OJSC MOESK

Consolidated Financial Statements
for the year ended 31 December 2010

Contents

ZAO KPMG
10 Presnenskaya Naberezhnaya
Moscow, Russia 123317

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

Independent Auditors' Report

To the management of OJSC MOESK

We have audited the accompanying consolidated financial statements of OJSC MOESK (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

ZAO KPMG

ZAO KPMG

13 May 2011

	Note	31 December 2010 '000 RUB	31 December 2009 (restated) '000 RUB
ASSETS			
Non-current assets			
Property, plant and equipment	12	190 225 639	181 703 490
Intangible assets	13	85 535	95 514
Long-term investments	14	624 800	-
Other non-current assets	15	13 680 640	21 526 771
Total non-current assets		**204 616 614**	**203 325 775**
Current assets			
Inventories	17	1 674 664	2 199 534
Income tax receivable		631 841	692 508
Trade and other receivables	18	23 973 028	15 117 615
Short-term investments	14	1 187	2 500 000
Cash and cash equivalents	19	2 931 237	5 094 383
Total current assets		**29 211 957**	**25 604 040**
Total assets		**233 828 571**	**228 929 815**

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 11 to 56.

	Note	31 December 2010 '000 RUB	31 December 2009 (restated) '000 RUB
EQUITY AND LIABILITIES			
Equity			
Share capital	20	24 353 546	24 353 546
Additional paid in capital		18 580 888	18 580 888
Retained earnings		62 746 579	46 025 791
Total equity attributable to the shareholders of OJSC MOESK		**105 681 013**	**88 960 225**
Non-controlling interest		389 661	396 988
Total equity		**106 070 674**	**89 357 213**
Non-current liabilities			
Loans and borrowings	22	29 472 416	20 304 497
Employee benefits	23	1 649 275	1 289 372
Deferred tax liabilities	16	6 943 138	7 588 366
Trade and other payables	25	10 893 132	36 000 135
Total non-current liabilities		**48 957 961**	**65 182 370**
Current liabilities			
Loans and borrowings	22	10 631 321	30 295 127
Income tax payable		-	4 033
Other taxes payable	26	763 382	287 356
Trade and other payables	25	66 764 149	43 696 070
Provisions	24	641 084	107 646
Total current liabilities		**78 799 936**	**74 390 232**
Total equity and liabilities		**233 828 571**	**228 929 815**

These consolidated financial statements were approved by management on 4 May 2011 and were signed on its behalf by:

Deputy Director General
on Economics and Finance

O. L. Bulanova

Head of Department
on Economics and Finance

V.V. Bragova

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 11 to 56.

	Note	2010 '000 RUB	2009 '000 RUB
Revenue	6	111 731 578	85 830 810
Operating expenses	7	(89 358 961)	(66 438 994)
Other operating income	9	1 454 203	1 093 945
Results from operating activities		**23 826 820**	**20 485 761**
Finance income	10	253 957	348 400
Finance costs	10	(2 490 394)	(6 849 681)
Profit before income tax		**21 590 383**	**13 984 480**
Income tax expense	11	(4 426 923)	(3 476 221)
Profit for the year		**17 163 460**	**10 508 259**
Total comprehensive income for the year		**17 163 460**	**10 508 259**
Total profit and comprehensive income attributable to:			
Shareholders of OJSC MOESK		17 170 787	10 755 676
Non-controlling interest		(7 327)	(247 417)
Basic and diluted earnings per ordinary share (in Russian Roubles)	21	**RUB 0.3525**	**RUB 0.2208**

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 11 to 56.

’000 RUB	**Attributable to shareholders of the Group**						
	Share capital	**Treasury shares**	**Additional paid in capital**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2009	**24 353 546**	**(8 365)**	**18 580 888**	**35 272 726**	**78 198 795**	**644 405**	**78 843 200**
Profit for the year	-	-	-	10 755 676	10 755 676	(247 417)	10 508 259
Total comprehensive income for the year	-	-	-	10 755 676	10 755 676	(247 417)	10 508 259
Disposal of treasury shares (Note 20(b))	-	8 365	-	(2610)	5 755	-	5 755
Balance at 31 December 2009	**24 353 546**	**-**	**18 580 888**	**46 025 792**	**88 960 226**	**396 988**	**89 357 214**
Balance at 1 January 2010	**24 353 546**	**-**	**18 580 888**	**46 025 792**	**88 960 226**	**396 988**	**89 357 214**
Profit for the year	-	-	-	17 170 787	17 170 787	(7 327)	17 163 460
Total comprehensive income for the year	-	-	-	17 170 787	17 170 787	(7 327)	17 163 460
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Dividends to shareholders	-	-	-	(450 000)	(450 000)	-	(450 000)
Total contributions by and distributions to owners	-	-	-	(450 000)	(450 000)	-	(450 000)
Balance at 31 December 2010	**24 353 546**	**-**	**18 580 888**	**62 746 579**	**105 681 013**	**389 661**	**106 070 674**

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 11 to 56.

	2010 '000 RUB	2009 (restated) '000 RUB
Cash flows from operating activities		
Profit before income tax	**21 590 383**	**13 984 480**
Adjustments for:		
Depreciation and amortisation	13 339 559	10 236 437
Loss/(gain) on disposal of property, plant and equipment	4 153	(549 244)
Impairment losses on property, plant and equipment	34 574	492 295
Provisions for legal claims	533 437	(336 299)
Finance income	(253 957)	(348 400)
Finance costs	2 490 394	6 849 681
Allowance for impairment of accounts receivable	268 967	98 790
Allowance for impairment of non-current assets	4 993	81 826
Other non-cash items	(548 294)	(22 158)
Cash from operating activities before changes in working capital and provisions	**37 464 209**	**30 487 408**
Change in inventories	535 023	671 874
Change in trade and other receivables, non-current advances given for connection services	(2 027 906)	(2 257 769)
Change in retirement benefit obligations and related assets	791 529	179 448
Change in trade and other payables	(1 773 222)	6 952 461
Change in taxes payable, other than income tax	476 026	189 714
Cash flows from operations before income taxes and interest paid	**35 465 658**	**36 223 137**
Income taxes paid	(5 015 516)	(4 095 617)
Net cash from operating activities	**30 450 142**	**32 127 520**
Cash flows from investing activities		
Proceeds from disposal of property, plant and equipment	1 417	182 055
Proceeds from disposal of short-term investments	452 407	-
Acquisition of property plant and equipment	(18 925 850)	(17 261 829)
Acquisition of intangible assets	(49 553)	(17 837)
Acquisition of short-term investments	(578 594)	-
Interest received	60 587	120 365
Net cash used in investing activities	**(19 039 586)**	**(16 977 246)**

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 11 to 56.

	2010 '000 RUB	2009 (restated) '000 RUB
Cash flows from financing activities		
Proceeds from borrowings	33 839 085	8 700 000
Repayment of borrowings	(37 561 065)	(13 355 763)
Payment of finance lease liabilities	(5 818 938)	(7 068 366)
Dividends paid	(450 000)	-
Proceeds from treasury shares	-	5 755
Interest paid	(3 590 286)	(4 490 073)
Net cash used in financing activities	**(13 581 204)**	**(16 208 447)**
Net decrease in cash and cash equivalents	**(2 170 648)**	**(1 058 173)**
Cash and cash equivalents at beginning of year	5 094 383	6 152 592
Effect of exchange rate fluctuations on cash and cash equivalents	7 502	(36)
Cash and cash equivalents at end of year (Note 19)	**2 931 237**	**5 094 383**

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 11 to 56.

1 Background

(a) Organisation and operations

Open Joint-Stock Company Moskovskaya Ob'edinennaya Electrosetevaya Kompaniya (OJSC MOESK or the "Company") was established on 1 April 2005 by transference of assets and activities related to the electricity transmission of OJSC Mosenergo, a subsidiary of RAO UES of Russia, within the framework of Russian electricity sector restructuring in accordance with Resolution No. 1 adopted by shareholders of OJSC Mosenergo on 29 June 2004.

The Group's consolidated financial statements include the following subsidiaries:

- OJSC Moskabel'set'montaj (MKSM);
- OJSC Moskabel'energoremont (MKER);
- OJSC Repair of Electrical and Technical Equipment Plant (RETEP);
- OJSC Energocentr.

As at 31 December 2010 the Russian Federation owned 52.7% of OJSC MRSK Holding, which in turn owned 50.9% of OJSC MOESK.

The Company's registered office is at 27, Ordgonikidze street, Podol'sk, Moscow Region, 142100, Russian Federation. The actual address is 3/2, 2nd Paveletskiy proezd, Moscow, 115114, Russian Federation.

The Group's principal activity is electricity transmission by means of electrical networks located in Moscow and the Moscow Region. The Group also provides connection services as part of its core operations.

(b) Russian business environment

The Group's operations are 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

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that financial investments classified as available-for-sale are stated at fair value.

(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 consolidated financial statements are presented. All financial information presented in RUB has been rounded to the nearest thousand and its subsidiaries.

(d) Use of judgments, 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 consolidated financial statements is included in the following notes:

- Note 18 – Allowance for trade and other receivables;
- Note 23 – Employee benefits;
- Note 24 – Provisions;
- Note 27 – Financial risk management;
- Note 30 – Contingencies.

(e) Changes in accounting policies

(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.

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

(iv) Related party disclosures

The management has early adopted the revised IAS 24 *Related Party Disclosures* which introduces an exemption from the basic disclosure requirements in relation to related party disclosures and outstanding balances, including commitments, for government-related entities.

(v) VAT on advances given and received

The Group has changed its accounting policy regarding VAT on advances given and received from net to gross presentation in order to harmonise its accounting policy with the parent company, OJSC MRSK Holding. The effect of this change in accounting policy on total assets and liabilities amounted to RUB 10 114 687 thousand.

(vi) Reclassification of comparative information

During the year the Group reclassified advances for capital expenditure in the amount of RUB 6 590 061 thousand recognised as other non-current assets as at 31 December 2009 (31 December 2008: RUB 11 868 184 thousand) into property, plant and equipment in the amount of RUB 4 592 266 thousand (31 December 2008: RUB 9 977 674 thousand) and into trade and other receivables in the amount of RUB 1 997 795 thousand (31 December 2008: RUB 1 890 510 thousand) to conform with the current period's presentation.

During the year the Group reclassified amounts of provision for unused vacation in the amount of RUB 326 725 thousand as at 31 December 2009 from provisions to current trade and other payables to conform with the current period's presentation.

Reclassifications of comparative information were made in order to harmonise presentation with the parent company, OJSC MRSK Holding.

The effect of these changes in accounting policy and reclassification of comparative information is summarised below:

				Effect of changes		
Consolidated statement of financial position as at 31 December 2009	**As previously reported**	**As restated**	**Total effect of changes**	**VAT on advances given and received**	**Other non-current assets**	**Provision for unused vacation**
	'000 RUB	**'000 RUB**	**'000 RUB**	**'000 RUB**	**'000 RUB**	**'000 RUB**
Property, plant and equipment	177 111 224	181 703 490	**4 592 266**	-	4 592 266	-
Other non-current assets	22 350 779	21 526 771	**(824 008)**	5 766 053	(6 590 061)	-
Trade and other receivables	8 771 186	15 117 615	**6 346 429**	4 348 634	1 997 795	-
Total assets	**218 815 128**	**228 929 815**	**10 114 687**	**10 114 687**	**-**	**-**
Long-term trade and other payables	30 234 082	36 000 135	**5 766 053**	5 766 053	-	-
Trade and other payables	39 020 711	43 696 070	**4 675 359**	4 348 634	-	326 725
Provisions	434 371	107 646	**(326 725)**	-	-	(326 725)
Total equity and liabilities	**218 815 128**	**228 929 815**	**10 114 687**	**10 114 687**	**-**	**-**

Management considers that the reclassifications do not result in a material change to the Group's consolidated statement of financial position. Hence, no opening statement of financial position as at 1 January 2009 is presented.

3 Significant accounting policies

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

Certain comparative amounts have been reclassified to conform with the current year's presentation (see Note 2 (e)(v),(vi)).

(a) Basis of consolidation

(i) Business combinations

The Group has changed its accounting policy with respect to accounting for business combinations. See Note 2(e) for further details.

(ii) 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. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

(iii) Acquisitions from entities under common control

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

(iv) Loss of control

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

(v) 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. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising in retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments which are recognised in other comprehensive income.

(c) Financial instruments

(i) Non-derivative financial instruments

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

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

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

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

The Group has the following non-derivative financial assets: held-to-maturity financial investments, loans and receivables, available-for-sale financial assets and cash and cash equivalents.

Held-to-maturity investments

If the Group has the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

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.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. 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, 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.

Cash and cash equivalents

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

(ii) Non-derivative financial liabilities

The Group initially recognises debt securities issued on the date that they are originated. All other 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.

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

The Group has the following non-derivative financial liabilities: loans and borrowings and trade and other payables. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

(d) 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 the date of transition to IFRSs, was determined by reference to its fair value at that date.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs.

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/expenses in profit or loss.

(ii) Subsequent costs

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

(iii) Depreciation

Depreciation is based on the cost of an asset less its residual value.

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

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

- Buildings 20 to 40 years
- Transmission networks 18 years
- Transformers and transformer substations 13 to 16 years
- Other 4 to 8 years

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

(e) Intangible assets

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

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

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The estimated useful lives for the current and comparative periods are 2 to 5 years.

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

(f) Leased assets

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

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

(g) Inventories

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

(h) Impairment

(i) Non-derivative financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy. 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 loans and receivables or held-to-maturity investment securities. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

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

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or a CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or a CGU.

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

(i) Employee benefits

(i) Defined contribution plans

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

(ii) Defined benefit post-employment plans

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

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised in profit 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 in profit or loss for the reporting period under the 10% corridor of the post-employment benefit obligation.

(iii) Other non-current 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. The calculation is performed using the projected unit credit method. Any actuarial gains or losses are recognised in profit or loss in the period in which they arise.

(iv) Short-term benefits

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

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

(j) Provisions

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

(k) Revenue

(i) Electricity transmission

Revenue from electricity transmission is recognised in the statement of comprehensive income when the customer's acceptance of the volume of electricity transmitted is received. The tariffs for energy transmission are approved by Federal Tariff Agency and Regional Energy Commission of Moscow and the Energy Committee of Moscow Region.

(ii) Connection services

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

(iii) Other services

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.

(l) Other expenses

(i) Lease payments

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

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

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

Determining whether an arrangement contains a lease

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

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

(ii) Social expenditure

To the extent that the Group's contributions to social programs benefit the community at large and are not restricted to the Group's employees, they are recognised in profit or loss as incurred.

(m) Finance income and costs

Finance income comprises interest income on cash balances, bank deposits and foreign currency gains. Interest income is recognised as it accrues, using the effective interest method.

Finance costs comprise interest expense on borrowings, employee benefits and finance leases, foreign currency losses.

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

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

(n) Income tax expense

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

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

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

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

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

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

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

(o) 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 average number of ordinary shares outstanding during the reporting period.

(p) 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 Directors to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available (see Note 5).

Inter-segment pricing is determined on an arm's length basis.

(q) New Standards and Interpretations not yet adopted

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

- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during the first half of 2011. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Group does not intend to adopt this standard early.
- Amendments to IFRIC 14: *IAS 19 – The limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* clarifies the accounting treatment for prepayments made

when there also is a minimum funding requirement. The amendment becomes effective for annual periods beginning on or after 1 January 2011 and is applied retrospectively. The Group has not yet determined the potential effect of the amendment.

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

4 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 the respective asset or liability.

(a) Equity and debt securities

The fair value of available-for-sale financial assets and held-to-maturity investments is determined by reference to their quoted closing bid price at the reporting date. The fair value of investments in unquoted debt securities is determined based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. The fair value of investments is determined for disclosure purposes only.

(b) Trade and other receivables

The fair value of non-current 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. Management believes that the fair value of current trade and other receivables approximates their carrying amount.

(c) Non-derivative financial liabilities

The fair value of financial liabilities, which is calculated for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of issued bonds the fair value is determined by reference to their quoted closing price at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

5 Operating segments

Operating segments are identified on the basis of internal reports on components of the Group that are reviewed each quarter by the Board of Directors, the chief operating decision maker, to allocate resources to a segment and assess its performance.

Management has determined the following reportable segments:

- Electricity transmission in Moscow;
- Electricity transmission in the Moscow region;
- Connection services in Moscow;

- Connection services in the Moscow region.

Other activities mainly represent rental income, installation services, repair and technical maintenance of electrical equipment, which have been included in the segment “other”. None of these items meets any of the quantitative thresholds for determining reportable segments in 2010 or 2009.

The segment revenue and profit before income tax for the year ended 31 December 2010 are as follows:

’000 RUB	**Electricity transmission**	**Connection services**	**Other**	**Total**
Revenues				
External revenues	91 238 959	18 944 958	525 298	110 709 215
Moscow	49 075 787	12 285 208	439 225	61 800 220
Moscow Region	42 163 172	6 659 750	86 073	48 908 995
Inter-segment revenue	-	-	1 073 657	1 073 657
Moscow	-	-	891 313	891 313
Moscow Region	-	-	182 344	182 344
Reportable depreciation and amortisation	12 163 867	30	54 271	12 218 168
Moscow	6 981 954	-	42 683	7 024 637
Moscow Region	5 181 913	30	11 588	5 193 531
Reportable segment profit before income tax	10 751 435	14 478 196	182 105	25 411 736
Moscow	9 443 474	8 528 508	160 852	18 132 834
Moscow Region	1 307 961	5 949 688	21 253	7 278 902

Other material items are as follows:

’000 RUB	**Reportable segment totals**	**Adjustments**	**Consolidated totals**
Depreciation and amortisation	12 218 168	1 121 391	13 339 559
Capital expenditure	19 932 020	2 147 047	22 079 067
Impairment losses on property, plant and equipment	-	34 574	34 574

Comparative segment revenue and profit before income tax for the year ended 31 December 2009 are as follows:

'000 RUB	Electricity transmission	Connection services	Other	Total
Revenues				
External revenues	74 904 182	9 525 624	890 615	85 320 421
Moscow	39 229 541	6 854 282	797 669	46 881 492
Moscow Region	35 674 641	2 671 342	92 946	38 438 929
Inter-segment revenue	-	-	3 135 824	3 135 824
Moscow	-	-	3 003 969	3 003 969
Moscow Region	-	-	131 855	131 855
Reportable depreciation and amortisation	11 052 988	-	59 217	11 112 205
Moscow	6 301 275	-	47 418	6 348 693
Moscow Region	4 751 713	-	11 799	4 763 512
Reportable segment profit before income tax	11 725 759	3 931 860	217 070	15 874 689
Moscow	8 620 568	2 250 469	220 557	11 091 594
Moscow Region	3 105 191	1 681 391	(3 487)	4 783 095

Other material items are as follows:

'000 RUB	Reportable segment totals	Adjustments	Consolidated totals
Depreciation and amortisation	11 112 204	(875 767)	10 236 437
Capital expenditure	23 302 066	(2 963 773)	20 338 293
Impairment losses on property, plant and equipment	-	492 295	492 295

Reconciliation of reportable segment profit:

’000 RUB	**2010**	**2009**
Reportable segments profit	25 229 631	15 657 619
Other profit or loss	182 105	217 070
Unallocated	(3 919 436)	(6 855 503)
Total profit before income tax per Russian Accounting Standards	**21 492 300**	**9 019 186**
Borrowing costs	3 037 246	1 224 000
Expenses associated with leased property, plant and equipment	2 994 049	1 703 233
Allowance for impairment of bank deposits	-	1 169 852
Gain on disposal of property, plant and equipment	23 319	675 169
Depreciation and amortisation	(1 121 391)	875 768
Provision for legal claims	(533 437)	336 299
Provision for unused vacations and bonuses	(446 401)	(107 245)
Allowance for impairment of account receivable and advances for capital expenditure	(74 574)	(180 615)
Effect of loan discounting	(441 999)	(384 929)
Impairment loss on property, plant and equipment	(34 574)	(492 295)
Accrued expenses for connection services	(2 837 980)	230 921
Other items	(466 175)	(84 864)
Consolidated profit before income tax per IFRS	**21 590 383**	**13 984 480**

Segment operating results that are reported to the Board of Directors are determined based on the income and expenses calculated in accordance with Russian Accounting Standards. Segment operating results represent the profit earned by each segment without allocation of finance income and expenses and other income and expenses which are included in “unallocated” component.

Segment assets are presented in the table below:

’000 RUB	**Electricity transmission**	**Connection services**	**Other**	**Unallocated**	**Total**
31 December 2010					
Total assets	**199 929 301**	**40 317 579**	**2 971 682**	**14 935 932**	**258 154 494**
Moscow	139 800 918	30 173 105	2 471 689	-	172 445 712
Moscow Region	60 128 383	10 144 474	499 993	-	70 772 850
Unallocated	-	-	-	14 935 932	14 935 932
Capital expenditure	**19 530 828**	**367 960**	**33232**	**-**	**19 932 020**
Moscow	11 679 272	-	32 910	-	11 712 182
Moscow Region	7 851 556	367 960	322	-	8 219 838
31 December 2009					
Total assets	**190 317 198**	**36 411 588**	**3 757 683**	**32 090 325**	**262 576 794**
Moscow	132 647 512	26 421 485	3 272 625	-	162 341 622
Moscow Region	57 669 686	9 990 103	485 058	-	68 144 847
Unallocated	-	-	-	32 090 325	32 090 325
Capital expenditure	**21 696 175**	**1 483 787**	**122 104**	**-**	**23 302 066**
Moscow	7 735 739	-	122 102	-	7 857 841
Moscow Region	13 960 436	1 483 787	2	-	15 444 225

Reconciliation of reportable segments assets:

'000 RUB	**2010**	**2009**
Reportable segments assets	240 246 880	226 728 786
Other assets	2 971 682	3 757 683
Unallocated	14 935 932	32 090 325
Total assets per Russian Accounting Standards	**258 154 494**	**262 576 794**
Net-off trade and other receivables and payables	(84 711)	(11 516 632)
Accrued expenses for connection services	(2 239 948)	(3 275 798)
Advances given	(17 380 691)	(14 545 298)
Property, plant and equipment	2 228 728	3 461 225
Impairment losses on property, plant and equipment	(526 869)	(492 295)
Allowance for impairment of account receivable and advances for capital expenditure	(861 839)	(662 380)
Other items	(894 550)	227 374
Eliminations	(4 566 043)	(6 843 173)
Consolidated assets per IFRS	**233 828 571**	**228 929 815**

Segment assets that are reported to the Board of Directors are determined in accordance with Russian Accounting Standards. Segment assets represent the assets of each segment without allocation of VAT, cash and cash equivalents, inventory and investments held-to-maturity, which are included in "unallocated" component.

Segment liabilities are presented in the table below:

'000 RUB	**Electricity transmission**	**Connection services**	**Other**	**Unallocated**	**Total**
31 December 2010					
Total liabilities	42 102 710	64 502 267	2 153 761	9 992 719	118 751 457
Moscow	38 833 434	42 501 832	2 055 527	-	83 390 793
Moscow Region	3 269 276	22 000 435	98 234	-	25 367 945
Unallocated	-	-	-	9 992 719	9 992 719
31 December 2009					
Total liabilities	40 759 733	65 760 888	1 532 160	30 387 206	138 439 987
Moscow	40 759 733	42 752 725	1 452 173	-	84 964 631
Moscow Region	-	23 008 163	79 987	-	23 088 150
Unallocated	-	-	-	30 387 206	30 387 206

Reconciliation of reportable segments liabilities:

’000 RUB	**2010**	**2009**
Reportable segments liabilities	106 604 977	106 520 621
Other liabilities	2 153 761	1 532 160
Unallocated	9 992 719	30 387 206
Total liabilities per Russian Accounting Standards	**118 751 457**	**138 439 987**
Finance lease liabilities	5 743 195	9 874 020
Deferred tax liabilities	4 123 539	5 735 063
Employee benefits	1 649 274	1 289 372
Provision for unused vacations	773 126	326 725
Provision for legal claims	641 084	107 646
Deferred income	(3 169 107)	(2 450 668)
Net-off trade and other receivables and payables	(84 711)	(11 516 632)
Other items	(205 828)	(554 089)
Eliminations	(464 132)	(1 678 820)
Consolidated liabilities per IFRS	**127 757 897**	**139 572 602**

Segment liabilities that are reported to the Board of Directors are determined in accordance with Russian Accounting Standards. Segment liabilities represent the liabilities of each segment without allocation of VAT, deferred tax liabilities and deferred income, which are included in “unallocated” component.

6 Revenue

	2010	**2009**
	’000 RUB	**’000 RUB**
Electricity transmission	91 238 959	74 904 182
Revenue from connection services	19 966 619	10 036 013
Other revenue	526 000	890 615
	111 731 578	**85 830 810**

Revenue from connection services represents services related to connection of customers’ power receivers to the electricity network of the Group.

Other revenue is comprised of installation services and technical maintenance of electrical equipment and rental income.

7 Operating expenses

	2010 '000 RUB	2009 '000 RUB
Electricity transmission	(44 019 577)	(29 016 545)
Depreciation and amortisation	(13 339 559)	(10 236 437)
Personnel costs	(12 762 263)	(10 224 577)
Rent	(3 353 860)	(3 054 343)
Repairs, maintenance and installation services	(2 791 505)	(2 695 321)
Connection services	(4 950 115)	(2 004 804)
Raw materials and supplies	(1 888 223)	(1 801 661)
Consulting, legal, audit services including professional training	(1 129 250)	(1 717 031)
Electricity count services	(324 070)	(1 202 909)
Insurance	(631 715)	(645 445)
Impairment losses on property, plant and equipment	(34 574)	(492 295)
Telecommunication services	(576 621)	(489 864)
Taxes other than income tax	(502 864)	(395 267)
Security services	(381 956)	(326 365)
Allowance for impairment of trade and other receivables, non-current assets	(273 960)	(180 616)
Provision for legal claims	(533 437)	336 298
Other expenses	(1 865 412)	(2 291 812)
	(89 358 961)	**(66 438 994)**

8 Personnel costs

	2010 '000 RUB	2009 '000 RUB
Salaries and wages	(11 548 490)	(8 481 187)
Contributions to State pension fund	(184 646)	(854 246)
Financial aid to employees and pensioners	(481 146)	(390 234)
Expenses in respect of post employment benefits – defined benefit plan	(200 144)	(136 413)
Expenses in respect of post employment benefits – defined contribution plan	(86 148)	(122 740)
Expense in respect of long-term service benefits provided	(261 689)	(239 757)
	(12 762 263)	**(10 224 577)**

The average number of employees during the year was 16 266 (in 2009: 15 559).

A provision for unused vacation has been included in salaries and wages in the amount of RUB 75 792 thousand for the year ended at 31 December 2009 to conform with the current period's presentation.

9 Other operating income

	2010 '000 RUB	2009 '000 RUB
Gain on disposal of property, plant and equipment	-	549 244
Other income	1 454 203	544 701
	1 454 203	**1 093 945**

10 Finance income and costs

	2010 '000 RUB	2009 '000 RUB
Finance income		
Interest income	253 957	348 400
	253 957	**348 400**

	2010	2009
	'000 RUB	**'000 RUB**
Finance costs		
Interest on employee benefits obligation	(147 575)	(112 156)
Interest expense	(123 460)	(3 288 661)
Interest on finance lease	(2 219 359)	(3 448 828)
Other	-	(36)
	(2 490 394)	**(6 849 681)**

11 Income tax expense

	2010	2009
	'000 RUB	**'000 RUB**
Current tax expense	(5 072 151)	(3 349 812)
Deferred tax benefit/(expense)	645 228	(126 409)
	(4 426 923)	**(3 476 221)**

The Group's applicable tax rate is the income tax rate of 20% (2009: 20%). This rate has been used in the calculation of deferred tax assets and liabilities.

Reconciliation of effective tax rate:

	2010		2009	
	'000 RUB	**%**	**'000 RUB**	**%**
Profit before income tax	21 590 383	100	13 984 480	100
Income tax at applicable tax rate	(4 318 077)	(20)	(2 796 896)	(20)
Other non-deductible and non-taxable items, net	(108 846)	(1)	(679 325)	(5)
	(4 426 923)	**(21)**	**(3 476 221)**	**(25)**

12 Property, plant and equipment

'000 RUB	Land and buildings	Trans-mission networks	Transfor-mers and transformer substations	Other	Construction in progress	Total
At 1 January 2009 (as previously reported)	17 869 485	70 306 376	23 066 628	22 175 295	50 020 283	183 438 067
Impact of change in accounting policy	-	-	-	-	9 977 674	9 977 674
At 1 January 2009 (restated)	17 869 485	70 306 376	23 066 628	22 175 295	59 997 957	193 415 741
Additions	82 454	2 703 497	205 761	344 215	17 002 366	20 338 293
Disposals	(15 072)	(495 155)	(159 567)	(22 556)	(68 720)	(761 070)
Transfers	1 480 882	13 053 116	3 695 463	6 166 449	(24 395 910)	-
At 31 December 2009 (restated)	**19 417 749**	**85 567 834**	**26 808 285**	**28 663 403**	**52 535 693**	**212 992 964**
Depreciation						
At 1 January 2009	(2 021 027)	(10 133 707)	(3 574 805)	(5 018 573)	-	(20 748 112)
Depreciation charge	(839 185)	(4 217 565)	(1 794 300)	(3 310 488)	-	(10 161 538)
Impairment losses	-	-	-	-	(492 295)	(492 295)
Disposals	1 489	79 173	26 758	5 051	-	112 471
At 31 December 2009	**(2 858 723)**	**(14 272 099)**	**(5 342 347)**	**(8 324 010)**	**(492 295)**	**(31 289 474)**
Net book value						
At 1 January 2009 (as previously reported)	15 848 458	60 172 669	19 491 823	17 156 722	50 020 283	162 689 955
Impact of change in accounting policy	-	-	-	-	9 977 674	9 977 674
At 1 January 2009 (restated)	15 848 458	60 172 669	19 491 823	17 156 722	59 997 957	172 667 629
At 31 December 2009 (restated)	**16 559 026**	**71 295 735**	**21 465 938**	**20 339 393**	**52 043 398**	**181 703 490**
At 1 January 2010	19 417 749	85 567 834	26 808 285	28 663 403	52 535 693	212 992 964
Additions	16 564	450 087	357 013	794 961	20 460 442	22 079 067
Disposals	(7 080)	(103 851)	(19 464)	(43 256)	(133 165)	(306 816)
Transfers	3 132 869	10 679 363	7 738 669	8 746 111	(30 297 012)	-
At 31 December 2010	**22 560 102**	**96 593 433**	**34 884 503**	**38 161 219**	**42 565 958**	**234 765 215**
Depreciation						
At 1 January 2010	(2 858 723)	(14 272 099)	(5 342 347)	(8 324 010)	(492 295)	(31 289 474)
Depreciation charge	(815 782)	(5 119 446)	(2 113 127)	(5 237 159)	-	(13 285 514)
Impairment losses	-	-	-	-	(34 574)	(34 574)
Disposals	3 833	28 683	11 573	25 829	68	69 986
At 31 December 2010	**(3 670 672)**	**(19 362 862)**	**(7 443 901)**	**(13 535 340)**	**(526 801)**	**(44 539 576)**
Net book value						
At 1 January 2010	16 559 026	71 295 735	21 465 938	20 339 393	52 043 398	181 703 490
At 31 December 2010	**18 889 430**	**77 230 571**	**27 440 602**	**24 625 879**	**42 039 157**	**190 225 639**

(a) Impairment of property, plant and equipment

Impairment testing in respect of property, plant and equipment was performed as at 31 December 2010. The majority of the Group's property, plant and equipment is specialised in nature and is rarely sold on the open market. The market for similar property, plant and equipment is not active and does not provide a sufficient number of sales transactions for use of a market-based approach for determination of the fair value. Therefore the value in use for property, plant and equipment as at 31 December 2010 was determined using projected cash flows. This method considers the future net cash flows expected to be generated through the usage of property, plant and equipment in the process of operating activities up to its ultimate disposal to determine the recoverable amount of the assets.

As a result of impairment testing no impairment loss has been recognized.

During the year the management identified and wrote-off items of construction in progress in the amount of RUB 34 574 thousand (2009: RUB 492 295 thousand) which will not be used in operating activities.

(b) Leased plant and machinery

The Group leases production equipment under a number of finance lease agreements. At the end of each of the leases the Group has the option to purchase the equipment at a beneficial price. At 31 December 2010 the net book value of leased plant and machinery was RUB 17 249 961 thousand (31 December 2009: RUB 18 680 541 thousand). The leased equipment secures lease obligations.

(c) Capitalised interest

Borrowing costs totalling RUB 3 363 166 thousand as at 31 December 2010 with a capitalisation rate of 9.63% (2009: RUB 1 839 075 thousand with a capitalisation rate of 14.9%) were included in the cost of property, plant and equipment and represent interest on loans.

(d) Advance payments for property, plant and equipment

As at 31 December 2010 construction in progress includes advance payments for property, plan and equipment of RUB 3 802 930 thousand (31 December 2009: RUB 4 592 266 thousand; 31 December 2008: RUB 9 977 674 thousand).

13 Intangible assets

’000 RUB	**Software**
At 1 January 2009	188 483
Additions	17 837
At 31 December 2009	**206 320**
Amortisation	
At 1 January 2009	(35 907)
Amortisation	(74 899)
At 31 December 2009	**(110 806)**
Net book value	
At 1 January 2009	152 576
At 31 December 2009	**95 514**
At 1 January 2010	206 320
Additions	49 553
Disposals	(91 529)
At 31 December 2010	**164 344**
Amortisation	
At 1 January 2010	(110 806)
Amortisation	(59 531)
Disposals	91 529
At 31 December 2010	**(78 809)**
Net book value	
At 1 January 2010	95 514
At 31 December 2010	**85 535**

14 Investments

	31 December 2010 ’000 RUB	**31 December 2009 ’000 RUB**
Non-current		
Promissory notes	499 800	-
Other investments	125 000	-
	624 800	**-**
Current		
Promissory notes	1 187	2 500 000
	1 187	**2 500 000**

15 Other non-current assets

	31 December 2010 ’000 RUB	31 December 2009 ’000 RUB
Long-term advances for connection services	11 768 621	15 501 842
VAT on advances from customers	1 389 385	4 923 093
Financial assets available-for-sale	522 634	1 101 836
	13 680 640	**21 526 771**

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

16 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

’000 RUB	Assets		Liabilities		Net	
	2010	2009	2010	2009	2010	2009
Property, plant and equipment	-	-	(12 095 525)	(12 424 178)	(12 095 525)	(12 424 178)
Intangible assets	-	3 002	(2 145)	-	(2 145)	3 002
Inventories	519	-	-	(7 787)	519	(7 787)
Trade and other receivables	1 581 727	864 730	-	-	1 581 727	864 730
Finance lease liability	2 673 596	3 273 732	-	-	2 673 596	3 273 732
Loans and borrowings	-	-	(221 256)	(63 644)	(221 256)	(63 644)
Employee benefits	225 328	37 507	-	-	225 328	37 507
Trade and other payables	-	-	(255)	(730)	(255)	(730)
Provisions	282 435	86 526	-	-	282 435	86 526
Deferred expenses	498 053	635 694	-	-	498 053	635 694
Other	114 385	6 782	-	-	114 385	6 782
Tax assets/(liabilities)	**5 376 043**	**4 907 973**	**(12 319 181)**	**(12 496 339)**	**(6 943 138)**	**(7 588 366)**

(b) Movement in temporary differences during the year

’000 RUB	**1 January 2010**	**Recognised in profit or loss**	**31 December 2010**
Property, plant and equipment	(12 424 178)	328 653	(12 095 525)
Intangible assets	3 002	(5 147)	(2 145)
Inventories	(7 787)	8 306	519
Trade and other receivables	864 730	716 997	1 581 727
Finance lease liability	3 273 732	(600 136)	2 673 596
Loans and borrowings	(63 644)	(157 612)	(221 256)
Employee benefits	37 507	187 821	225 328
Trade and other payables	(730)	475	(255)
Provisions	86 526	195 909	282 435
Deferred expenses	635 694	137 641)	498 053
Other	6 782	107 603	114 385
	(7 588 366)	**645 228**	**(6 943 138)**

’000 RUB	**1 January 2009**	**Recognised in profit or loss**	**31 December 2009**
Property, plant and equipment	(12 005 904)	(418 274)	(12 424 178)
Intangible assets	(30 515)	33 517	3 002
Inventories	5 968	(13 755)	(7 787)
Trade and other receivables	718 587	146 143	864 730
Finance lease liability	3 210 026	63 706	3 273 732
Loans and borrowings	(139 949)	76 305	(63 644)
Employee benefits	43 173	(5 666)	37 507
Trade and other payables	(1 113)	383	(730)
Provisions	50 186	36 340	86 526
Deferred expenses	687 584	(51 890)	635 694
Other	-	6 782	6 782
	(7 461 957)	**(126 409)**	**(7 588 366)**

17 Inventories

	31 December 2010 '000 RUB	31 December 2009 '000 RUB
Raw materials and consumables	1 255 133	1 727 242
Other	421 799	478 833
Allowance for impairment of inventories	(2 268)	(6 541)
	1 674 664	**2 199 534**

18 Trade and other receivables

	31 December 2010 '000 RUB	31 December 2009 '000 RUB
Trade receivables	9 472 943	6 285 732
Advances given	4 864 598	1 618 529
VAT on advances from customers	7 741 933	4 333 640
VAT receivable	2 206	439 592
Other receivables	601 471	793 654
VAT recoverable	2 122 127	2 308 847
Allowance for impairment of accounts receivable	(832 250)	(662 379)
	23 973 028	**15 117 615**

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in Note 27.

19 Cash and cash equivalents

	31 December 2010 '000 RUB	31 December 2009 '000 RUB
Petty cash	444	558
Current accounts	1 830 153	4 963 825
Cash equivalents	1 100 640	130 000
Cash and cash equivalents in the statement of financial position and statement of cash flows	**2 931 237**	**5 094 383**

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in Note 27.

20 Equity

(a) Share capital

Share capital	Ordinary shares 31 December 2010	Ordinary shares 31 December 2009
Issued shares, fully paid	48 707 091 574	48 707 091 574
Par value (in RUB)	RUB 0.50	RUB 0.50

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the shareholders.

(b) Treasury shares

In 2009 the Group sold 5 576 625 treasury shares at RUB 5 755 thousand. The loss from sale of treasury shares in the amount of RUB 2 610 thousand was recognized in equity. The Group did not hold any own shares as at 31 December 2010 and 31 December 2009.

(c) Dividends

In accordance with Russian legislation the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with Russian Accounting Principles.

In 2010 the Company declared and paid dividends in the amount of RUB 450 000 thousand (2009: nil).

21 Earnings per share

The calculation of earnings per share is based upon the profit for the year and the average number of ordinary shares outstanding during the year, calculated as shown below. The Company has no dilutive potential ordinary shares.

	31 December 2010	31 December 2009
Number of outstanding shares	48 707 091 574	48 707 091 574
Profit for the year attributable to the shareholders of OJSC "MOESK" ('000 RUB)	17 170 787	10 755 676
Earnings per share (RUB)	0.3525	0.2208

22 Loans and borrowings

This note provides information about the contractual terms of the Group's loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate and foreign currency risk, see Note 27.

	31 December 2010 '000 RUB	31 December 2009 '000 RUB
Non-current		
Unsecured bank facility	25 424 735	9 150 000
Promissory notes	1 141 848	2 286 358
Unsecured bonds	-	2 356 507
Finance lease liabilities	2 905 833	6 511 632
	29 472 416	**20 304 497**
Current		
Unsecured bank facility	745 300	-
Promissory notes	1 386 680	5 994 163
Current portion of unsecured bond issues	5 651 766	2 971 320
Current portion of unsecured bank facility	10 213	17 967 256
Current portion of finance lease liabilities	2 837 362	3 362 388
	10 631 321	**30 295 127**

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				2010		2009	
'000 RUB	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Unsecured bonds	RUB	8.05%	2011	2 416 277	2 416 277	2 415 758	2 415 758
Unsecured bonds	RUB	9.3%-25%	2010	3 235 489	3 235 489	2 912 069	2 912 069
Unsecured bank facility	RUB	7,76%	2015	1 494 526	1 494 526	-	-
Unsecured bank facility	RUB	7.80%	2015	2 988 844	2 988 844	-	-
Unsecured bank facility	RUB	7.80%	2015	2 988 661	2 988 661	-	-
Unsecured bank facility	RUB	7.87%	2017	2 988 197	2 988 197	-	-
Unsecured bank facility	RUB	7.87%	2017	2 988 046	2 988 046	-	-
Unsecured bank facility	RUB	7.87%	2017	620 452	620 452	-	-
Unsecured bank facility	RUB	8.08%	2013	2 990 932	2 990 932	-	-
Unsecured bank facility	RUB	7.82%	2013	2 990 864	2 990 864	-	-
Unsecured bank facility	RUB	7.83%	2013	2 990 784	2 990 784	-	-
Unsecured bank facility	RUB	7.80%	2010-2013	993 204	993 204	-	-
Unsecured bank facility	RUB	7.80%	2010-2013	1 400 438	1 400 438	-	-
Unsecured bank facility	RUB	4.90%	2010-2011	745 300	745 300	-	-
Unsecured bank facility	RUB	9.58%	2010	-	-	3 676 982	3 676 982
Unsecured bank facility	RUB	12.75%	2010-2011	-	-	9 620 121	9 620 121
Unsecured bank facility	RUB	9.04%	2010	-	-	5 100 346	5 100 346
Unsecured bank facility	RUB	13.85%-10.00%	2010	-	-	8 719 807	8 719 807
Promissory notes	RUB	9%	2009-2012	2 641 659	2 528 528	4 021 402	3 807 650
Promissory notes	RUB	0%	2010	-	-	4 750 047	4 472 871
Finance lease liabilities	RUB	-	-	-	5 743 195	-	9 874 020
				34 473 673	**40 103 737**	**41 216 532**	**50 599 624**

Finance lease liabilities are payable as follows:

	2010			2009		
’000 RUB	**Minimum lease payments**	**Interest**	**Principal**	**Minimum lease payments**	**Interest**	**Principal**
Less than one year	4 048 705	1 211 343	2 837 362	5 688 798	2 326 410	3 362 388
Between one and five years	3 575 918	768 097	2 807 821	8 634 878	2 295 881	6 338 997
More than five years	130 760	32 748	98 012	287 590	114 955	172 635
	7 755 383	**2 012 188**	**5 743 195**	**14 611 266**	**4 737 246**	**9 874 020**

All bank loans are unsecured. The finance lease liabilities are secured by the leased assets (see Note 12).

By July 2010 OJSC Energocentr failed to pay the fifth, sixth and part of the fourth semi-annual coupons on its bonds in the amount of RUB 757 317 thousand and failed to repurchase bonds in the amount of RUB 2 478 172 thousand, due to liquidity problems. The management of OJSC MOESK will make an offer to restructure bondholders’ claims by entering into settlement agreements on the repayment of OJSC Energocentr’s debt.

23 Employee benefits

(a) Post employment benefits

	2010	2009
	’000 RUB	**’000 RUB**
Total present value of obligations	1 674 219	1 127 554
Unrecognised past service cost	(387 531)	(417 347)
Net actuarial (gains)/losses not recognised in the statement of financial position	(440 533)	67 000
Net liabilities in the statement of financial position	846 155	777 207

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

	2010	2009
	’000 RUB	**’000 RUB**
Defined benefit obligations at 1 January	1 127 554	1 146 500
Benefits paid by the plan	(232 676)	(107 692)
Current service cost	169 855	106 261
Interest cost	101 480	90 000
Actuarial losses/(gains)	508 006	(107 515)
Defined benefit obligations at 31 December	**1 674 219**	**1 127 554**

(ii) Expense recognised in profit or loss

	2010 '000 RUB	2009 '000 RUB
Current service costs	169 855	106 261
Interest cost	101 480	90 000
Recognised actuarial gains	472	338
Past service cost	29 816	29 816
	301 623	**226 415**

(b) Other long-term employee benefits

	2010 '000 RUB	2009 '000 RUB
Present value of obligations	803 120	512 165

The Group provides long-service jubilee benefits and funeral benefits for its employees. The whole amount of these obligations is unfunded.

(i) Movements in the present value of other long-term employee benefit obligations

	2010 '000 RUB	2009 '000 RUB
Defined benefit obligations at 1 January	512 165	282 232
Contribution received	(16 830)	(31 977)
Current service costs	29 450	20 000
Interest costs	46 095	22 156
Actuarial losses recognised in the statement of comprehensive income	232 240	219 754
Defined benefit obligations at 31 December	**803 120**	**512 165**

(ii) Expense recognised in the statement of comprehensive income

	2010 '000 RUB	2009 '000 RUB
Current service costs	29 450	20 000
Interest on obligation	46 095	22 156
Recognised actuarial losses	232 240	219 754
	307 785	**261 910**

(c) Actuarial assumptions

Principal actuarial assumptions for both post employment benefits and other long-term employee benefits:

	2010	2009
Discount rate at 31 December	7%	9%
Future salary increases	5.4%	8.6%
Mortality table	Russian 2005	Russian 2005

The expenses of both post employment benefits and other long-term employee benefits are recognised in the following line items in the statement of comprehensive income:

	2010	2009
	’000 RUB	**’000 RUB**
Operating expenses	461 833	376 170
Finance costs	147 575	112 156
	609 408	**488 326**

24 Provisions

’000 RUB	**Legal claims**
Balance at 31 December 2008	**443 945**
Provisions raised during the year	91 434
Provisions used during the year	(427 733)
Balance at 31 December 2009	**107 646**
Provisions raised during the year	617 562
Provisions used during the year	(84 125)
Balance at 31 December 2010	**641 084**

Provision for legal claims relates to the claims brought against the Group within the ordinary course of business. The balance of the provision at 31 December 2010 is expected to be utilised in 2011. The management believes, after taking appropriate legal advice, that the outcome of current legal claims will not give rise to any significant loss beyond the accrued amounts.

25 Trade and other payables

	31 December 2010 '000 RUB	31 December 2009 '000 RUB
Non-current		
Advances received	9 593 865	35 157 174
Other payables	1 299 267	842 961
	10 893 132	**36 000 135**
Current		
Accounts payable – trade	12 273 820	11 203 568
Advances received	53 235 708	32 126 262
Other payables and accrued expenses	1 254 621	366 240
	66 764 149	**43 696 070**

As at 31 December 2010 overdue advances received for connection services were RUB 11 652 488 thousand (31 December 2009: RUB 8 580 274 thousand). The Group's approach to managing liquidity is entering into additional agreements with revised terms of execution.

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 27.

26 Other taxes payable

	31 December 2010 '000 RUB	31 December 2009 '000 RUB
Property tax	48 957	74 951
Other taxes	12 917	11 220
Employee taxes	6 006	897
Value added tax	695 502	200 288
	763 382	**287 356**

27 Financial risk management

(a) Overview

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

- credit risk
- liquidity risk
- market risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

(b) Credit risk

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

(i) Trade and other receivables

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

Approximately 74% (2009: 78%) of the Group's revenue is attributable to sales transactions with a single customer transacting with the Group for over four years, and, consequently, losses have incurred infrequently. For the purpose of monitoring customer credit risk, the remaining customers are grouped according to their credit characteristics, including aging profile, maturity and existence of previous financial difficulties. The Group management assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Based on the analysis performed, individual risk limits are set for each group of customers and these limits are reviewed on a regular basis.

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 relates to individually significant exposures.

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:

	Carrying amount	
'000 RUB	**31 December 2010**	**31 December 2009**
Trade and other receivables	9 288 053	6 431 310
Cash and cash equivalents	2 931 237	5 094 383
Short-term/long-term investments	625 987	2 500 000
Available-for-sale financial assets	522 634	1 101 836
	13 367 911	**15 127 529**

The Group's most significant customer accounts for RUB 7 043 080 thousand of the trade receivables carrying amount at 31 December 2010 (2009: RUB 3 988 882 thousand).

Impairment losses

The aging of trade and other receivables at the reporting date was:

’000 RUB	Gross 2010	Impairment 2010	Gross 2009	Impairment 2009
Not past due	8 692 327	4 993	6 431 310	-
Past due less than year	573 324	19 472	133 890	133 890
More than one year	775 223	728 356	514 186	514 186
	10 040 874	**752 821**	**7 079 386**	**648 076**

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

	31 December 2010 ’000 RUB	31 December 2009 ’000 RUB
Balance at 1 January	648 076	563 590
Increase during the period	137 504	132 028
Decrease due to reversal	(32 759)	(47 542)
Balance at 31 December	**752 821**	**648 076**

The impairment loss at 31 December 2010 of RUB 752 821 thousand (2009: RUB 648 076 thousand) relates to disputable accounts receivable with no payment.

Based on past experience and analysis performed by the credit department, Group management believes that no impairment allowance is necessary in respect of accounts receivable not past due because the customers to which these balances relate have a good credit history.

(ii) Bank deposits, cash and cash equivalents

Bank deposits, cash and cash equivalents are now deposited only with financial institutions that at the time of deposit the management considers to have minimal risk of default. Bank deposits, cash and cash equivalents are mainly held at OJSC Bank Moscow, OJSC Sberbank, OJSC Bank VTB, OJSC ATB bank, OJSC Uralsib.

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group’s objective of liquidity management 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, except circumstances described in Note 23.

The Group monitors and manages liquidity risk by maintaining bank credit lines, obtaining loans (Note 22) and sufficient cash balances on its settlement accounts (see Note 19).

By July 2010 OJSC Energocentr failed to pay the fifth, sixth and part of the fourth semi-annual coupons on its bonds in the amount of RUB 757 317 thousand and failed to repurchase bonds in the amount of RUB 2 478 172 thousand, due to liquidity problems. Included in this consolidated financial statements carrying amount of the total assets of OJSC Energocentr were RUB 6 943 073 thousand as at 31 December 2010.

Subsequently, bankruptcy proceedings were initiated by OJSC Bank Petrocommerce due to failure to meet the repayment schedule.

According to a court decision, a monitoring procedure was introduced at OJSC Energocentr in August 2010 in accordance with the Russian law on bankruptcy, and this procedure is currently underway. Further decisions as to the course of the bankruptcy process are expected to be taken in the first half of June 2011 at a general creditors' meeting.

The management of OJSC MOESK has an intention to finalize uncompleted construction items of OJSC Energocentr, and currently is in the process of assessing the resources required. The management has an intention to conclude settlement agreements in relation to the repayment of the OJSC Energocentr's debt which will facilitate the postponement of the payment for three to five years and subsequent repayment by instalments. This, in turn, will allow OJSC Energocentr to retain its production assets and complete the items under construction. The management will propose to the board of directors of OJSC MOESK to consider participation in the financial recovery of OJSC Energocentr including debt restructuring if the mentioned above terms of the amicable settlement agreement are reached.

If the settlement agreements are not concluded with creditors of OJCS Energocentr on the above terms, or if the board of directors of OJSC MOESK does not approve the participation of OJSC MOESK in the financial recovery of OJSC Energocentr including debt restructuring, bankruptcy procedures will follow in accordance with the legislation of the Russian Federation.

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

	Average interest rate						
2010 **'000 RUB**	**Contract**	**Effective**	**0-6 months**	**6-12 months**	**Between 1 and 5 years**	**More than 5 years**	**Total**
Non-derivative financial liabilities							
Unsecured bonds	8.05%	8.05%	94 070	2 451 618	-	-	2 545 688
Unsecured bonds	9.3%-25%	9.3%-25%	3 235 489	-	-	-	3 235 489
Unsecured facility	7.76%-7.87%	7.76%-7.87%	548 271	557 359	11 726 113	7 463 928	20 295 671
Unsecured facility	7.82%-8.08%	7.82%-8.08%	3 506 049	353 885	10 022 749	-	13 882 683
Promissory notes	9.00%	9.00%	758 949	724 773	1 340 137	-	2 823 859
Finance lease liabilities	-	12.24%-25.02%	1 655 847	2 392 858	3 575 918	130 760	7 755 383
Trade payables	-	-	12 273 820	-	-	-	12 273 820
			22 072 495	**6 480 493**	**26 664 917**	**7 594 688**	**62 812 593**

2009 **'000 RUB**	**Average interest rate** **Contract**	**Effective**	**0-6 months**	**6-12 months**	**Between 1 and 5 years**	**More than 5 years**	**Total**
Non-derivative financial liabilities							
Unsecured bonds	8.05%	8.05%	153 321	95 629	2 406 920	-	2 655 870
Unsecured bonds	9.3%-25%	9.3%-25%	446 689	2 791 606	-	-	3 238 295
Unsecured bank facility	9.58%	11.01%	3 789 816	-	-	-	3 789 816
Unsecured bank facility	18.70%-13.85%	16.24%	552 498	4 753 906	4 491 932	-	9 798 336
Unsecured bank facility	12.75%	12.75%	567 136	5 235 603	4 977 113	-	10 779 852
Unsecured bank facility	9.04%	10.57%	5 260 356	-	-	-	5 260 356
Promissory notes	9.00%	9.00%	830 259	790 224	2 823 859	-	4 444 342
Promissory notes	-	9.00%	-	4 750 047	-	-	4 750 047
Finance lease liabilities	-	12.24-25.02%	2 967 646	2 721 152	8 634 878	287 590	14 611 266
Trade payables	-	-	11 203 568	-	-	-	11 203 568
			25 771 289	**21 138 167**	**23 334 702**	**287 590**	**70 531 748**

(d) Market risk

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

(i) Interest rate risk

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

Profile

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

	Carrying amount	
'000 RUB	**2010**	**2009**
Fixed rate instruments		
Financial assets	3 557 224	7 594 383
Financial liabilities	(40 103 737)	(32 259 696)
	(36 546 513)	**(24 665 313)**
Variable rate instruments		
Financial liabilities	**-**	**(18 339 928)**

Fair value sensitivity analysis for fixed rate instruments

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

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. There were no variable rate instruments at 31 December 2010.

	Profit or loss		Equity	
'000 RUB	**100 bp increase**	**100 bp decrease**	**100 bp increase**	**100 bp decrease**
2009				
Variable rate instruments	15.41%	13.41%	15.41%	13.41%
Cash flow sensitivity (net)	**(183 399)**	**183 399**	**(183 399)**	**183 399**

(ii) Foreign currency risks

The Group is not exposed to foreign currency risks.

(e) Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

'000 RUB	Note	Carrying amount 2010	Fair value 2010	Carrying amount 2009	Fair value 2009
Assets carried at fair value					
Available-for-sale financial assets	15	522 634	522 634	1 101 836	938 386
		522 634	**522 634**	**1 101 836**	**938 386**
Assets carried at amortised cost					
Trade and other receivables	18	9 288 053	9 288 053	6 431 310	6 431 310
Investments	14	625 987	625 987	2 500 000	2 423 420
Cash and cash equivalents	19	2 931 237	2 931 237	5 094 383	5 094 383
		12 845 277	**12 845 277**	**14 025 693**	**13 949 113**
Liabilities carried at amortised cost					
Unsecured bank loan	22	26 180 248	23 983 851	(27 117 256)	(26 864 636)
Unsecured bond issues	22	5 651 766	5 612 262	(5 327 827)	(3 482 551)
Promissory notes	22	2 528 528	2 543 813	(8 280 521)	(7 849 394)
Finance lease liability	22	5 743 195	5 743 195	(9 874 020)	(9 874 020)
Trade payables	25	12 273 820	12 273 820	(11 203 568)	(11 203 568)
		52 377 557	**50 156 941**	**(61 803 192)**	**(59 274 169)**

The basis for determining fair values is disclosed in Note 4.

In relation to issued bonds the fair value is determined by reference to their quoted closing price at the reporting date.

The interest rates used to discount estimated cash flows, where applicable, are based on average weighted interest rates on loans extended to nonfinancial organizations, and were as follows:

'000 RUB	2010	2009
Financial assets	13%	13.8%
Financial liabilities	11.20%	12.26%

(f) Fair value hierarchy

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Available-for-sale financial assets are recognised in the statement of financial position at their fair value. Fair values were determined based on quoted market prices.

(g) Capital management

The Board'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. The Board of Directors monitors the return on capital, which the Group defines as net operating income divided by total shareholders' equity, excluding minority interests. The Board of Directors also monitors the level of dividends to ordinary shareholders.

The Board 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.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings, as shown in the statement of financial position, less cash. Total capital is calculated as equity, as shown in the statement of financial position.

	Carrying amount	
'000 RUB	**2010**	**2009**
Total borrowings (Note 22)	40 103 737	50 599 624
Less: Cash and cash equivalents (Note 19)	(2 931 237)	(5 094 383)
Net debt	37 172 500	45 505 241
Equity	106 070 674	89 357 213
Debt to equity ratio	**35.05%**	**50.9%**

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

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

28 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	31 December 2010	31 December 2009
	’000 RUB	’000 RUB
Less than one year	2 219 409	2 210 650
Between one and five years	536 541	500 490
More than five years	3 826 703	3 662 142
	6 582 653	**6 373 282**

The Group leases a number of plots of land owned by local governments under operating lease. Land lease payments are determined by lease agreements.

The plots of land leased by the Group are the areas where the Group’s electricity network, transformer substations and other assets are located. Lease payments are reviewed regularly to reflect market rentals.

29 Commitments

Sales commitments. The Group has entered into contracts to carry out electricity transmission services to OJSC “Mosenergosbyt” for RUB 101 116 147 thousand (2009 RUB 78 230 382 thousand), to LLC “Rusenergosbyt” for RUB 1 994 821 thousand (2009: RUB 2 274 929 thousand) and to other companies for RUB 9 580 549 thousand in 2010 (2009: RUB 6 905 800 thousand).

Capital commitments. Future capital expenditures for which contracts have been signed as at 31 December 2010 amount to RUB 37 038 128 thousand (31 December 2009: RUB 52 290 520 thousand). The Group has not entered into new finance lease agreements for the items of property, plant and equipment. Capital commitments for current finance lease agreements for the items of property, plant and equipment amount to RUB 2 735 795 thousand (31 December 2009: RUB 2 735 795 thousand).

30 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 does not have full coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group’s operations and financial position.

(b) Litigation

The Group is party to certain legal proceedings arising in the ordinary course of business. The management does not believe that these matters will have a material adverse effect on the Group’s operating results.

(c) Taxation contingencies in the Russian Federation

The taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive and substance-based position in their interpretation and enforcement of tax legislation.

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

(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.

31 Related party transactions

(a) Control relationships

As at 31 December 2010 the Parent of the Group was OJSC MRSK Holding, a state controlled entity. The party with ultimate control over the Group is the Government of the Russian Federation, which held the majority of the voting rights of OJSC MRSK Holding.

(b) Transactions with management and close family members

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

(i) Management remuneration

Total remuneration in the form of salary and bonuses paid to the key management and the members of the Board of Directors during the year ended 31 December 2010 was RUB 278 243 thousand (2009: RUB 228 246 thousand).

(c) Transactions with other related parties

The Group's other related party transactions are disclosed below. Other related party represents entities under common control of the parent and other state controlled entities.

The Russian Government directly affects the Group's operations through the system of regional tariffs. In accordance with legislation the Group's tariffs are controlled by the Federal Service on Tariffs and the Regional Energy Commission in each region. The Group has a different tariff for each region of the Russian Federation. Within each region the tariff is the same, regardless of whether the customer is a state entity or not.

The transactions with other related parties and the related balances are shown below as a percentage of the total amount.

	Percentage of the total amount (%)			
	2010	**2009**	**31 December 2010**	**31 December 2009**
Revenue	86.14%	86.92%	-	-
Expenses	55.94%	47.52%	-	-
Trade and other receivables	-	-	93.03%	88.30%
Trade and other payables	-	-	33.34%	23.92%
Advances received	-	-	38.09%	24.03%
Advances given	-	-	98.86%	96.20%

'000 RUB	**Transaction value 2010**	**Transaction value 2009**	**Outstanding balance 31 December 2010**	**Outstanding balance 31 December 2009**
Loans received:				
Entities under common control of the parent and other state controlled entities	19 775 570	-	14 640 051	17 900 641
	19 775 570	**-**	**14 640 051**	**17 900 641**

Loans are received under the market interest rate except for interest free loans received from the parent company in the amount of RUB 4 750 047 thousand in May 2008 and repaid in 2010.

32 Events subsequent to the reporting date

The preliminary date for the creditors' meeting in relation to bankruptcy of OJSC Energocentr is scheduled for the first half of June 2011.