transaction value 2010	Outstanding balance 31 December 2010	Transaction value 2009	Outstanding balance 31 December 2009
Electricity transmission:				
Entities under common control of the parent	-	-	-	-
Other state controlled entities	1,936,194	159,824	314,582	3,598
Other revenue:				
Entities under common control of the parent	-	-	-	-
Other state controlled entities	1,007,636	18,658	99,046	5,150
	2,943,830	**178,482**	**413,628**	**8,748**

Related party revenue for electricity transmission is based on the tariffs determined by the government.

Thousands of Russian Roubles, unless otherwise stated

(ii) Expenses

	Transaction value 2010	Outstanding balance 31 December 2010	Transaction value 2009	Outstanding balance 31 December 2009
Electricity transmission:				
Entities under common control of the parent	-	-	-	-
Other state controlled entities	11,168,640	71,795	8,084,513	628,406
Other expenses:				
Entities under common control of the parent	41,269	8,977	1,269	9,585
Parent company	441,000	26,019	441,000	26,019
Other state controlled entities	682,699	17,918	139,850	7,990
Related party lessors	20,702	1,050	-	-
	12,354,310	**125,759**	**8,666,632**	**672,000**

(iii) Advances received

	Outstanding balance 31 December 2010	Outstanding balance 31 December 2009
Other state controlled entities	109,963	268,124
	109,963	**268,124**

(iv) Advances issued

	Outstanding balance 31 December 2010	Outstanding balance 31 December 2009
Entities under common control of the parent	514	-
Other state controlled entities	103,421	45,727
	103,935	**45,727**

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

(v) Loans and borrowings

	Amount loaned 2010	Outstanding balance 31 December 2010	Amount loaned 2009	Outstanding balance 31 December 2009
Loans received:				
State controlled entities	2,600,000	7,201,149	5,690,000	7,580,514
	2,600,000	**7,201,149**	**5,690,000**	**7,580,514**

Loans are received at market interest rates (refer to Note 28).