JSC Interregional Distribution Grid Companies Holding

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 Board of Directors of JSC IDGC Holding

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

ZAO KPMG

ZAO KPMG
10 June 2011

(in thousands of Russian roubles, unless otherwise stated)

	Notes	Year ended 31 December 2010	Year ended 31 December 2009
Revenue and government subsidies	7	559,495,611	461,659,760
Operating expenses	8	(507,080,207)	(415,844,063)
Other income, net	9	1,803,357	193,873
Results from operating activities		**54,218,761**	**46,009,570**
Finance income	11	2,852,969	1,331,447
Finance costs	11	(10,889,956)	(19,256,514)
Net finance costs		**(8,036,987)**	**(17,925,067)**
Share of profit of equity accounted investees (net of income tax)	15	355,066	97,689
Profit before income tax		**46,536,840**	**28,182,192**
Income tax expense	12	(12,400,119)	(6,430,302)
Profit for the year		**34,136,721**	**21,751,890**
Other comprehensive income			
Change in fair value of available-for-sale financial assets	11	322,760	675,628
Change in fair value of available-for-sale financial assets transferred to profit or loss	11	(495,649)	-
Income tax on other comprehensive income	17	41,742	(115,602)
Other comprehensive income for the year, net of income tax		**(131,147)**	**560,026**
Total comprehensive income for the year		**34,005,574**	**22,311,916**
Profit attributable to:			
Owners of the Company		22,167,440	13,821,100
Non-controlling interest		11,969,281	7,930,790
Total comprehensive income attributable to:			
Owners of the Company		22,036,293	14,381,126
Non-controlling interest		11,969,281	7,930,790
Earnings per share	22		
Basic and diluted earnings per ordinary share		RUB 0.51	RUB 0.32

These consolidated statements were approved by management on 10 June 2011 and were signed on its behalf by:

Deputy General Director for Economics and Finance

A.V. Demidov

Chief Accountant

G.I. Zhabbarova

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 12 to 74.

(in thousands of Russian roubles, unless otherwise stated)

	Notes	31 December 2010	31 December 2009
ASSETS			
Non-current assets			
Property, plant and equipment	13	603,240,989	560,027,979
Intangible assets	14	3,635,342	4,184,820
Investments in equity accounted investees	15	1,051,901	729,024
Non-current accounts receivable	19	15,705,499	22,668,401
Other investments and financial assets	16	9,904,563	6,587,362
Deferred tax assets	17	2,413,019	4,452,131
Total non-current assets		**635,951,313**	**598,649,717**
Current assets			
Inventories	18	11,219,432	11,314,993
Other investments and financial assets	16	9,648,627	6,001,030
Current tax assets		3,050,837	2,029,643
Trade and other receivables	19	83,045,754	72,921,548
Cash and cash equivalents	20	24,890,452	29,217,245
Total current assets		**131,855,102**	**121,484,459**
Total assets		**767,806,415**	**720,134,176**

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 12 to 74.

(in thousands of Russian roubles, unless otherwise stated)

	Notes	31 December 2010	31 December 2009
EQUITY AND LIABILITIES			
Equity	21		
Share capital		45,039,216	43,116,903
Share premium		6,036,063	-
Treasury shares		(1,785,731)	(7,011)
Reserves		670,761	801,908
Retained earnings		184,635,444	162,504,785
Total equity attributable to equity holders of the Company		234,595,753	206,416,585
Non-controlling interest		161,245,600	149,809,735
Total equity		**395,841,353**	**356,226,320**
Non-current liabilities			
Loans and borrowings	23	120,648,547	83,823,134
Trade and other payables	26	17,068,333	41,466,975
Employee benefits	24	9,039,394	7,998,158
Deferred tax liabilities	17	28,017,004	27,414,778
Total non-current liabilities		**174,773,278**	**160,703,045**
Current liabilities			
Loans and borrowings	23	27,138,752	67,242,221
Trade and other payables	26	167,145,116	133,920,485
Provisions	25	1,976,945	919,958
Current tax liabilities		930,971	1,122,147
Total current liabilities		**197,191,784**	**203,204,811**
Total liabilities		**371,965,062**	**363,907,856**
Total equity and liabilities		**767,806,415**	**720,134,176**

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 12 to 74.

(in thousands of Russian roubles, unless otherwise stated)

	Year ended 31 December 2010	**Year ended 31 December 2009**
OPERATING ACTIVITIES		
Profit for the year	**34,136,721**	**21,751,890**
Adjustments for:		
Depreciation and amortization	46,024,668	40,328,863
Change in allowance for doubtful debts and written-off trade and other receivables	8,581,014	5,921,072
Finance costs	10,889,956	19,256,514
Finance income	(2,852,969)	(1,331,447)
Loss on disposal of property, plant and equipment	251,620	785,603
Share of profit of equity accounted investees (net of income tax)	(355,066)	(97,689)
Allowance for obsolescence of inventories	(203,872)	138,314
Gain on bargain purchase	(448,521)	-
Other non-cash transactions	(604,387)	(356,221)
Income tax expense	12,400,119	6,430,302
Operating profit before working capital changes and reserves	**107,819,283**	**92,827,201**
Change in trade and other receivables	(11,458,811)	(12,321,894)
Change in financial assets related to employee benefit fund	(157,467)	(861,662)
Change in inventories	235,686	441,698
Change in trade and other payables	5,916,033	12,015,521
Change in employee benefit liabilities	1,041,236	377,124
Cash flows from operations before income taxes and interest paid	**103,395,960**	**92,477,988**
Income taxes paid	(11,189,492)	(9,652,013)
Interest paid	(15,782,762)	(21,365,402)
Net cash flows from operating activities	**76,423,706**	**61,460,573**

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 12 to 74.

(in thousands of Russian roubles, unless otherwise stated)

	Year ended 31 December 2010	Year ended 31 December 2009
INVESTING ACTIVITIES		
Acquisition of property, plant and equipment and intangible assets	(75,681,402)	(63,200,187)
Proceeds from sale of property, plant and equipment	783,608	2,413,534
Acquisition of investments and placement of bank deposits	(11,837,007)	(5,542,647)
Proceeds from sale of investments	3,621,856	4,194,825
Acquisition of subsidiaries net of cash acquired	(1,075,117)	8,603
Repayments of loans given to third parties	3,299	502,781
Dividends received	35,327	14,625
Interest received	934,297	537,979
Net cash flows used in investing activities	**(83,215,139)**	**(61,070,487)**
FINANCING ACTIVITIES		
Proceeds from loans and borrowings	132,165,943	130,899,421
Repayment of loans and borrowings	(129,148,077)	(119,403,198)
Proceeds from shares issued	7,965,071	4,643,639
Acquisition of non-controlling interests	-	(17,385)
Own shares acquired	(1,778,720)	-
Dividends paid	(616,193)	(255,258)
Payment of finance lease liabilities	(6,123,384)	(6,554,766)
Net cash flows from financing activities	**2,464,640**	**9,312,453**
Net (decrease)/increase in cash and cash equivalents	**(4,326,793)**	**9,702,539**
Cash and cash equivalents at beginning of year	**29,217,245**	**19,514,706**
Cash and cash equivalents at end of year (Note 20)	**24,890,452**	**29,217,245**

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 12 to 74.

(in thousands of Russian roubles, unless otherwise stated)

	Attributable to equity holders of the Company							
	Share capital	**Share premium**	**Treasury shares**	**Available-for-sale investments revaluation reserve**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2009	**43,116,903**	**-**	**-**	**241,882**	**148,239,509**	**191,598,294**	**137,168,385**	**328,766,679**
Profit for the year	-	-	-	-	13,821,100	13,821,100	7,930,790	21,751,890
Net change in fair value of available-for-sale financial assets	-	-	-	675,628	-	675,628	-	675,628
Income tax on other comprehensive income	-	-	-	(115,602)	-	(115,602)	-	(115,602)
Total comprehensive income for the year	-	-	-	560,026	13,821,100	14,381,126	7,930,790	22,311,916
Transactions with owners, recorded directly in equity								
Own shares acquired	-	-	(7,011)	-	-	(7,011)	-	(7,011)
Dividends	-	-	-	-	-	-	(222,196)	(222,196)
Effect on changes in non-controlling interest (see Note 21)	-	-	-	-	(258,602)	(258,602)	246,972	(11,630)
Issue of shares of subsidiaries (see Note 21)	-	-	-	-	-	-	4,637,884	4,637,884
Total transactions with owners, recorded directly in equity	-	-	(7,011)	-	(258,602)	(265,613)	4,662,660	4,397,047
Other movements	-	-	-	-	702,778	702,778	47,900	750,678
Balance at 31 December 2009	**43,116,903**	**-**	**(7,011)**	**801,908**	**162,504,785**	**206,416,585**	**149,809,735**	**356,226,320**

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 12 to 74.

(in thousands of Russian roubles, unless otherwise stated)

	Attributable to equity holders of the Company							
	Share capital	**Share premium**	**Treasury shares**	**Available-for-sale investments revaluation reserve**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2010	**43,116,903**	**-**	**(7,011)**	**801,908**	**162,504,785**	**206,416,585**	**149,809,735**	**356,226,320**
Profit for the year	-	-	-	-	22,167,440	22,167,440	11,969,281	34,136,721
Net change in fair value of available-for-sale financial assets	-	-	-	(172,889)	-	(172,889)	-	(172,889)
Income tax on other comprehensive income	-	-	-	41,742	-	41,742	-	41,742
Total comprehensive income for the year	-	-	-	(131,147)	22,167,440	22,036,293	11,969,281	34,005,574
Transactions with owners, recorded directly in equity								
Share issue (see Note 21)	1,922,313	6,036,063	-	-	-	7,958,376	-	7,958,376
Own shares acquired	-	-	(1,778,720)	-	-	(1,778,720)	-	(1,778,720)
Dividends	-	-	-	-	-	-	(576,892)	(576,892)
Effect on changes in non-controlling interest (see Note 21)	-	-	-	-	(36,781)	(36,781)	36,781	-
Issue of shares of subsidiaries (see Note 21)	-	-	-	-	-	-	6,695	6,695
Total transactions with owners, recorded directly in equity	1,922,313	6,036,063	(1,778,720)	-	(36,781)	6,142,875	(533,416)	5,609,459
Balance at 31 December 2010	**45,039,216**	**6,036,063**	**(1,785,731)**	**670,761**	**184,635,444**	**234,595,753**	**161,245,600**	**395,841,353**

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 12 to 74.

1 Background

(a) The Group and its operations

Joint Stock Company Interregional Distribution Grid Companies Holding (hereinafter referred to as "JSC IDGC Holding" or the "Company") was established on 1 July 2008 in accordance with the resolution of the Extraordinary General Meeting of the Shareholders of the Unified Energy System of Russia (hereinafter referred to as "RAO UES") dated 26 October 2007 by the means of spin-off from RAO UES.

The ordinary and preference shares of the Company are traded on the MICEX Stock Exchange and the RTS.

The Company's registered office is located at 5A Akademika Chelomeya street, Moscow, Russia, 117630.

The JSC IDGC Holding Group (hereinafter referred to as "the Group") comprises JSC IDGC Holding and its subsidiaries presented in Note 5.

The Group's principal activities are electricity distribution and technological connection services. In addition some Group subsidiaries sell electricity.

(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.

(c) Relations with state and current regulations

The Group's strategic business units (see Note 6) are regional natural monopolies. 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.

As at 31 December 2010 the Russian Government owned 54.99% of the voting ordinary shares and 7.01 % of the preference shares of the Company (31 December 2009: 54.99% of the voting ordinary shares and 7.01 % of the preference shares). In March 2011 the interest of the Russian Government in the share capital of the Company increased to 55.95% of the voting ordinary shares as a result of registration of the increase in share capital during the year (see Note 21). The Russian Government, through the Federal Agency for the Management of Federal Property, is the ultimate controlling party of the Company. The Russian Government supports the Group due to its strategic position for economy of the Russian Federation. The Group's customer base includes a number of state-controlled entities.

2 Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that derivative financial instruments and 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.

(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 17 – deferred tax assets
- Note 27 – allowances for trade and other receivables
- Note 23 – lease classification

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

- Note 7 – revenue recognition
- Note 13 – useful lives of property, plant and equipment
- Note 24 – employee benefit liabilities
- Note 30 – contingencies.

(e) Changes in accounting policies and presentation

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

- accounting for business combinations;
- accounting for acquisitions of non-controlling interests
- accounting for leases of land.

(i) Accounting for business combinations

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

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

Acquisitions on or after 1 January 2010

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

- the fair value of the consideration transferred; plus

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

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

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

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

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

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

(ii) Accounting for acquisitions of non-controlling interests

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

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

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

(iii) Accounting for leases of land

The amendment to IAS 17 *Leases* regarding the leases of land became effective from 1 January 2010. The amendment removed the earlier exemption which allowed leases of land to be classified as operating leases regardless of the length of the lease term. The amended guidance requires all existing leases of land to be reassessed and reclassified if necessary as finance leases if the finance lease classification criteria are met. At 1 January 2010, the Group reassessed all existing land lease contracts and as a result it was assessed that existing land lease contracts do not qualify as finance lease contracts and therefore, the classification was not changed (see Note 28).

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 presentation.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

(ii) 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 restated. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the consolidated financial statements of the acquired entities. The components of equity are added to the same components within Group entity, except that any share capital of the acquired entities is recognized as part of retained earnings. Any cash or other contribution paid for the acquisition is recognized directly in equity.

(iii) Investments in associates (equity accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity. Investments in associates are accounted for using the equity method and are recognised initially at cost.

The consolidated financial statements include the Group's share of the income and expenses of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an associate, the carrying amount of that interest (including any non-current investments) is reduced to nil and the recognition of further losses is discontinued, except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(iv) Transactions eliminated on consolidation

Intra-group balances and 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 the Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated 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 are recognised initially on the 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: loans and receivables and available-for-sale financial assets.

Loans and receivables

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

Loans and receivables category comprise the following classes of assets: trade and other receivables as presented in note 19 and cash and cash equivalents as presented in note 20.

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

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or 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 (see Note 3(i)(i) and foreign currency differences on available-for-sale debt instruments (see Note 3(b)(i)), are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised or impaired, the cumulative gain or loss in other comprehensive income is transferred to profit or loss. Unquoted equity instruments whose fair value cannot reliably be measured are carried at cost.

Available-for-sale financial assets comprise equity securities and financial assets related to employee benefit fund.

(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 date at which the Group becomes a party to the contractual provisions of the instrument.

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

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

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

(iii) Derivative financial instruments

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognised immediately in profit or loss.

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss. Changes in fair value of separable embedded derivatives are recognised immediately in profit or loss.

(d) Share capital

Ordinary shares and non-redeemable preferred shares with the right to receive discretionary annual fixed dividends are both classified as equity.

(e) 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 as at 1 January 2007, the date of transition to IFRSs, was determined by reference to its fair value at that date.

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

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 are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within other income/other expense in profit or loss.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. 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. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is 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 7-50 years
- transmission networks 5-40 years
- equipment for electricity transmission 5-40 years
- other 1-50 years

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

(f) Intangible assets

(i) Goodwill

Goodwill (negative goodwill) arises on the acquisition of subsidiaries, associates and joint ventures.

For the measurement of goodwill at initial recognition, see Note 2e(i).

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment, and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the equity-accounted investee.

(ii) Other intangible assets

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

(iii) Subsequent expenditure

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

(iv) Amortisation

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

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

- licenses and certificates 1-10 years
- software 1-15 years.

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

(g) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as financial 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 statement of financial position.

(h) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is determined on the weighted average cost method, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

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

(i) Impairment

(i) 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 (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is an objective evidence of impairment.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset’s original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

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

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated each year at the same time. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its recoverable amount.

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

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

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

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

(j) Employee benefits

(i) Defined contribution plans

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

(ii) Defined 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.

The Group recognises all expenses related to defined benefit plans in personnel expenses in profit or loss.

(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. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed using the projected unit credit method. Any actuarial gains or losses are recognised in 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.

(k) Provisions

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

(l) Revenue

(i) Electricity distribution and sales of electricity

Revenue from distribution and sales of electricity is recognised in profit or loss when the customer acceptance of the volume of electricity distributed or sold is received. The tariffs for distribution and sales of electricity on regulated market are approved by the government agencies of the constituents of the Russian Federation in the sphere of the state energy tariff regulation within the range of cap and/or floor tariffs approved by the Federal Service on Tariffs.

(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 the proportion to the stage of completion when 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 services are provided or when the significant risks and rewards of ownership of the goods have passed to the buyer.

(m) Government subsidies

Government subsidies that compensate the Group for low electricity tariffs are recognised in profit or loss in the same periods in which the respective revenue is earned.

(n) 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.

(o) Finance income and costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, discount on financial instruments, and foreign currency gains. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established.

Finance costs comprise interest expense on borrowings, financial leasing, foreign currency losses, discount on financial instruments and impairment losses recognised on financial assets other than trade receivables. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

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

(p) 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 in other comprehensive income or directly in equity.

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

Deferred tax is 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 the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for 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. A deferred tax asset is recognised for unused tax losses, tax credits and deductable temporary differences to the extent that it is probable that future taxable profits will be available against which temporary difference 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.

(q) Earnings per share

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

(r) Guarantees

The Group’s policy is to provide financial guarantees only in respect of loans issued to the Group’s lessors. The Group considers these instruments as insurance contracts and accounts for them as such.

(s) Segment reporting

The Group determines and presents operating segments based on the information that internally is provided to the Management Board, which is the Group’s chief operating decision making body.

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 Management Board to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Management Board, include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly head office revenue, EBITDA, assets and liabilities.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment, and intangible assets other than goodwill.

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

(t) 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.

- IAS 28 (2011) *Investments in Associates and Joint Ventures* combines the requirements in IAS 28 (2008) and IAS 31 that were carried forward but not incorporated into IFRS 11 and IFRS 12. The amended standard will become effective for annual periods beginning of or after 1 January 2013 with retrospective application required. Early adoption of IAS 28 (2011) is permitted provided the entity also early-adopts IFRS 10, IFRS 11, IFRS 12 and IAS 27 (2011).

- 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.

- IFRS 10 *Consolidated Financial Statements* will be effective for annual periods beginning on or after 1 January 2013. The new standard supersedes IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities. IFRS 10 introduces a single control model which includes entities that are currently within the scope of SIC-12 Consolidation – Special Purpose Entities. Under the new three-step control model, an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with that investee, has the ability to affect those returns through its power over that investee and there is a link between power and returns. Consolidation procedures are carried forward from IAS 27 (2008). When the adoption of IFRS 10 does not result a change in the previous consolidation or non-consolidation of an investee, no adjustments to accounting are required on initial application. When the adoption results a change in the consolidation or non-consolidation of an investee, the new standard may be adopted with either full retrospective application from date that control was obtained or lost or, if not practicable, with limited retrospective application from the beginning of the earliest period for which the application is practicable, which may be the current period. Early adoption of IFRS 10 is permitted provided an entity also early-adopts IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011).

- IFRS 12 *Disclosure of Interests in Other Entities* will be effective for annual periods beginning on or after 1 January 2013. The new standard contains disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The expanded and new disclosure requirements aim to provide information to enable the users to evaluate the nature of risks associated with an entity's interests in other entities and the effects of those interests on the entity's financial position, financial performance and cash flows. Entities may early present some of the IFRS 12 disclosures early without a need to early-adopt the other new and amended standards. However, if IFRS 12 is early-adopted in full, then IFRS 10, IFRS 11, IAS 27 (2011) and IAS 28 (2011) must also be early-adopted.

- IFRS 13 *Fair value measurement* will be effective for annual periods beginning on or after 1 January 2013. The new standard replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It provides a revised definition of fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurement that currently exist in certain standards. The standard is applied prospectively with early adoption permitted. Comparative disclosure information is not required for periods before the date of initial application.
- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2011. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Determination of fair values

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

(a) Property, plant and equipment

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

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

(b) Investments in equity and debt securities

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

(c) Inventories

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

(d) 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. This fair value is determined for disclosure purpose.

(e) Derivatives

The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

The fair value of interest rate and currency swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and counterparty when appropriate.

(f) Non-derivative financial liabilities

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

(in thousands of Russian roubles, unless otherwise stated)

5 Significant subsidiaries

		2010	2009
	Country of incorporation	**Ownership/voting, %**	**Ownership/voting, %**
JSC "Tyumenenergo"	Russian Federation	100	100
JSC "IDGC of Volga"	Russian Federation	67.63	67.63
JSC "IDGC of North Caucasus"	Russian Federation	58.25	58.25
JSC "IDGC of North-West"	Russian Federation	55.38	55.38
JSC "IDGC of Siberia"	Russian Federation	52.88	52.88
JSC "IDGC of South"	Russian Federation	51.66	51.66
JSC "IDGC of Urals"	Russian Federation	51.52	51.52
JSC "MOESK"	Russian Federation	50.9	50.9
JSC "Lenenergo"	Russian Federation	45.71 / 50.31	45.71 / 50.31
JSC "IDGC of Centre and Volga region"	Russian Federation	50.4	50.4
JSC "IDGC of Centre"	Russian Federation	50.23	50.23
JSC "Yantarenergo"	Russian Federation	100	100
JSC "TDC"	Russian Federation	52.03 / 59.88	52.03 / 52.03
JSC "Chechenenergo"	Russian Federation	51	51
JSC "Kubanenergo"	Russian Federation	40.63*	25.42*
JSC "Karachaevo-Cherkesskenergo"	Russian Federation	100	100
JSC "Kalmenergosbyt"	Russian Federation	100	100
JSC "Tyvaenergosbyt"	Russian Federation	100	100
JSC "Kabbalkenergo"	Russian Federation	65.27 / 65.27	65.27 / 65.27
JSC "Dagestan Power Sales Company"	Russian Federation	51	51
JSC "Sevkavkazenergo"	Russian Federation	49*	49*
JSC "Ingushenergo"	Russian Federation	49*	49*
JSC "Research Centre of IDGC"	Russian Federation	100	100
JSC "VNIPIenergoprom"	Russian Federation	100	100
JSC "Special design bureau for heat and power equipment VTI"	Russian Federation	100	100
JSC "Center for Settlement Optimization of Unified Energy Systems"	Russian Federation	100	100
JSC "NEMC"	Russian Federation	49/57.4	49*

(in thousands of Russian roubles, unless otherwise stated)

		2010	**2009**
	Country of incorporation	**Ownership/voting, %**	**Ownership/voting, %**
JSC "Nedvizhimost VNIPIEnergoprom"	Russian Federation	100	100
JSC "UES of NIC"	Russian Federation	100	100
JSC "NIC North - West"	Russian Federation	100	100
JSC "NIC Volga"	Russian Federation	100	100
JSC "NIC of the South"	Russian Federation	100	100
JSC "NIC Urals"	Russian Federation	100	100
JSC "NIC Siberia"	Russian Federation	100	100

* The Group exercises control over these entities stemming from majority representation on the Board of Directors.

Business combinations

In the fourth quarter of 2010 JSC "IDGC of Centre", the Group subsidiary, obtained control over JSC "Yargorelectroset" operations by acquiring 100 % of the shares of JSC "Yargorelectroset" from a third party.

Revenues and financial results of JSC "Yargorelectroset" from the date of acquisition to 31 December 2010 have not had any significant effect on these consolidated financial statements.

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

	Recognised fair value at acquisition
Assets	
Property, plant and equipment	1,709,987
Cash and cash equivalents	24,883
Other assets	479,921
Total assets	**2,214,791**
Current assets	
Deferred tax liabilities	(75,552)
Other liabilities	(590,718)
Total liabilities	**(666,270)**
Net identifiable assets and liabilities	**1,548,521**
Total consideration transferred (settled in cash)	(1,100,000)
Gain on bargain purchase	**448,521**

OJSC "Yargorelectroset" was acquired through an auction where the selling price was determined by auction bidders. The gain resulted from this acquisition transaction of RUB 448,521 thousand was recognised within other income in the consolidated statement of comprehensive income.

6 Operating segments

The Group has thirteen reportable segments (31 December 2009: twelve), as described below, which are the Group's strategic business units. Each strategic business unit offers electricity distribution services including technological connection services in separate geographical region of the Russian Federation and is managed separately. The "other" segment includes insignificant operating segments such as electricity sales, rent services and repair and maintenance services. For each of the strategic business units, the Management Board reviews internal management reports on at least a quarterly basis. Unallocated items comprise assets and balances of the Group's headquarter which exercises management activity on remuneration basis.

Effective 1 January 2010 the Management Board of the Company started to analyze internal management report related to an additional segment, Kubanenergo, due to its importance to the Group, as this subsidiary is engaged in construction of Olympic Games infrastructure facilities in Sochi. The comparative information was re-presented in conformity with the current period presentation.

Information regarding the results of each reportable segment is included below. Performance is measured based on earnings before interest expense, income tax and depreciation and amortisation (EBITDA), as included in the internal management reports that are reviewed by the Management Board. EBITDA is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within this industry.

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

(in thousands of Russian roubles, unless otherwise stated)

(i) Information about reportable segments

As at and for the year ended 31 December 2010:

	IDGC Siberia and Tomskaya DC	**Tyumen-energo**	**IDGC Urals**	**IDGC Volga**	**IDGC South**	**Kubanenergo**	**IDGC North Caucasus**	**IDGC Centre and Privolzhye**	**IDGC North-West**	**Lenenergo**	**Yantar-energo**	**IDGC Centre**	**MOESK**	**Other**	**Total**
Revenue from external customers	48,332,626	45,950,506	45,606,194	39,416,970	21,379,695	24,530,553	5,651,710	54,388,919	24,183,479	33,596,943	7,085,065	60,279,166	110,616,032	35,690,009	556,707,867
Inter-segment revenue	720,563	196,183	4,177,602	3,398	634,692	4,977	4,809,085	6,131	2,485,733	603,614	116,725	125,723	18,017	14,660,687	28,563,130
Total segment revenue	49,053,189	46,146,689	49,783,796	39,420,368	22,014,387	24,535,530	10,460,795	54,395,050	26,669,212	34,200,557	7,201,790	60,404,889	110,634,049	50,350,696	585,270,997
Including															
Electricity transmission	47,048,957	42,805,029	47,763,291	38,736,861	20,995,679	23,289,219	9,435,812	53,105,566	25,346,252	23,872,903	6,811,838	57,563,151	91,238,959	13,271,448	501,284,965
Connection services	1,039,029	2,888,245	1,685,727	276,478	291,825	1,168,831	844,319	954,335	668,034	10,163,694	241,597	2,185,537	18,944,958	733,407	42,086,016
Other revenue	965,203	453,415	334,778	407,029	726,883	77,480	180,664	335,149	654,926	163,960	148,355	656,201	450,132	36,345,841	41,900,016
Finance income	31,754	197,307	15,715	2,809	7,216	297,318	-	42,072	8,840	63,465	2,102	35,276	200,787	144,034	1,048,695
Finance costs	(629,384)	(686,266)	(391,864)	(305,644)	(1,732,641)	1,114,329	(27,811)	(988,325)	(473,784)	(938,442)	(115,204)	(1,013,303)	(2,696,074)	(156,658)	(9,041,071)
Depreciation	3,364,373	4,861,694	2,341,957	3,509,591	2,170,958	1,138,322	1,330,184	3,479,942	2,537,172	4,190,391	199,747	4,352,631	12,163,867	1,373,469	47,014,298
EBITDA	1,570,433	13,245,744	5,108,692	4,683,545	65,950	(295,356)	2,267,156	6,731,766	2,654,363	11,967,955	684,872	10,926,728	36,052,811	1,050,125	96,714,784
Segment assets	**49,340,206**	**100,091,930**	**44,545,182**	**50,428,811**	**37,857,245**	**35,049,452**	**22,481,087**	**65,493,468**	**38,326,279**	**88,700,349**	**6,384,158**	**71,135,641**	**245,236,238**	**52,306,987**	**907,377,033**
Including property, plant and equipment and construction in progress	39,453,034	87,632,671	33,043,912	44,635,281	26,560,673	20,070,269	17,466,010	53,737,499	30,826,690	77,266,428	4,035,754	54,506,250	177,470,579	23,098,528	689,803,578
Capital expenditure	4,298,462	6,524,463	4,645,409	4,246,064	1,779,205	2,498,470	2,187,150	8,414,302	2,735,782	14,967,341	994,300	12,230,218	19,530,828	1,968,692	87,020,686
Segment liabilities	**18,272,250**	**16,283,610**	**14,686,218**	**8,183,827**	**21,271,524**	**21,114,796**	**6,765,412**	**23,648,933**	**10,977,497**	**36,940,942**	**3,680,625**	**25,187,702**	**110,385,481**	**34,673,266**	**352,072,083**

(in thousands of Russian roubles, unless otherwise stated)

As at and for the year ended 31 December 2009:

	IDGC Siberia and Tomskaya DC	**Tyumen-energo**	**IDGC Urals**	**IDGC Volga**	**IDGC South**	**Kubanenergo**	**IDGC North Caucasus**	**IDGC Centre and Privolzhye**	**IDGC North-West**	**Lenenergo**	**Yantar-energo**	**IDGC Centre**	**MOESK**	**Other**	**Total**
Revenue from external customers	43,399,607	37,243,875	37,688,162	29,315,917	15,601,296	19,940,731	5,125,312	47,187,053	22,945,863	26,047,185	5,979,288	49,053,134	85,180,355	31,844,314	456,552,092
Inter-segment revenue	43,391	1,149	3,609,474	2,298	3,426,143	6,780	4,854,803	4,238	1,997,763	40,764	90,155	142	52,493	9,875,848	24,005,441
Total segment revenue	43,442,998	37,245,024	41,297,636	29,318,215	19,027,439	19,947,511	9,980,115	47,191,291	24,943,626	26,087,949	6,069,443	49,053,276	85,232,848	41,720,162	480,557,533
Including															
Electricity transmission	41,462,942	34,826,570	40,001,175	28,491,849	16,820,012	17,609,651	9,537,526	45,688,548	23,615,965	19,597,004	5,738,039	46,869,934	74,904,182	4,123,076	409,286,473
Connection services	1,458,577	1,843,064	973,986	393,466	879,379	2,270,744	276,519	1,174,790	496,586	6,326,014	191,818	1,646,694	9,469,407	518,555	27,919,599
Other revenue	521,479	575,390	322,475	432,900	1,328,048	67,116	166,070	327,953	831,075	164,931	139,586	536,648	859,259	37,078,531	43,351,461
Finance income	13,321	76,770	14,599	2,066	9	14,619	2,208	23,437	9,359	35,279	387	3,121	339,078	137,183	671,436
Finance costs	(929,986)	(666,023)	(728,621)	(653,454)	(1,749,589)	(1,426,948)	(33,590)	(799,960)	(652,862)	(773,449)	(154,335)	(1,228,391)	(3,663,643)	(151,619)	(13,612,470)
Depreciation	3,206,730	3,879,105	2,070,196	3,416,934	2,038,650	1,042,435	1,326,667	3,184,296	2,388,056	3,330,314	161,340	3,996,026	11,046,906	1,082,639	42,170,294
EBITDA	3,789,305	7,815,292	4,191,512	4,707,846	2,842,876	265,822	868,298	5,139,289	3,190,880	8,189,702	541,493	7,629,909	24,804,140	4,148,949	78,125,313
Segment assets	**48,503,421**	**91,055,287**	**42,104,581**	**49,902,963**	**41,465,060**	**31,879,708**	**21,336,215**	**61,520,650**	**38,117,473**	**82,783,852**	**4,847,161**	**61,050,075**	**250,633,660**	**45,339,152**	**870,539,258**
Including property, plant and equipment and construction in progress	38,766,198	78,117,912	31,069,663	43,929,594	26,965,831	18,730,005	16,246,693	48,968,494	30,735,985	65,599,381	3,079,305	51,966,026	169,855,045	21,149,475	645,179,607
Capital expenditure	3,746,345	10,218,996	3,466,339	2,221,844	2,847,224	3,510,838	1,371,866	6,648,474	2,719,489	10,334,279	321,735	6,529,354	21,696,175	3,028,730	78,661,688
Segment liabilities	**14,747,584**	**20,206,307**	**13,930,390**	**8,940,207**	**21,276,342**	**23,507,595**	**6,684,533**	**21,073,872**	**9,950,681**	**34,439,819**	**2,379,413**	**19,815,559**	**130,956,733**	**27,833,112**	**355,742,147**

(in thousands of Russian roubles, unless otherwise stated)

(ii) Major customer

In 2010 and 2009 no customer represented more than 10% of the Group's total revenue.

(iii) Reconciliations of reportable segment revenues, EBITDA and assets and liabilities

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

Reconciliation of reportable segment revenue is presented below:

	Year ended 31 December 2010	**Year ended 31 December 2009**
Total segment revenues	**585,270,997**	**480,557,533**
Intersegment revenue elimination	(28,563,130)	(24,055,441)
Reclassification from other income	4,045,467	6,367,420
Other adjustments	(1,463,315)	(2,178,566)
Unallocated revenues	205,592	968,814
Revenues per Consolidated Statement of Comprehensive Income	**559,495,611**	**461,659,760**

Reconciliation of reportable segment EBITDA is presented below:

	Year ended 31 December 2010	**Year ended 31 December 2009**
EBITDA of reportable segments	**96,714,784**	**78,125,313**
Adjustment for disposal of property, plant and equipment	(151,707)	(88,769)
Adjustment for inventories valuation	220,531	(216,562)
Discounting of financial instruments	(545,494)	(335,061)
Bad debt allowance adjustment	(1,092,662)	(1,471,384)
Adjustments for financial lease	4,669,022	4,287,219
Accrued salaries and wages	(1,106,135)	(706,436)
Retirement benefit obligations recognition	(1,041,236)	(377,124)
Assets related to employee benefit fund	161,172	449,995
Other provisions	(951,601)	1,385,468
Adjustments for deferred expenses	1,139,080	251,497
Other adjustments	2,370,911	2, 690,424
Unallocated	2,095,555	2,134, 363
	102,482,220	**86,128,943**
Depreciation and amortization	(46,024,668)	(40,328,863)
Interest expenses on financial liabilities measured at amortised cost	(6,647,385)	(12,261,559)
Financial leasing	(3,273,327)	(5,356,329)
Income tax expense	(12,400,119)	(6,430,302)
Profit for the year per Consolidated Statement of Comprehensive Income	**34,136,721**	**21,751,890**

(in thousands of Russian roubles, unless otherwise stated)

Reconciliation of reportable segment total assets is presented below:

	Year ended 31 December 2010	Year ended 31 December 2009
Total segment assets	**907,377,033**	**870,539,258**
Intersegment balances	(6,064,423)	(11,877,510)
Intersegment investments	(9,829,677)	(8,848,342)
Net-off trade and other receivables and payables	(84,711)	(11,999,855)
Adjustment for net book value of property, plant and equipment	(101,824,874)	(108,708,020)
Recognition of assets related to employee benefits	5,231,672	5,070,500
Investments in equity accounted investees	(290,220)	(748,115)
Adjustments for impairment of account receivables	(13,276,409)	(11,546,013)
Inventories written-off	(538,260)	(754,600)
Adjustment for deferred tax calculation	(1,993,312)	2,289,890
Advances given	(17,900,343)	(6,421,444)
Other adjustments	(5,163,767)	(1,975,879)
Unallocated assets	12,163,706	5,114,306
Total assets per Consolidated Statement of Financial Position	**767,806,415**	**720,134,176**

Reconciliation of reportable segment total liabilities is presented below:

	Year ended 31 December 2010	Year ended 31 December 2009
Total segment liabilities	**352,072,083**	**355,742,147**
Intersegment balances	(6,194,114)	(14,723,102)
Net-off trade and other receivables and payables	(84,711)	(11,999,855)
Adjustment for deferred tax calculation	13,293,218	16,097,565
Retirement benefit obligations	9,039,394	7,998,158
Finance lease liabilities	8,947,578	15,182,789
Accrued salaries and wages	4,662,123	3,048,124
Issues of shares (see note 21)	(7,958,376)	(4,637,884)
Other provisions and accruals	2,678,326	765,852
Other adjustments	(5,213,623)	(3,916,507)
Unallocated items	723,164	350,569
Total liabilities per Consolidated Statement of Financial Position	**371,965,062**	**363,907,856**

(in thousands of Russian roubles, unless otherwise stated)

7 Revenue and government subsidies

	Year ended 31 December 2010	Year ended 31 December 2009
Electricity transmission	476,359,662	395,076,692
Connection services	42,890,356	29,592,614
Electricity sales	30,280,545	25,216,141
Rental income	2,195,957	2,708,268
Repairs and maintenance services	1,149,099	1,621,690
Other revenues	5,454,027	4,832,026
	558,329,646	**459,047,431**
Government subsidies	1,165,965	2,612,329
	559,495,611	**461,659,760**

Other revenue is comprised of communication services, transportation services, etc.

Government subsidies

In accordance with government decrees some regions of the Russian Federation are subject to subsidies from the federal budget. These subsidies represent compensation for low electricity tariffs at which electricity is sold in these regions. During the period the Group received government subsidies in the amount of RUB 1,165,965 thousand (2009: RUB 2,612,329 thousand). The Group conducts its operating activities in the following subsidized regions: Republic of Dagestan, Karachayevo - Cherkessian Republic and Kaliningrad region.

(in thousands of Russian roubles, unless otherwise stated)

8 Operating expenses

	Year ended 31 December 2010	**Year ended 31 December 2009**
Electricity transmission	175,385,116	131,152,764
Purchased electricity for compensation of technological losses	101,114,658	73,505,215
Personnel costs (see Note 10)	87,825,387	71,377,370
Depreciation and amortization	46,024,668	40,328,863
Purchased electricity for resale	18,897,545	18,096,641
Raw materials and supplies	14,859,876	11,013,684
Repairs, maintenance and installation services	13,947,643	15,159,867
Allowance for impairment of trade and other receivables	8,581,014	5,921,072
Rent	7,106,825	6,783,408
Consulting, legal and audit services	5,250,860	6,892,097
Technological connection services	5,007,302	4,130,608
Electricity and heat power for own needs	3,034,801	2,651,596
Taxes other than income tax	2,544,415	3,317,645
Insurance	2,403,909	2,390,365
Security services	2,140,245	2,025,886
Transportation	2,082,030	2,987,904
Telecommunication and information services	1,767,456	1,671,459
Taxes and penalties	1,036,194	555,068
Social expenditures and charity expenses	819,701	598,740
Electricity metering services	601,094	6,097,113
Other expenses	6,649,468	9,186,698
	507,080,207	**415,844,063**

In 2010 the Group has significantly reduced the use of third parties in relation to measuring electricity consumption, performing repair and technical maintenance and bookkeeping services, thereby increasing the proportion of work performed using its own resources.

Other expenses are comprised mainly of agency services, bank commission, travel allowance, labour safety expense and training expense.

(in thousands of Russian roubles, unless otherwise stated)

9 Other income, net

	Year ended 31 December 2010	Year ended 31 December 2009
Loss on disposal of property, plant and equipment	(251,620)	(785,603)
Fines and penalties	1,113,557	428,720
Other income	941,420	550,756
	1,803,357	**193,873**

10 Personnel costs

	Year ended 31 December 2010	Year ended 31 December 2009
Wages and salaries	67,556,331	55,730,882
Payroll taxes	14,430,433	12,960,162
Expense in respect of post-employment defined benefit plan	1,981,090	1,242,556
Expense in respect of long-term service benefits provided	491,826	252,590
Other	3,365,707	1,191,180
	87,825,387	**71,377,370**

The amount of contributions to defined contribution plan was RUB 9,905,187 thousand for the year ended 31 December 2010 (2009: RUB 5,768,130 thousand).

(in thousands of Russian roubles, unless otherwise stated)

11 Finance income and costs

	Year ended 31 December 2010	Year ended 31 December 2009
Recognised in profit or loss		
Finance income		
Interest income on loans, bank deposits and promissory notes	1,473,565	765,037
Gain on disposal of financial assets	484,421	251,630
Gain on disposal of available-for-sale financial assets transferred from equity	495,649	-
Effect of discounting of financial instruments	178,760	275,888
Dividend income on available-for-sale financial assets	77,395	38,892
Gain on interest swap settlement	143,179	-
	2,852,969	**1,331,447**
Finance costs		
Interest expenses on financial liabilities measured at amortised cost	(6,647,385)	(12,261,559)
Financial leasing	(3,273,327)	(5,356,329)
Change in fair value of derivative instrument – interest swap	-	(816,083)
Effect of discounting of financial instruments	(804,611)	(610,949)
Net foreign exchange losses	(62,623)	(172,649)
Impairment loss on bank deposits	-	(9,755)
Other finance costs	(102,010)	(29,190)
	(10,889,956)	**(19,256,514)**
Recognised in other comprehensive income		
Net change in fair value of available-for-sale financial assets	322,760	675,628
Net change in fair value of available-for-sale financial assets transferred to profit or loss	(495,649)	-
Income tax on income and expense recognised in other comprehensive income	41,742	(115,602)
	(131,147)	**560,026**

(in thousands of Russian roubles, unless otherwise stated)

12 Income tax expense

	Year ended 31 December 2010	Year ended 31 December 2009
Current tax expense		
Current year	(12,491,241)	(9,370,663)
Reversal of tax accruals due to favourable court resolution (see Note 30)	-	1,226,564
Over provided in prior years	2,698,650	301,981
	(9,792,591)	**(7,842,118)**
Deferred tax expense		
Origination and reversal of temporary differences	728,723	1,411,816
Derecognition of deferred tax assets	(950,927)	-
Change in tax base of property, plant and equipment	(2,385,324)	-
	(2,607,528)	1,411,816
	(12,400,119)	**(6,430,302)**

The Group's applicable tax rate in 2010 and 2009 is the income tax rate of 20% for Russian companies. This rate has been used in the calculation of deferred tax assets and liabilities.

Income tax recognised directly in other comprehensive income

	2010			**2009**		
	Before tax	**Tax**	**Net of tax**	**Before tax**	**Tax**	**Net of tax**
Available-for-sale financial assets	(172,889)	41,742	(131,147)	675,628	(115,602)	560,026
	(172,889)	**41,742**	**(131,147)**	**675,628**	**(115,602)**	**560,026**

Reconciliation of effective tax rate:

	Year ended 31 December 2010	%	Year ended 31 December 2009	%
Profit before income tax	46,536,840	100	28,182,192	100
Income tax at applicable tax rate	(9,307,368)	(20)	(5,636,438)	(20)
Effect of income taxed at lower rates	28,344	-	17,669	-
Non-deductible expenses	(2,483,494)	(5)	(2,340,078)	(8)
Reversal of tax accruals due to favourable court resolution	-	-	1,226,564	4
Change in tax base of property, plant and equipment	(2,385,324)	(6)	-	-
Over provided in prior years	2,698,650	6	301,981	1
Derecognition of deferred tax assets	(950,927)	(2)	-	-
	(12,400,119)	**(27)**	**(6,430,302)**	**(23)**

(in thousands of Russian roubles, unless otherwise stated)

13 Property, plant and equipment

	Land and buildings	**Transmission networks**	**Equipment for electricity transmission**	**Other**	**Construction in progress**	**Total**
Cost / Deemed cost						
Balance at 1 January 2009	74,256,993	245,419,680	95,992,741	51,146,684	121,365,238	588,181,336
Additions	1,542,146	5,562,340	3,937,472	3,045,764	58,115,111	72,202,833
Transfer	13,244,579	24,830,885	25,261,326	12,019,497	(75,356,287)	-
Disposals	(522,256)	(789,796)	(372,956)	(1,062,147)	(1,139,694)	(3,886,849)
Balance at 31 December 2009	**88,521,462**	**275,023,109**	**124,818,583**	**65,149,798**	**102,984,368**	**656,497,320**
Balance at 1 January 2010	88,521,462	275,023,109	124,818,583	65,149,798	102,984,368	656,497,320
Acquisitions through business combinations (Note 5)	419,131	842,111	336,416	35,913	76,416	1,709,987
Additions	429,201	1,369,888	2,108,844	4,096,250	80,038,562	88,042,745
Transfer	18,357,980	27,195,594	27,087,535	14,927,704	(87,568,813)	-
Disposals	(287,017)	(296,741)	(207,490)	(814,547)	(832,390)	(2,438,185)
Balance at 31 December 2010	**107,440,757,**	**304,133,961,**	**154,143,888,**	**83,395,118**	**94,698,143,**	**743,811,867**
Depreciation						
Balance at 1 January 2009	(5,655,022)	(30,384,008)	(11,844,724)	(9,916,179)	-	(57,799,933)
Depreciation charge	(4,209,586)	(18,220,651)	(9,039,968)	(7,489,621)	-	(38,959,826)
Disposals	47,868	195,134	38,523	8,893	-	290,418
Balance at 31 December 2009	**(9,816,740)**	**(48,409,525)**	**(20,846,169)**	**(17,396,907)**	**-**	**(96,469,341)**
Balance at 1 January 2010	(9,816,740)	(48,409,525)	(20,846,169)	(17,396,907)	-	(96,469,341)
Depreciation charge	(4,644,232)	(19,964,405)	(9,759,524)	(10,450,863)	-	(44,819,024)
Disposals	59,532	104,260	87,349	466,346	-	717,487
Balance at 31 December 2010	(14,401,440)	(68,269,670)	(30,518,344)	(27,381,424)	-	(140,570,878)
Net book value						
At 1 January 2009	**68,601,971**	**215,035,672**	**84,148,017**	**41,230,505**	**121,365,238**	**530,381,403**
At 31 December 2009	**78,704,722**	**226,613,584**	**103,972,414**	**47,752,891**	**102,984,368**	**560,027,979**
At 31 December 2010	**93,039,317**	**235,864,291**	**123,625,544**	**56,013,694**	**94,698,143**	**603,240,989**

As at 31 December 2010 construction in progress includes advance payments for property, plant and equipment of RUB 10,640,640 thousand (31 December 2009: RUB 14,474,122 thousand) which are stated net of impairment provision of RUB 812,808 thousand (31 December 2009: RUB 176,502 thousand).

The amount of capitalised interest for the year ended 31 December 2010 was RUB 6,136,716 thousand (2009: RUB 4,751,693 thousand).

As at 31 December 2010 property, plant and equipment with a carrying amount of RUB 67,130 thousand are pledged as collateral for loans (31 December 2009: nil) (see Note 23).

The amount of RUB 1,917,357 thousand was reclassified from construction in progress to VAT recoverable as at 31 December 2009.

Impairment testing

Impairment testing in respect of property, plant and equipment was performed as at 31 December 2010. As a result of impairment testing no impairment loss has been recognised.

Leased equipment and transport

The Group leases production equipment and transport under a number of financial lease agreements. At the end of each of the leases the Group has the option to purchase the equipment. As at 31 December 2010 the net book value of leased property, plant and equipment was RUB 25,887,600 thousand (2009: RUB 28,875,832 thousand). The leased equipment secures lease obligations.

(in thousands of Russian roubles, unless otherwise stated)

14 Intangible assets

	Goodwill	Software	Certificates and licences	Access rights	Total
Cost					
Balance at 1 January 2009	143,042	3,031,901	2,305,595	-	5,480,538
Additions	-	1,356,307	33,621	624,000	2,013,928
Disposals	-	(192,475)	(369,282)	-	(561,757)
Balance at 31 December 2009	143,042	4,195,733	1,969,934	624,000	6,932,709
Balance at 1 January 2010	143,042	4,195,733	1,969,934	624,000	6,932,709
Additions	-	639,624	62,254	-	701,878
Disposals	(143,042)	(364,050)	(541,743)	-	(1,048,835)
Balance at 31 December 2010	-	4,471,307	1,490,445	624,000	6,585,752
Amortisation					
Balance at 1 January 2009	-	(510,019)	(1,087,748)	-	(1,597,767)
Amortisation charge	-	(610,504)	(744,533)	(14,000)	(1,369,037)
Impairment	(143,042)	-	-	(139,000)	(282,042)
Disposals	-	143,095	357,862	-	500,957
Balance at 31 December 2009	(143,042)	(977,428)	(1,474,419)	(153,000)	(2,747,889)
Balance at 1 January 2010	(143,042)	(977,428)	(1,474,419)	(153,000)	(2,747,889)
Amortisation charge	-	(766,687)	(422,897)	(16,060)	(1,205,644)
Impairment	-	-	-	(37,360)	(37,360)
Disposals	143,042	361,126	536,315	-	1,040,483
Balance at 31 December 2010	-	(1,382,989)	(1,361,001)	(206,420)	(2,950,410)
Net book value					
At 1 January 2009	**143,042**	**2,521,882**	**1,217,847**	**-**	**3,882,771**
At 31 December 2009	**-**	**3,218,305**	**495,515**	**471,000**	**4,184,820**
At 31 December 2010	**-**	**3,088,318**	**129,444**	**417,580**	**3,635,342**

(in thousands of Russian roubles, unless otherwise stated)

15 Equity accounted investees

The Group has the following investments in equity accounted investees:

	Country	Ownership/Voting
JSC "Nurenergo"	Russian Federation	23%
JSC "Tulenergokomplekt"	Russian Federation	50%
JSC "Kurganenergo"	Russian Federation	49%
JSC "ENIN"	Russian Federation	34%
CJSC "LEIVO"	Russian Federation	50%

The following is summarised financial information, in aggregate, in respect of equity accounted investees:

	31 December 2010	31 December 2009
Total assets	12,281,335	4,042,899
Total liabilities	(13,798,184)	(10,143,702)
Revenue	5,705,296	6,086,027
Loss for the year	(1,072,141)	(1,882,983)

	As at 1 January 2010	Share of profit for the year	Dividends received	Other movement	As at 31 December 2010
JSC "Kurganenergo"	665,070	266,305	-	-	931,375
JSC "Tulenergokomplekt"	32,387	(4,378)	-	(28,009)	-
JSC "ENIN"	31,567	509	-	-	32,076
CJSC "LEIVO"	-	92,630	(10,010)	5,830	88,450
	729,024	**355,066**	**(10,010)**	**(22,179)**	**1,051,901**

	As at 1 January 2009	Share of profit for the year	Dividends received	Other movement	As at 31 December 2009
JSC "Kurganenergo"	564,072	100,998	-	-	665,070
JSC "Tulenergokomplekt"	42,268	(9,881)	-	-	32,387
JSC "ENIN"	24,995	6,572	-	-	31,567
	631,335	**97,689**	**-**	**-**	**729,024**

(in thousands of Russian roubles, unless otherwise stated)

16 Other investments and financial assets

	31 December 2010	31 December 2009
Non-current		
Available-for-sale investments	1,047,397	1,511,394
Promissory notes	3,516,351	-
Available-for-sale financial assets related to defined benefit plan	5,231,672	5,070,500
Other non-current assets	109,143	5,468
	9,904,563	**6,587,362**
Current		
Bank deposits	8,000,000	153,400
Promissory notes	1,648,627	4,771,794
Fair value of the derivative instrument interest swap	-	1,075,836
	9,648,627	**6,001,030**

Available-for-sale investments are mainly represented by marketable securities stated at fair value.

Bank deposits with original maturity more than 3 months were placed with a number of banks bearing an interest of 2.71-6.6 % per annum.

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

In 2010 the Group fully met its obligations under the swap contract. A change in the fair value of the swap contract for the year ended 31 December 2010 and 31 December 2009 of RUB 143,179 thousand gain and RUB 816,083 thousand loss is included in finance income and finance costs, respectively.

(in thousands of Russian roubles, unless otherwise stated)

Promissory notes are represented by the following:

	Interest rate	Year of maturity	31 December 2010	31 December 2009
Long term promissory notes				
Bank promissory notes	0%	2015	59,858	-
Bank promissory notes	0%	2012	166,077	-
Promissory notes	13%	2014	3,165,416	-
Other long-term promissory notes	0%	2012	125,000	-
Short-term promissory notes				-
Bank promissory notes	4.9%	2011	700,000	-
Bank promissory notes	3.2%	2011	700,000	-
Bank promissory notes	0.1%	2010	-	536,480
Bank promissory notes	13%	2010	-	1,100,161
Bank promissory notes	0%	2010	1,880	118,508
Promissory notes of financial company	8.3%	2010	-	2,849,848
Bank promissory notes	0%	2010	1,187	115,338
Bank promissory notes	0%	2011	193,424	-
Promissory notes	0%	2011	52,136	-
Other short-term promissory notes		2010	-	51,459
			5,164,978	**4,771,794**

The Group's exposure related to credit risks and impairment losses related to other investments and financial assets is disclosed in Note 27.

(in thousands of Russian roubles, unless otherwise stated)

17 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		**Liabilities**		**Net**	
	31 December 2010	**31 December 2009**	**31 December 2010**	**31 December 2009**	**31 December 2010**	**31 December 2009**
Property, plant and equipment	956,444	1 203 522	(37,184,378)	(34,400,420)	(36,227,934)	(33,196,898)
Intangible assets	37,369	30,802	(2,145)	(21,583)	35,224	9,219
Investments	171,784	262,802	(162,574)	(741,460)	9,210	(478,658)
Inventories	383,283	424,591	(17,809)	(8,165)	365,474	416,426
Trade and other receivables and prepayments	4,437,620	4,421,109	(125,378)	(398,064)	4,312,242	4,023,045
Financial lease liability	2,962,523	3,725,574	(43,516)	-	2,919,007	3,725,574
Loans and borrowings	-	273,701	(224,033)	(84,608)	(224,033)	189,093
Provisions	248,168	118,075	-	-	248,168	118,075
Employee benefits	1,788,049	1,913,474	(1,046,334)	(1,183,214)	741,715	730,260
Trade and other payables	2,036,265	909,232	(93,257)	(76,729)	1,943,008	832,503
Tax loss carry-forwards	814,138	575,506	-	-	814,138	575,506
Other	589,499	221,326	(178,776)	(128,118)	410,723	93,208
Tax assets/(liabilities)	14,425,142	14,079,714	(39,078,200)	(37,042,361)	(24,653,058)	(22,962,647)
Set off of tax	(11,061,196)	(9,627,583)	11,061,196	9,627,583	-	-
Derecognition of deferred tax assets	(950,927)	-	-	-	(950,927)	-
Net tax assets/(liabilities)	**2,413,019**	**4,452,131**	**(28,017,004)**	**(27,414,778)**	**(25,603,985)**	**(22,962,647)**

(b) Unrecognised deferred tax liabilities

At 31 December 2010 a deferred tax liability of RUB 11,726,212 thousand (31 December 2009: RUB 7,877,202 thousand) for temporary differences of RUB 58,631,062 thousand (31 December 2009: RUB 39,386,011 thousand) related to an investment in subsidiaries was not recognised because the Group controls whether the liability will be incurred and it is satisfied that it will not be incurred in the foreseeable future.

(in thousands of Russian roubles, unless otherwise stated)

(c) Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

	31 December 2010	31 December 2009
Deductible temporary differences	4,542,614	-
Tax losses	212,022	-
Total	**4,754,636**	**-**
Unrecognized deferred tax assets at applicable tax rate	**950,927**	**-**

The deductible temporary differences do not expire under current tax legislation. Tax losses expire in 10 years from their origination in 2019-2020. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which some group companies in North Caucasus can utilise the benefits there from.

(d) Movement in temporary differences during the year

	1 January 2010	Acquired in business combinations	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2010
Property, plant and equipment	(33,196,898)	(87,870)	(2,943,166)	-	(36,227,934)
Intangible assets	9,219	-	26,005	-	35,224
Investments	(478,658)	-	446,126	41,742	9,210
Inventories	416,426	3,291	(54,243)	-	365,474
Trade and other receivables and prepayments	4,023,045	7,443	281,754	-	4,312,242
Financial lease liability	3,725,574	-	(806,567)	-	2,919,007
Loans and borrowings	189,093	-	(413,126)	-	(224,033)
Provisions	118,075	-	130,093	-	248,168
Employee benefits	730,260	1,670	9,785	-	741,715
Trade and other payables	832,503	531	1,109,974	-	1,943,008
Other	93,208	(617)	318,132	-	410,723
Tax loss carry-forwards	575,506	-	238,632	-	814,138
Derecognition of deferred tax assets	-	-	(950,927)	-	(950,927)
	(22,962,647)	**(75,552)**	**(2,607,528)**	**41,742**	**(25,603,985)**

(in thousands of Russian roubles, unless otherwise stated)

	1 January 2009	**Recognised in profit or loss**	**Recognised in other comprehensive income**	**31 December 2009**
Property, plant and equipment	(33,011,057)	(185,841)	-	(33,196,898)
Intangible assets	(29,758)	38,977	-	9,219
Investments	(567,729)	204,673	(115,602)	(478,658)
Inventories	487,114	(70,688)	-	416,426
Trade and other receivables and prepayments	3,490,251	532,794	-	4,023,045
Financial lease liability	3,830,234	(104,660)	-	3,725,574
Loans and borrowings	305,317	(116,224)	-	189,093
Provisions	(140,280)	258,355	-	118,075
Employee benefits	451,369	278,891	-	730,260
Trade and other payables	625,890	206,613	-	832,503
Other	124,297	(31,089)	-	93,208
Tax loss carry-forwards	175,491	400,015	-	575,506
	(24,258,861)	**1,411,816**	**(115,602)**	**(22,962,647)**

18 Inventories

	31 December 2010	**31 December 2009**
Raw materials and consumables	10,467,955	10,342,934
Fuel	394,896	392,346
Finished goods and goods for resale	134,791	236,635
Other inventories	760,050	1,097,678
Allowance for obsolescence of inventories	(538,260)	(754,600)
Net book value	**11,219,432**	**11,314,993**

At 31 December 2010 inventories with a carrying amount of RUB 5,084 thousand are pledged as collateral for loans (31 December 2009: RUB 1, 046,292 thousand) (see Note 23).

(in thousands of Russian roubles, unless otherwise stated)

19 Trade and other receivables

	31 December 2010	31 December 2009
Non-current accounts receivable		
Trade receivables	2,257,230	2,234,162
Trade receivables impairment allowance	(1,685,167)	(1,238,751)
Other receivables	714,752	1,312,223
Other receivables impairment allowance	(1,809)	(7,956)
Loans	49,810	54,280
Total financial assets	**1,334,816**	**2,353,958**
VAT recoverable	397,028	480,200
VAT on advances from customers	1,612,664	4,923,093
Advances given	12,360,991	14,911,150
	15,705,499	**22,668,401**
Current accounts receivable		
Trade receivables	62,778,545	58,422,665
Trade receivables impairment allowance	(17,463,757)	(13,829,964)
Other receivables	9,618,234	9,456,734
Other receivables impairment allowance	(1,831,453)	(2,426,099)
Receivables from equity accounted investees	1,538,577	1,492,129
Loans	28,701	27,761
Total financial assets	**54,668,847**	**53,143,226**
Advances given	9,431,555	4,298,737
Advances given impairment allowance	(553,870)	(713,312)
VAT recoverable	3,399,031	4,445,093
VAT on advances from customers	14,685,665	10,840,098
Prepaid taxes, other than income tax	1,414,526	907,706
	83,045,754	**72,921,548**

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

The amount of RUB 1,917,357 thousand was reclassified from construction in progress to VAT recoverable as at 31 December 2009.

(in thousands of Russian roubles, unless otherwise stated)

20 Cash and cash equivalents

	31 December 2010	31 December 2009
Cash at bank and in hand	24,844,062	28,888,714
Cash equivalents	46,390	328,531
Cash and cash equivalents in the consolidated statement of cash flows and consolidated statement of financial position	**24,890,452**	**29,217,245**

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

21 Equity

(a) Share capital

Number of shares unless otherwise stated	Ordinary shares		Preference shares	
	31 December 2010	**31 December 2009**	**31 December 2010**	**31 December 2009**
Authorised shares	41,041,753,984	41,041,753,984	2,075,149,384	2,075,149,384
Par value	RUB 1	RUB 1	RUB 1	RUB 1
On issue at 1 January	41,041,753,984	41,041,753,984	2,075,149,384	2,075,149,384
Issued for cash	1,922,313,097	-	-	-
On issue at end of year, fully paid	42,964,067,081	41,041,753,984	2,075,149,384	2,075,149,384

(b) Ordinary and preference shares

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 the Company shareholders' meetings

Holders of preference shares have no right of conversion or redemption, but are entitled to an annual dividend equal to 10% of net statutory profit divided by 25% of all shares. If the amount of dividends paid by the Company for each ordinary share in a given year exceeds the amount payable as a dividend on each preference share, the dividend rate payable on the latter must be increased to the amount of dividends on ordinary shares.

If the dividend is not paid, preference shares carry the right to vote on all issues within the competence of general shareholders' meetings following the Annual Shareholders' Meeting at which a decision not to pay (or not to pay the full amount of) dividends on preference shares was taken. The right of preference shareholders to vote at general shareholders' meetings ceases from the date of the first full payment of dividends on such shares. However, the dividend is not cumulative. The preference shares also carry the right to vote in respect of issues that affect the interests of preference shareholders, including reorganisation and liquidation.

In the event of liquidation preference shareholders first receive any declared unpaid dividends and the par value of the preference shares. Thereafter all shareholders, ordinary and preference, participate equally in the distribution of the remaining assets.

(c) Issuance of additional shares

On 26 March 2010 the Board of Directors of the Company approved an increase in the Company's charter capital through issuance of 1,922,313,097 additional ordinary shares with a par value of 1 rouble each under an open subscription. The offering price was determined at 4.14 roubles per share. On 29 December 2010 the placement of all approved shares was completed. Report of additional share issue was registered by the Federal Service for Financial Markets on 3 February 2011. The increase in share capital was registered on 26 March 2011.

The increase in share capital of RUB 1,922,313 thousand and share premium of RUB 6,036,063 thousand were recognized within equity.

429,642,598 shares of additional share issue were repurchased by the Group for the purpose of establishing employees share option plan (Note 32). These shares of RUB 1,778,720 thousand were recognised as treasury shares.

(d) Non-controlling interest

On 23 July 2009 the Extraordinary General Meeting of Shareholders of JSC Kubanenergo approved an increase in charter capital through issuance of additional 59,493,882 ordinary shares with a par value of 100 rouble each under an open subscription. The approved offering price was RUB 126.26. This share issuance was registered by the Federal Service for Financial Markets on 1 September 2009. During the year 2010 out of this amount 15,780,600 shares were subscribed by the Group (2009: 6,871,367 shares) and 53,032 shares (2009: 36,732,798 shares) by 3rd parties and existing non-controlling shareholders who jointly paid RUB 1,999,154 thousand (2009: RUB 5,505,462 thousand) .

Additional capital of RUB 6,695 thousand attributable to non-controlling shareholders was recognized as non-controlling interest as at 31 December 2010 (31 December 2009: RUB 4,637,884 thousand). As a result of the subscription of shares the Group's ownership interest in JSC Kubanenergo decreased from 49% to 25.42% during the year 2009 and increased from 25.42% to 40.63% during the year 2010

The Group exercises control over JSC Kubanenergo which stems from majority representation on the Board of Directors.

(e) 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.

At the annual shareholders meeting held on 23 June 2010 the decision was made not to declare dividends for the year 2009.

22 Earnings per share

The calculation of basic earnings per share at 31 December 2010 was based on the profit attributable to ordinary shareholders of RUB 21,100,556 thousand (31 December 2009: RUB 13,155,912 thousand), and a weighted average number of ordinary shares outstanding of 41,043,743 thousand (31 December 2009: 41,041,754 thousand), calculated as shown below. The Company has no dilutive ordinary shares.

In thousands of shares	**2010**	**2009**
Issued shares at 1 January	41,041,754	41,041,754
Effect of own shares held	(8,544)	-
Effect of shares issued in 2010	10,533	-
Weighted average number of shares for the year ended 31 December	41,043,743	41,041,754

	Year ended 31 December 2010	**Year ended 31 December 2009**
Weighted average number of ordinary shares for the year ended 31 December (thousand of shares)	41,043,743	41,041,754
Total profit attributable to holders of ordinary shares	21,100,605	13,155,912
Earnings per ordinary share (in RUB) – basic and diluted	**0.51**	**0.32**

23 Loans and borrowings

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

	31 December 2010	**31 December 2009**
Non-current liabilities		
Secured loans	17,069	925,394
Secured bonds issued	5,986,116	5,975,538
Unsecured loans	99,335,476	52,435,345
Unsecured bonds issued	8,700,219	11,066,527
Promissory notes	1,709,581	2,846,721
Loans from other related parties	119,623	457,363
Financial lease liabilities	4,780,463	10,116,246
	120,648,547	**83,823,134**
Current liabilities		
Current portion of unsecured loans and bonds	13,268,826	46,878,948
Secured loans, including current portion of long-term loans	383,571	1,637,589
Unsecured loans	6,890,274	10,955,111
Promissory notes	1,770,610	2,271,631
Loans from other related parties, including current portion of long-term loans	286,668	-
Current portion of financial lease liabilities	4,538,803	5,498,942
	27,138,752	**67,242,221**

(in thousands of Russian roubles, unless otherwise stated)

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

			31 December 2010	31 December 2009	31 December 2010		31 December 2009	
	Currency	Year of maturity	Effective interest rate	Effective interest rate	Face value	Carrying amount	Face value	Carrying amount
Secured loans								
Secured bank loans *	RUB	2011-2012	14-16%	11.8 - 17%	5,227	5,227	66,082	66,082
Secured bank loans *	RUB	2010	-	12.5%	-	-	1,796,829	1,796,829
Secured bank loans	RUB	2012	-	13.5%	-	-	353,572	353,572
Secured bank loans	RUB	2011-2013	11.0% -14.5%	-	34,425	34,425	-	-
Secured bank loans	RUB	2011	15%	-	12,000	12,000	-	-
Secured loans *	RUB	2011	6.67%	6.67%	3,250	3,250	6,500	6,500
Secured loans *	RUB	2011	8%	8%	345,738	345,738	340,000	340,000
					400,640	**400,640**	**2,562,983**	**2,562,983**
Unsecured loans								
Unsecured bank loans	RUB	2013	7.5%	12.25%	500,000	500,000	174,548	174,548
Unsecured bank loans *	RUB	2011-2025	4.9-9.0%	7.5 - 13.5%	47,003,017	47,003,017	37,992,003	37,992,003
Unsecured bank loans	RUB	2011-2017	7.31-7.85%	10.05 - 13.85%	20,665,829	20,665,829	15,299,767	15,299,767
Unsecured bank loans	RUB	2011-2015	7.21-8.8%	11.4 - 14.00%	15,959,952	15,959,952	11,484,981	11,484,981
Unsecured bank loans	RUB	2011-2013	8%	12.50 - 14.41%	3,810,000	3,810,000	1,330,000	1,330,000
Unsecured bank loans	RUB	2013-2015	7.6-8.0%	12.0 - 15.7%	7,547,507	7,547,507	3,505,240	3,505,240
Unsecured bank loans *	RUB	2011-2015	6.95-8.19%	9.7 - 13.8%	4,505,196	4,505,196	4,915,089	4,915,089
Unsecured bank loans	RUB	2010	-	MosPrime 1M+3%	-	-	700,000	700,000
Unsecured bank loans	RUB	2010	-	MosPrime 1M+7.2%	-	-	1,000,000	1,000,000
Unsecured bank loans	RUB	2010	-	15%	-	-	500,000	500,000

(in thousands of Russian roubles, unless otherwise stated)

			31 December 2010	31 December 2009	31 December 2010		31 December 2009	
	Currency	Year of maturity	Effective interest rate	Effective interest rate	Face value	Carrying amount	Face value	Carrying amount
Unsecured bank loans	RUB	2012	7.57%	-	500,000	500,000	-	-
Unsecured bank loans *	RUB	2011-2012	8%	12.30 - 12.50%	1,000,000	1,000,000	3,667,294	3,667,294
Unsecured bank loans *	RUB	2012	8%	11.23 - 12.58%	1,100,000	1,100,000	2,951,016	2,951,016
Unsecured bank loans	RUB	2010	-	9.04 - 9.58%	-	-	8,558,564	8,558,564
Unsecured bank loans	USD	2010	-	Libor + 1.25%	-	-	6,048,840	6,026,914
Unsecured bank loans	RUB	2013-2014	7.65-7.92%	-	2,000,000	2,000,000	-	-
Unsecured bank loans *	RUB	2012-2015	8%	11.45 – 14.00%	8,773,730	8,773,730	4,950,369	4,950,369
Unsecured bank loans	RUB	2012	7.1%	-	800,000	800,000	-	-
Unsecured bank loans	RUB	2010	-	12.5%	-	-	1,350,000	1,350,000
Unsecured bank loans	RUB	2010	-	MosPrime + 4%	-	-	500,000	500,000
Unsecured bank loans	RUB	2011-2012	-	8.5%-12.8%	-	-	870,000	870,000
Unsecured bank loans	RUB	2013	-	9.13%	-	-	200,000	200,000
Unsecured bank loans	RUB	2011-2013	7.65%	-	400,000	400,000	-	-
Unsecured bank loans	RUB	2011	17%	17%	80,000	80,000	230,000	230,000
Unsecured bank loans	RUB	2011-2013	-	15-16%	-	-	112,605	112,605
Unsecured loans	RUB	2010	-	13%	-	-	4,974	4,974
Unsecured loans *	RUB	2010	0%	0%	16,401	16,401	17,672	17,672
					114,661,632	**114,661,632**	**106,362,962**	**106,341,036**

(in thousands of Russian roubles, unless otherwise stated)

	Currency	Year of maturity	31 December 2010 Effective interest rate	31 December 2009 Effective interest rate	31 December 2010 Face value	31 December 2010 Carrying amount	31 December 2009 Face value	31 December 2009 Carrying amount
Promissory notes								
Promissory notes	RUB	On demand	0%	0%	368,113	368,113	368,113	368,113
Promissory notes	RUB	2010-2011	0%	0%	6,756	6,756	9,696	9,696
Promissory notes	RUB	2011-2020	10.00%	13.53%	1,021,079	1,021,079	1,747,623	1,747,623
Promissory notes	RUB	2010	0-9%	0-9%	3,300	3,300	3,300	3,300
Promissory notes	RUB	2011-2013	9%	9%	2,194,072	2,080,943	3,203,028	2,989,276
Promissory notes	RUB	2010	-	0%	-	-	344	344
					3,593,320	**3,480,191**	**5,332,104**	**5,118,352**
Bonds								
Secured bonds	RUB	2012	8.54%	8.54%	3,000,000	2,993,647	3,000,000	2,988,301
Secured bonds	RUB	2012	8.02%	8.02%	3,000,000	2,992,469	3,000,000	2,987,237
Unsecured bonds	RUB	2010	-	7.85%	-	-	1,500,000	1,419,642
Unsecured bonds	RUB	2014	17.50%	17.50%	6,000,000	6,000,000	6,000,000	6,000,000
Unsecured bonds	RUB	2012	8.70%	8.70%	2,700,000	2,700,000	2,700,000	2,700,000
Unsecured bonds	RUB	2011	8.05%	8.05%	2,356,507	2,356,507	2,356,507	2,356,507
Unsecured bonds	RUB	2010	9.30%	9.30%	2,478,172	2,476,437	2,480,672	2,480,672
Unsecured bonds	RUB	2012	8.4%	8.4%	219	219	10,020	10,020
Unsecured bonds	RUB	2010	-	8.15%	-	-	1,638	1,638
					19,534,898	**19,519,279**	**21,048,837**	**20,944,017**

(in thousands of Russian roubles, unless otherwise stated)

			31 December 2010	31 December 2009	31 December 2010		31 December 2009	
	Currency	Year of maturity	Effective interest rate	Effective interest rate	Face value	Carrying amount	Face value	Carrying amount
Loans from related parties *	RUB	2011-2013	0 - 9%	0 - 9%	**430,769**	**406,291**	**504,299**	**457,363**
Other debt	RUB	2010-2012	-	0 - 20%	**-**	**-**	**26,415**	**26,416**
Financial lease liabilities	RUB	2010-2015	8%	9%	**12,459,874**	**9,319,266**	**22,281,951**	**15,615,188**
Total debt					**151,081,133**	**147,787,299**	**158,119,551**	**151,065,355**

* Loans from state controlled entities.

(in thousands of Russian roubles, unless otherwise stated)

At 31 December 2010 the bank loans in the amount of RUB 51,652 thousand (31 December 2009: nil) are secured over property, plant and equipment in the amount of RUB 67,130 thousand (see Note 13).

At 31 December 2010 the bank loans in the amount of RUB 3,250 thousand (31 December 2009: RUB 1,839,411 thousand) are secured over inventories in the amount of RUB 5,084 thousand (31 December 2009: RUB 1,046,292 thousand) (see Note 18).

At 31 December 2010 the bank loans in the amount of RUB 345,738 thousand (31 December 2009: nil) are secured by third party guarantees (31 December 2009: 340,000).

As at 31 December 2010 no bank loans (as at 31 December 2009: RUB 723,572 thousand) are secured by cash flows from electricity transmission contracts.

As at 31 December 2010 the bonds in the amount of RUB 5,986,116 thousand (as at 31 December 2009: RUB 5,975,538 thousand) are secured by third party guarantees.

The effective interest rate is the market interest rate applicable to the loans at the date of origination for fixed rate loans and the current market rate for floating rate loans. The Group has not entered into any hedging arrangements in respect of interest rate exposures.

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

Financial lease liabilities are payable as follows:

	2010			**2009**		
	Future minimum lease payments	**Interest**	**Present value of minimum lease payments**	**Future minimum lease payments**	**Interest**	**Present value of minimum lease payments**
Less than one year	6,455,470	(1,916,667)	4,538,803	8,880,655	(3,381,713)	5,498,942
Between one and five years	5,873,644	(1,191,193)	4,682,451	13,086,823	(3,169,269)	9,917,554
More than five years	130,760	(32,748)	98,012	314,473	(115,781)	198,692
	12,459,874	**(3,140,608)**	**9,319,266**	**22,281,951**	**(6,666,763)**	**15,615,188**

The financial lease liabilities are secured by the leased assets (see Note 13).

24 Employee benefits

The Group has defined benefit pension and other long-term defined benefit plans that cover most full-time and retired employees. Defined post-employment benefits consist of several unfunded plans providing for lump-sum payments upon retirement, financial support for current pensioners, death benefits, jubilee benefits.

(in thousands of Russian roubles, unless otherwise stated)

(a) Amounts recognised in the Statement of Financial Position are as follows:

	31 December 2010		31 December 2009	
	Post employment benefits	**Other long-term benefits**	**Post employment benefits**	**Other long-term benefits**
Total present value of obligations	12,694,817	1,134,892	10,728,254	696,922
Unrecognised actuarial losses	(2,224,877)	-	(551,804)	-
Unrecognised past service cost	(2,565,438)	-	(2,875,214)	-
Recognised liability for defined benefit obligations	**7,904,502**	**1,134,892**	**7,301,236**	**696,922**

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

	2010		2009	
	Post employment benefits	**Other long-term benefits**	**Post employment benefits**	**Other long-term benefits**
Defined benefit obligations at 1 January	10,728,254	696,922	9,671,202	502,963
Benefits paid by the plan	(1,377,824)	(53,856)	(1,059,391)	(58,631)
Current service costs	661,008	51,285	509,354	36,759
Interest on obligation	895,195	67,545	809,152	36,844
Actuarial losses	1,716,285	330,127	937,518	215,960
Past service costs	125,723	42,869	58,766	(13,625)
Curtailments and Settlements	(53,824)	-	(6,878)	(23,348)
Other movements	-	-	(191,469)	-
Defined benefit obligations at 31 December	**12,694,817**	**1,134,892**	**10,728,254**	**696,922**

(in thousands of Russian roubles, unless otherwise stated)

(c) Expenses recognised in profit or loss:

	2010		2009	
	Post employment benefits	**Other long-term benefits**	**Post employment benefits**	**Other long-term benefits**
Current service costs	661,008	51,285	509,354	36,759
Interests on obligation	895,195	67,545	809,152	36,844
Recognised actuarial losses/(gains)	43,212	330,127	(42,268)	215,960
Recognised past service costs	435,499	42,869	164,665	(13,625)
Curtailments and Settlements	(53,824)	-	(6,878)	(23,348)
Other movements	-	-	(191,469)	-
Total periodical pension cost	**1,981,090**	**491,826**	**1,242,556**	**252,590**

The above expenses are recognised as Personnel costs in Operating expenses.

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

	2010		2009	
	Post employment benefits	**Other long-term benefits**	**Post employment benefits**	**Other long-term benefits**
Recognised liability in the statement of financial position for defined benefit obligations as at 1 January	7,301,236	696,922	7,118,071	502,963
Total periodical pension cost	1,981,090	491,826	1,242,556	252,590
Benefits paid by the plan	(1,377,824)	(53,856)	(1,059,391)	(58,631)
Recognised liability in statement of financial position for defined benefit obligations as at 31 December	**7,904,502**	**1,134,892**	**7,301,236**	**696,922**

(d) Actuarial assumptions

Principal actuarial assumptions at the Statement of Financial Position date (expressed as weighted averages):

	2010	**2009**
Discount rate at 31 December	8.00%	8.70%
Future salary increases	5.50%	5.50%
Inflation rate	5.50%	5.50%
Average future working life (yrs)	10	10
Mortality table	2002	2002

(in thousands of Russian roubles, unless otherwise stated)

25 Provisions

	31 December 2010	31 December 2009
Balance at 1 January	919,958	1,081,941
Provisions raised during the year	1,708,155	484,630
Provisions used during the year	(651,168)	(646,613)
Balance at 31 December	**1,976,945**	**919,958**

Provisions relate to the legal proceedings and unsettled claims against the Group.

26 Trade and other payables

	31 December 2010	31 December 2009
Non-current accounts payable		
Trade payables	132,464	1,282,774
Other payables and accrued expenses	1,702,367	808,752
Total financial liabilities	**1,834,831**	**2,091,526**
Advances from customers	15,233,502	39,375,449
	17,068,333	**41,466,975**
Current accounts payable		
Trade payables	57,655,493	52,493,759
Interest accrued on loans and borrowings	1,973,464	2,405,691
Other payables and accrued expenses	8,138,195	4,305,498
Payables to employees	8,093,048	5,921,961
Dividends payable	76,279	144,128
Total financial liabilities	**75,936,479**	**65,271,037**
Advances from customers	85,915,183	62,060,241
	161,851,662	**127,331,278**
Taxes payable		
Value added tax	2,204,525	4,042,514
Property tax	373,322	375,241
Unified social tax	959,114	713,925
Other taxes payable	1,756,493	1,457,527
	5,293,454	**6,589,207**
	167,145,116	**133,920,485**

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

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

The Group's risk management policies deal with identifying and analyzing the risks faced by the Group, setting appropriate risk limits and controls, and monitoring 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 internal policies, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

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

The Group's Audit Committee oversees how management monitors compliance with the Group's internal control procedures.

(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.

(i) Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and country, in which customers operate, has less of an influence on credit risk.

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

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

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

(in thousands of Russian roubles, unless otherwise stated)

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	
	31 December 2010	**31 December 2009**
Promissory notes	5,164,978	4,771,794
Loans and receivables	56,003,663	55,497,184
Bank deposits, cash and cash equivalents	32,890,452	29, 370,645
Derivative instrument - interest swap	-	1,075,836
Financial assets related to employee benefit fund	5,231,672	5,070,500
	99,290,765	**95,785,959**

Financial guarantees are disclosed in Note 30.

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

	Carrying amount	
	31 December 2010	**31 December 2009**
North-West region	5,502,045	6,409,840
Central region	18,393,747	14,698,746
Ural and Volga region	6,985,008	8,795,946
South region	7,654,017	9,108,258
Siberian region	7,235,436	6,396,135
Other regions	116,598	179,187
	45,886,851	**45,588,112**

The Group's ten most significant debtors account for RUB 17,734,010 thousand of the trade receivables carrying amount at 31 December 2010 (2009: RUB 12,797,960 thousand).

Impairment losses

The aging of receivables at the reporting date was:

	Gross	**Impairment**	**Gross**	**Impairment**
	31 December 2010	**31 December 2010**	**31 December 2009**	**31 December 2009**
Not past due	39,233,891	(1,857,040)	36,591,804	(1,307,994)
Past due less than 3 months	6,724,727	(1,412,466)	9,126,625	(2,058,697)
Past due more than 3 months and less than 6 months	6,084,640	(1,097,643)	6,702,216	(1,786,701)
Past due more than 6 months and less than 1 year	5,173,437	(2,698,230)	7,334,701	(2,400,816)
Past due more than 1 year	19,690,643	(13,916,807)	13,162,567	(9,948,562)
	76,907,338	**(20,982,186)**	**72,917,913**	**(17,502,770)**

(in thousands of Russian roubles, unless otherwise stated)

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

	31 December 2010	31 December 2009
Balance at 1 January	(17,502,770)	(14,208,919)
Increase during the period	(10,573,866)	(8,630,539)
Amounts written off against trade and other receivables	5,101,598	2,627,221
Decrease due to reversal	1,992,852	2,709,467
Balance at 31 December	**(20,982,186)**	**(17,502,770)**

The allowance accounts in respect of trade and other receivables, available for sale investments and bank deposits are used to record impairment losses, unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amount considered irrecoverable and written off against the financial asset directly. At 31 December 2010 the Group does not have any collective impairment on its trade receivables, available for sale investments and bank deposits (2009: nil)

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group monitors the risk of cash shortfalls by means of current liquidity planning. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. This approach is used to analyze payment dates associated with financial assets, and also to forecast cash flows from operating activities.

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

(in thousands of Russian roubles, unless otherwise stated)

31 December 2010

	Carrying amount	Contractual cash flows	0-1 years	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Non-derivative financial liabilities								
Loans	114,878,416	139,623,348	24,812,850	28,205,367	44,338,046	7,536,185	23,210,840	11,520,060
Bond issued	21,681,173	26,975,002	8,677,798	10,202,964	1,047,120	7,047,120	-	-
Promissory notes	3,881,908	4,350,627	2,452,624	1,801,355	96,648	-	-	-
Financial leasing	9,319,266	12,459,874	6,455,470	4,095,657	1,521,336	221,365	35,286	130,760
Trade and other payables	75,797,846	76,059,647	74,625,584	1,103,887	103,008	53,197	98,166	75,805
	225,558,609	**259,468,498**	**117,024,326**	**45,409,230**	**47,106,158**	**14,857,867**	**23,344,292**	**11,726,625**
Financial guarantees	**-**	**1,858,643**	**1,858,643**	**-**	**-**	**-**	**-**	**-**

31 December 2009

	Carrying amount	Contractual cash flows	0-1 years	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Non-derivative financial liabilities								
Loans	109,934,298	126,633,344	63,672,285	42,625,620	10,931,641	7,972,259	1,431,539	-
Bond issued	21,837,883	26,991,852	7,029,873	3,358,709	9,511,672	585,545	6,506,053	-
Promissory notes	6,083,677	6,880,434	2,796,720	2,108,011	1,862,557	113,146	-	-
Financial leasing	15,615,188	22,281,951	8,880,655	10,752,820	2,084,626	249,377	-	314,473
Trade and other payables	64,956,872	65,606,410	64,368,038	844,213	157,268	6,587	297	230,007
	218,427,918	**248,393,991**	**146,747,571**	**59,689,373**	**24,547,764**	**8,926,914**	**7,937,889**	**544,480**
Financial guarantees	**-**	**3,036,789**	**3,036,789**	**-**	**-**	**-**	**-**	**-**

(in thousands of Russian roubles, unless otherwise stated)

(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) Currency risk

Currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates.

The majority of the Group's revenues and expenditures are denominated in RUB, accordingly operating profits are insignificantly impacted by changes in exchange rates.

Exposure to currency risk

The Group's exposure to foreign currency risk was as follows based on notional amounts:

	USD-denominated 31 December 2010	USD-denominated 31 December 2009
Bank loans	-	6,026,914
Derivative financial instruments - interest swap	-	(1,075,836)
Net exposure	**-**	**4,951,078**

The following exchange rates applied during the year:

	Average rate		Reporting date spot rate	
RUB	**2010**	**2009**	**31 December 2010**	**31 December 2009**
USD 1	30.367	31.723	30.4769	30.2442

Sensitivity analysis

Changes in foreign currency rates would not affect profit and loss or equity as at 31 December 2010. A 10% weakening of the RUB against the USD at 31 December 2009 would have decreased equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	Equity RUB	Profit or loss RUB
2009		
USD	-	(396,086)

A 10% strengthening of the RUB against the USD at 31 December 2009 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(in thousands of Russian roubles, unless otherwise stated)

(ii) Interest rate risk

The Group obtains borrowings mostly at fixed rate and is subject to the limited risk of interest rate changes.

Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, when making a decision about new loans and borrowings management gives priority to loans and borrowings with fixed rates. As a rule, loan agreements entered into by the Group do not contain any charges for early repayment of loans on borrower's initiative which facilitates additional flexibility in relation to optimizing interest rates in the current economic environment.

Profile

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

	Carrying amount	
	31 December 2010	**31 December 2009**
Fixed rate instruments		
Financial assets	13,243,489	5,007,235
Financial liabilities	(147,396,029)	(142,442,616)
Variable rate instruments		
Financial assets	-	1,075,836
Financial liabilities	-	(8,226,914)

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 interest 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.

(in thousands of Russian roubles, unless otherwise stated)

Cash flow sensitivity analysis for variable rate instruments

Changes in interest rates would not affect profit and loss or equity as at 31 December 2010. A change of 100 basis points in interest rates at 31 December 2009 would have 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.

	Profit or loss		Equity	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
2009				
Variable rate instruments	(65,815)	65,815	-	-
Interest swap	8,607	(8,607)	-	-
Cash flow sensitivity (net)	**(57,208)**	**57,208**	**-**	**-**

(e) Fair values versus carrying amounts

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

		31 December 2010		31 December 2009	
	Note	Carrying amount	Fair value	Carrying amount	Fair value
Derivative instrument –interest swap	16	-	-	1,075,836	1,075,836
Loans and receivables	19	56,003,663	56,003,663	55,497,184	55, 497,184
Available-for-sale financial assets	16	1,047,397	1,047,397	1,511,394	1,511,394
Promissory notes	16	5,164,978	5,164,978	4,771,794	4,771,794
Bank deposits, cash and cash equivalents	16, 20	32,890,452	32,890,452	29,370,645	29,370,645
Financial assets related to employee benefit fund	16	5,231,672	5,231,672	5,070,500	5,070,500
Non-current and current debt	23	(147,787,299)	(144,132,597)	(151,065,355)	(146,450,003)
Trade and other payables	26	(77,771,310)	(77,771,310)	(67,362,563)	(67,362,563)
		(125,220,447)	**(121,565,745)**	**(121,130,565)**	**(116,515,213)**

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

The interest rate used to discount estimated cash flows for non-current and current debt for determination of fair value as at 31 December 2010 was 9.8% (31 December 2009: 15.5%).

(in thousands of Russian roubles, unless otherwise stated)

(f) Fair value hierarchy

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

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

’000 RUB	**Level 1**	**Level 2**	**Level 3**	**Total**
31 December 2010				
Available-for-sale financial assets	1,047,397	-	-	1,047,397
	1,047,397	**-**	**-**	**1,047,397**
31 December 2009				
Available-for-sale financial assets	1,208,261	-	303,133	1,511,394
Derivative instrument –interest swap	-	1,075,836	-	1,075,836
	1,208,261	**1,075,836**	**303,133**	**2,587,230**

(g) Capital management

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

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

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

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

(in thousands of Russian roubles, unless otherwise stated)

28 Operating leases

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

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

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

Non-cancellable operating lease rentals are payable as follows:

	Year ended 31 December 2010	**Year ended 31 December 2009**
Less than one year	4,862,062	4,452,012
Between one and five years	6,513,434	4,918,842
More than five years	27,255,853	19,115,615
	38,631,349	**28,486,469**

During the year RUB 7,106,825 thousand was recognised in the statement of comprehensive income in respect of operating leases (2009: RUB 6,783,408 thousand).

29 Commitments

As at 31 December 2010 the Group has outstanding commitments under the contracts for the purchase and construction of property, plant and equipment for RUB 75,900,073 thousand (as at 31 December 2009: RUB 71,995,966 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) Taxation contingencies

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.

(in thousands of Russian roubles, unless otherwise stated)

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.

(c) Legal proceedings

The Group is a party to certain legal proceedings arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which, upon final disposition, will have a material adverse effect on the financial position of the Group.

(d) Environmental matters

The Group 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. The Group's management periodically evaluates its obligations under environmental regulations.

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

(e) Guarantees

The Group provided the following financial guarantees for loans granted by the following banks to the Group's lessors.

	Amount on contract 31 December 2010	**Amount on contract 31 December 2009**
OJSC "Rosbank"	1,009,201	1,267,130
OJSC "NOMOS-Bank"	562,735	-
OJSC "Sberbank"	198,286	484,917
OJSC "Promsvyazbank"	50,058	103,078
JCSC "Rosgazleazing"	26,780	272,180
OJSC "Alpha Bank"	11,583	20,858
OJSC "Nordea Bank"	-	420,000
CJSC "Raiffeisenbank"	-	410,000
CJSC "Gazenergoprombank"	-	51,371
OJSC "Russian Agricultural Bank"	-	7,255
	1,858,643	**3,036,789**

(in thousands of Russian roubles, unless otherwise stated)

(f) Other contingencies

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

31 Related party transactions

(a) Control relationships

The Russian Government holds the majority of the voting rights of the Company and it is the ultimate controlling party of the Group.

(b) Transactions with associates

The Group had the following significant balances with associates:

	Outstanding balance 31 December 2010	**Outstanding balance 31 December 2009**
Accounts receivable	1,538,577	1,492,129
	1,538,577	**1,492,129**

(c) Management remuneration

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

Key management received the following remuneration during the year, which is included in personnel costs:

	Year ended 31 December 2010	**Year ended 31 December 2009**
Salaries and bonuses	2,010,665	1,342,050

(d) Transactions with state-controlled entities

In the course of its operating activities the Group is also engaged in significant transactions with state-controlled entities. Revenues and purchases from state-controlled entities are measured at regulated tariffs where applicable, in other cases revenues and purchases are measured at normal market prices.

Revenues from state-controlled entities for the year ended 31 December 2010 constitute 34% (2009: 33%) of total Group revenues, including 35% (2009: 35%) of electricity transmission revenues.

Electricity transmission costs for state-controlled entities for the year ended 31 December 2010 constitute 53% (2009: 53%) of total transmission costs.

Significant loans from state controlled entities are disclosed in Note 23.

(e) Pricing policies

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

In accordance with the Company Charter documents, the following transactions are subject to the approval of the Board of Directors, if the amount of the transaction is below 2% of the total assets of the Company as determined in accordance with RAP, and are subject to the approval at the Shareholders' meeting if the amount of the transaction exceeds 2% of the total assets of the Company as determined in accordance with RAP:

- Transactions involving the entities where the shareholders of the Company have ownership interest of 20% or more;
- Transactions involving the entities where the management of the Company also act in management capacity.

32 Events after the reporting period

(a) Non-controlling interest

On 25 October 2010 the Extraordinary General Meeting of Shareholders of JSC Kubanenergo, the Group subsidiary, approved an increase in charter capital through issuance of additional 31,732,913 ordinary shares with a par value of 100 rouble each under an open subscription. The approved offering price was RUB 184.92. This share issuance was registered by the Federal Service for Financial Markets on 14 December 2010. In April 2011, 13,204,353 shares were subscribed by the Group and 6,949,343 shares by 3rd parties and existing non-controlling shareholders who jointly paid RUB 3,726,821 thousand. As a result of subscription of shares the Group's ownership interest in JSC Kubanenergo increased from 40.63% to 45.77%.

On 9 March 2011 the Extraordinary General Meeting of Shareholders of JSC IDGC of Siberia, the Group subsidiary, approved an increase in charter capital through issuance of additional 6,605,021,036 ordinary shares with a par value of 0.1 rouble each under a closed subscription. The approved offering price was RUB 0.32. This share issuance was registered by the Federal Service for Financial Markets on 21 April 2011.

(b) Share options

On 9 November 2010 the Company's Board of Directors approved an Incentive Program ("the Option Program") for managers of the Company and its subsidiaries. In March 2011, contracts for the sale of the Company's shares were entered into with a mutual fund which was established by the Group specifically for the purpose of establishing the Option Program, and the participants in the Option Program, stipulating deferred transfer and cash payment obligations by the Option Program participants ("the Contract"). Under the terms of the Contracts, the participants in the Option Program may exercise their right to acquire shares not earlier than three years from the effective date of the Contract, and retain this right until the expiry of a five-year period from the effective date of the Contract. The price of each share shall be determined as the weighted average price of the Company's ordinary shares trading on the MICEX exchange over the three-month period prior to the date when the management members join the Option Program, but cannot be lower than the offering price for an additional issue of ordinary shares of the Company in December 2010 (see Note 21).

If employment relations between a participant in the Option Program and the Group are terminated before the due date for performance of the Contract in accordance with the Russian Labor Code, the participant loses the right to acquire shares under the Contract. If employment relations between a participant in the Option Program and the Group are terminated before the due date for performance of the Contract on other grounds, the number of shares the participant is entitled to acquire will depend on a number of days that has passed since the Contract signing date.

As at the date of issuing these financial statements, contracts were signed for the acquisition of 303,600,000 shares out of the 429,642,598 allocated for this purpose. Management has not yet determined the fair value of the Option Plan.

(c) Dividends

On 13 May 2011 the Board of Directors of the Company recommended to pay dividends on preference shares of 0,05 RUB per one share and not to pay dividends on ordinary shares.