

OJSC Interregional Distribution Grid Company of Siberia

**Consolidated Financial Statements
for the year ended 31 December 2010**

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Independent Auditors' Report

To the Board of Directors of Open Joint Stock Company "IDGC of Siberia"

We have audited the accompanying consolidated financial statements of Open Joint Stock Company "IDGC of Siberia" (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 relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free of 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 opinion.

Opinion

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

ZAO KPMG

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6 May 2011

OJSC IDGC of Siberia

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

(in thousands of Russian Roubles, unless otherwise stated)

	Note	Year ended 31 December 2010	Year ended 31 December 2009
Revenue	8	43 829 366	39 949 234
Operating expenses	9	(46 408 911)	(40 502 990)
Other operating income	8	699 256	582 374
Results from operating activities		(1 880 289)	28 618
Finance income	11	33 722	34 833
Finance costs	11	(788 050)	(961 788)
Net finance costs		(754 328)	(926 955)
Loss before income tax		(2 634 617)	(898 337)
Income tax benefit	12	242 778	124 273
Loss for the year		(2 391 839)	(774 064)
Other comprehensive income			
Net change in fair value of available-for-sale financial assets		88 554	153 109
Income tax on other comprehensive income		(3 527)	(12 490)
Other comprehensive income for the year, net of income tax		85 027	140 619
Total comprehensive loss for the year		(2 306 812)	(633 445)
(Loss)/profit attributable to:			
Shareholders of the Company		(2 392 196)	(773 248)
Non-controlling interests		357	(816)
Loss for the year		(2 391 839)	(774 064)
Total comprehensive (loss) / income attributable to:			
Shareholders of the Company		(2 307 169)	(632 629)
Non-controlling interests		357	(816)
Total comprehensive loss for the year		(2 306 812)	(633 445)
Loss per share – basic and diluted (in Russian Roubles)	22	(0.0268)	(0.0087)

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

Acting as General Director

Petukhov K.Y.

Chief accountant

Leontiev A.V.

OJSC IDGC of Siberia
Consolidated Statement of Financial Position as at 31 December 2010

(in thousands of Russian Roubles, unless otherwise stated)

	Note	31 December 2010	31 December 2009
ASSETS			
Non-current assets			
Property, plant and equipment	13	35 641 672	35 298 609
Intangible assets	14	309 554	389 755
Investments and financial assets	16	817 013	694 458
Other non-current assets	17	360 893	103 192
Total non-current assets		37 129 132	36 486 014
Current assets			
Cash and cash equivalents	18	454 450	140 242
Trade and other receivables	19	5 766 171	5 850 274
Income tax receivable		321 373	160 421
VAT recoverable		252 729	178 253
Prepayments	19	39 305	333 578
Inventories	20	764 595	628 473
Other current assets		24 594	54 598
Total current assets		7 623 217	7 345 839
Total assets		44 752 349	43 831 853

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 11-44.

OJSC IDGC of Siberia
Consolidated Statement of Financial Position as at 31 December 2010

(in thousands of Russian Roubles, unless otherwise stated)

	Note	31 December 2010	31 December 2009
EQUITY AND LIABILITIES			
Equity			
Share capital	21	8 936 766	8 936 766
Retained earnings		14 650 307	17 042 503
Available-for-sale investments revaluation reserve		225 646	140 619
Total equity attributable to shareholders of the Company		23 812 719	26 119 888
Non-controlling interests		3 364	3 007
Total equity		23 816 083	26 122 895
Non-current liabilities			
Loans and borrowings	23	6 853 030	3 872 507
Finance lease liability	24	66 378	136 091
Employee benefits	25	213 858	209 076
Deferred tax liabilities	15	2 883 498	3 102 521
Other non-current liabilities	26	614 093	514 607
Total non-current liabilities		10 630 857	7 834 802
Current liabilities			
Loans and borrowings	23	1 771 000	2 574 732
Finance lease liability	24	79 150	99 656
Trade and other payables	28	6 724 163	5 520 396
Employee payables	27	805 624	528 832
Income tax payable		45 233	107 470
Other taxes payable	29	880 239	1 043 070
Total current liabilities		10 305 409	9 874 156
Total liabilities		20 936 266	17 708 958
Total equity and liabilities		44 752 349	43 831 853

OJSC IDGC of Siberia
Consolidated Statement of Cash Flows for the year ended 31 December 2010

(in thousands of Russian Roubles, unless otherwise stated)

	Note	Year ended 31 December 2010	Year ended 31 December 2009
OPERATING ACTIVITIES			
Loss before income tax		(2 634 617)	(898 337)
<i>Adjustments for:</i>			
Depreciation and amortization	9	3 597 788	3 555 198
Allowance for impairment of accounts receivable	9	73 952	329 196
Net finance costs	11	754 328	926 955
Loss/ (gain) on disposal of property, plant and equipment	8, 9	51 322	(19 344)
Gain on disposal of subsidiaries	8	(416 766)	-
Other non-cash activities		1 811	921
Operating profit before changes in working capital		1 427 818	3 894 589
Decrease/ (increase) in accounts receivable and prepayments		296 286	(1 209 688)
Increase in inventories		(146 997)	(23 710)
(Increase)/ decrease in other assets		(413 126)	78 542
Increase in accounts payable		1 515 842	1 163 093
Increase/ (decrease) in employee payables		276 792	(117 365)
Increase in employee benefits		4 782	68 129
(Decrease)/ increase in other taxes payable		(162 831)	118 761
Increase in other liabilities		25 635	74 384
Cash flows from operations before income tax paid		2 824 201	4 046 735
Income tax paid in cash		(233 706)	(28 621)
Net cash flows from operating activities		2 590 495	4 018 114

OJSC IDGC of Siberia
Consolidated Statement of Cash Flows for the year ended 31 December 2010
(in thousands of Russian Roubles, unless otherwise stated)

	Note	Year ended 31 December 2010	Year ended 31 December 2009
INVESTING ACTIVITIES			
Acquisition of property, plant and equipment		(3 703 981)	(3 536 515)
Proceeds from disposal of property, plant and equipment		85 022	151 439
Acquisition of intangible assets		(72 107)	(189 890)
Proceeds from disposal of subsidiaries	6	4 949	-
Proceeds from loans given		-	890
Interest received		10 316	5 732
Proceeds from disposal of investments		2 709	872
Cash flows used in investing activities		(3 673 092)	(3 567 472)
FINANCING ACTIVITIES			
Proceeds from borrowings		15 454 857	18 756 931
Repayment of borrowings		(13 274 054)	(17 849 607)
Repayment of finance lease liability		(129 096)	(176 294)
Interest paid		(654 902)	(941 287)
Dividends to shareholders		-	(138 907)
Cash flows from/ (used in) financing activities		1 396 805	(349 164)
Net increase in cash and cash equivalents		314 208	101 478
Cash and cash equivalents at beginning of year		140 242	38 764
Cash and cash equivalents at end of year	18	454 450	140 242

OJSC IDGC of Siberia
Consolidated Statement of Changes in Equity for the year ended 31 December 2010
(in thousands of Russian Roubles, unless otherwise stated)

	Share capital	Available-for-sale investments revaluation reserve	Retained earnings	Total equity attributable to shareholders of the Company	Non-controlling interests	Total
Balance at 1 January 2009	8 936 766	-	17 958 024	26 894 790	3 823	26 898 613
Loss for the year	-	-	(773 248)	(773 248)	(816)	(774 064)
Net change in fair value of available-for-sale financial assets	-	140 619	-	140 619	-	140 619
Total other comprehensive income		140 619	-	140 619	-	140 619
Total comprehensive income / (loss)	-	140 619	(773 248)	(632 629)	(816)	(633 445)
Dividends to shareholders	-	-	(142 273)	(142 273)	-	(142 273)
Total transactions with owners	-	-	(142 273)	(142 273)	-	(142 273)
Balance at 31 December 2009	8 936 766	140 619	17 042 503	26 119 888	3 007	26 122 895
Balance at 1 January 2010	8 936 766	140 619	17 042 503	26 119 888	3 007	26 122 895
(Loss)/profit for the year	-	-	(2 392 196)	(2 392 196)	357	(2 391 839)
Net change in fair value of available-for-sale financial assets	-	85 027	-	85 027	-	85 027
Total other comprehensive income	-	85 027	-	85 027	-	85 027
Total comprehensive income / (loss)	-	85 027	(2 392 196)	(2 307 169)	357	(2 306 812)
Balance at 31 December 2010	8 936 766	225 646	14 650 307	23 812 719	3 364	23 816 083

1 Background

(a) The Group and its operations

Open Joint Stock Company Interregional Distribution Grid Company of Siberia (hereinafter – “the Company”) was founded to effectively manage the distribution electric grid complex of Siberia as part of the reform process in the Russian electric utilities industry. The Company was established in July 2005 (registered on 4 July 2005) in accordance with the laws of the Russian Federation and based on the Decree of the Chairman of the Board of Directors of the Open Joint Stock Company RAO United Energy System of Russia (hereafter - “RAO UES”) dated 1 July 2005, No. 149r.

The Company’s registered office is located at 144a , Bograda Street, Krasnoyarsk, Russia, 660021.

On 27 April 2007 the Board of Directors of RAO UES approved the structure of Interregional Distribution Grid Companies. Under the approved structure the following entities were incorporated into the Company: OJSC Altayenergo, OJSC Buryatenergo, OJSC Krasnoyarskenergo, OJSC Kuzbassenergo – RES, OJSC Omskenergo, OJSC Khakasenergo, OJSC Chitaenergo, OJSC Tyvaenergo – Holding. A merger of the Company with those entities was completed on 31 March 2008. The merger was effected through conversion of shares issued by the Company in exchange for shares in the merged entities. As a result of the merger, the above-mentioned entities ceased to exist as separate legal entities and the Company became their legal successor.

The subsidiaries of the Company are disclosed in note 5.

The Company’s and its subsidiaries (together referred to as the “Group”) principal activity is the transmission of electricity and the connection of customers to the electricity grid. The Group’s business is a national monopoly which is under the pressure and support of the Russian government. The Government of the Russian Federation influences the Group’s operations through setting transmission tariffs. The Group’s tariffs are controlled by the Federal Service on Tariffs and the Regional Energy Commissions.

On 1 July 2008 RAO UES ceased to exist as a separate legal entity and transferred the shares in the Company to JSC Interregional Distribution Grid Company Holding (hereinafter – “JSC IDGC Holding”), a newly formed state-controlled entity.

As at 31 December 2010 and 2009, the Government of the Russian Federation owned 54.99% of the voting shares and 7.01% of the preference shares of JSC IDGC Holding, which in turn owned 52.88% of the Company.

(b) Business environment

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

2 Basis of preparation

(a) Statement of compliance

These consolidated financial statements of the Group (hereinafter “Financial Statements”) have been prepared in accordance with International Financial Reporting Standards (“IFRSs”).

(b) Basis of measurement

The Financial Statements are prepared on the historical cost basis except for financial investments classified as available-for-sale and stated at fair value; and property, plant and equipment which was revalued to determine deemed cost as part of the adoption of IFRSs as at 1 January 2007.

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble ("RUB"), which is the Company's and its subsidiaries functional currency and the currency in which these Financial Statements are presented.

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

(d) Going concern

These Financial Statements have been prepared on a going concern basis.

The Group had a net working capital deficit of RUB 2 682 190 thousand as at 31 December 2010 (as at 31 December 2009: RUB 2 528 317 thousand), primarily attributable to trade and other payables and current loans and borrowings.

The Group monitors the level of liquidity on a regular basis. Management analyses maturities of the estimated cash flows from operating and financing activities and manages current liquidity using open credit lines (for more details refer to note 30).

In 2010 the Group was able to change the structure of its loan portfolio from short-term to long-term bank loans with maturity dates of more than 3 years. Highly rated commercial banks (JSC Sberbank, OJSC Gazprombank) are ready to provide the Group with long-term credit lines with maturity dates of 5-7 years.

In order to increase efficiency of working capital management the Group is focused on an increased collection of trade receivables, including doubtful receivables. A plan was developed by the Group to decrease the level of overdue receivables from regional distribution entities and other customers. The issues regarding collection of receivables are considered by the Board of Directors on a quarterly basis.

Management believes that the repayment of loans and borrowings and settlement of trade and other payables will occur as they fall due. Management anticipates that any additional repayments required will be met out of operating cash flows. Management has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

(e) 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 Financial Statements is included in the following notes:

- Note 30 – allowances for impairment of trade and other receivables.

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 25 – employee benefits;
- Note 33 – contingencies.

(f) Changes in accounting policies and presentation

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

- Accounting for leases of land;
- Accounting for business combinations.

(in thousands of Russian Roubles, unless otherwise stated)

(i) *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 31).

(ii) *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.

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.

3 Significant accounting policies

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

(a) **Basis of consolidation**

(i) *Subsidiaries*

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

(in thousands of Russian Roubles, unless otherwise stated)

(ii) Transactions eliminated on consolidation

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

(iii) Business combinations involving entities under common control

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 recognized previously in the financial statements of the acquired entities. The components of equity of the acquired entities are added to the same components within Group equity except that any share capital of the acquired entities is recognized as part of retained earnings. Any cash paid for the acquisition is recognised directly in equity.

(iv) Loss of control

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

(b) Financial instruments

(i) Non-derivative financial instruments

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

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

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

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

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

Loans and receivables

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

Cash and cash equivalents comprise cash balances and deposits with original maturities of three months or less.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the above categories of financial assets. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see note 3(g) (i)), are recognised in other comprehensive

(in thousands of Russian Roubles, unless otherwise stated)

income and presented within equity in the fair value reserve. When an investment is derecognised or impaired, the cumulative gain or loss in equity is reclassified to profit or loss.

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

(ii) Non-derivative financial liabilities

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

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

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

(c) Share capital

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

(d) Property, plant and equipment

(i) Recognition and measurement

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

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

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

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

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

(ii) Subsequent costs

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

(iii) Depreciation

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

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

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

(in thousands of Russian Roubles, unless otherwise stated)

Buildings	10-70 years;
Transmission networks	6-40 years;
Equipment for electricity transmission	4-30 years;
Other	1-30 years.

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

(iv) Leased assets

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

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

(e) Intangible assets

(i) Initial recognition

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

(ii) Subsequent expenditure

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

(iii) Amortization

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

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets 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 amortization charge is recognized in profit or loss as an operating expense.

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

Licenses and certificates	1-3 years;
Software	2-4 years.

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

(f) Inventories

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

The cost of inventories includes all acquisition costs, production costs and other costs incurred to bring inventories to their existing condition and location.

The cost of inventories is determined using the weighted average cost method.

(in thousands of Russian Roubles, unless otherwise stated)

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

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

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

Impairment losses on available-for-sale equity securities are recognised by reclassifying losses accumulated in the fair value reserve in equity, to profit or loss. Any subsequent recovery in fair value of an impaired available-for-sale equity securities is recognised in other comprehensive income.

(ii) Non-financial assets

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

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

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

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

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

(h) Provisions

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

(i) Revenue

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

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

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

(j) Finance income and costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets) and dividend income. 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, finance leasing, unwinding of the discount on provisions and impairment losses recognised on financial assets other than trade and other receivables. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

(k) Income tax

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

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

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

Deferred tax is not recognised for:

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

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

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

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

(l) 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 pension fund of the Russian Federation, are recognised in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(ii) Defined benefits plan

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and any unrecognised past 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 gains and losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on curtailment comprises any resulting change in the fair value of plan assets, change in the present value of defined benefit obligation and any related actuarial gains and losses and past service cost that had not previously been recognised.

(iii) Other long-term employee benefits

The Group's net obligation in respect of non-current 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 and losses are recognized 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 in profit or loss as the related service is provided.

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

(m) Earnings per share

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

(n) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segment's 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 financial information is presented in the Financial Statements in a manner similar to those provided to the Management Board. The amount of each segment item reported is the

(in thousands of Russian Roubles, unless otherwise stated)

measure reported to the Management Board. Total amounts of segment information are reconciled to those in the Financial Statements (see note 7).

(o) New Standards and Interpretations not yet adopted

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

- Revised IAS 24 *Related Party Disclosures* (2009) introduces an exemption from the basic disclosure requirements in relation to related party disclosures and outstanding balances, including commitments, for government-related entities. Additionally, the standard has been revised to simplify some of the presentation guidance that was previously non-reciprocal. The revised standard is to be applied retrospectively for annual periods beginning on or after 1 January 2011. The Group has not yet determined the potential effect of the amendment.
- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in several phases and is intended to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the recognition and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during the first half of 2011. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Group does not intend to adopt this standard early.
- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2011. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value for 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) Investments in equity securities

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

(b) Trade and other receivables

The fair value of non-current trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

(c) Non-derivative financial liabilities

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

*(in thousands of Russian Roubles, unless otherwise stated)***5 Group's subsidiaries**

The Group's subsidiaries are disclosed below:

Subsidiaries:	Ownership, %	
	31 December 2010	31 December 2009
OJSC Tyvaenergo	98.96	98.96
OJSC AES	100.00	100.00
OJSC Omskelectrosetremont	100.00	100.00
OJSC Sotcsfera	100.00	100.00
OJSC Buryatsetremont	100.00	100.00
OJSC PSH "Energetic"	-	100.00
OJSC Sibirsetremont	100.00	100.00
OJSC Mekhanizirovannaya colonna	100.00	100.00
OJSC Zabaikalets – Energiya	-	75.00
LLC Energo-leasing	-	100.00
OJSC AESC	80.00	80.00
LLC ASKOR	-	70.00
LLC TechnoLeasing	-	75.00
LLC DC "Altayenergo"	-	99.00

6 Disposal of subsidiaries

During the year ended 31 December 2010 OJSC PSH "Energetic" was liquidated. All property, plant and equipment of OJSC PSH "Energetic" were sold and the proceeds were used to meet the subsidiary's obligations.

On 31 December 2010 the Group sold 75 percent of the voting shares of OJSC Zabaikalets-Energiya for a total amount of RUB 26 724 thousand. As a result of this transaction the Group lost control over OJSC Zabaikalets-Energiya.

On 29 December 2010 the Group sold a 100 percent interest in LLC Energo-leasing for a total amount of RUB 11 thousand. As a result of this transaction the Group lost control over LLC Energo-leasing and its subsidiaries LLC ASKOR, LLC TechnoLeasing and LLC DC "Altayenergo".

The disposal of subsidiaries had the following effect on the Group's assets and liabilities at the date of disposal:

	Carrying amount at date of disposal
ASSETS	
Property, plant and equipment	5 397
Cash and cash equivalents	229
Trade and other receivables <i>(net of impairment allowance of RUB 60 181 thousand)</i>	10 084
Inventories <i>(net of provision for inventory obsolescence of RUB 27 665 thousand)</i>	1 842
Deferred tax assets	9 876
Other current assets	9 216
Total	36 644
LIABILITIES	
Trade and other payables	(426 675)
Total	(426 675)
Net identifiable assets and liabilities	(390 031)
Consideration received in cash	5 178
Consideration received in property, plant and equipment	21 557
Total consideration received	26 735
Gain on disposal (note 8)	416 766
Cash disposed of	229
Net cash inflow	4 949

7 Operating segments

The Group has nine reportable segments representing branches and subsidiary of the Company, as described below. These are the Group's strategic business units. The strategic business units offer similar services representing transmission of electric power and connection services, and are managed separately. For each of the strategic business units, the Management Board, the Group's operating decision making body, reviews internal management reports.

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

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

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

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

OJSC IDGC of Siberia
Notes to the Consolidated Financial Statements for the year ended 31 December 2010
(in thousands of Russian Roubles, unless otherwise stated)

(f) Information about reportable segments as at and for the year ended 31 December 2010:

	Transmission							Total			
	Altayenergo	Buryatenergo	Gorno-Altayskie elektricheskie seti	Kuzbassenergo - RES	Krasnoyarsk- energo	Omskenergo	Khakas- energo		Chitaenergo	Tyvaenergo	Others
Revenue											
Electricity transmission	4 589 901	3 176 628	6 17 295	15 815 920	5 934 649	5 051 858	3 391 284	2 934 192	673 509	-	42 185 236
Connection services	34 841	19 074	14 205	223 811	412 677	36 039	59 459	149 666	23 483	-	973 255
Other	11 244	20 332	2 588	8 295	233 233	599 954	4 780	25 583	8 592	1 495 899	2 410 500
Total segment revenues	4 635 986	3 216 034	634 088	16 048 026	6 580 559	5 687 851	3 455 523	3 109 441	705 584	1 495 899	45 568 991
Segment operating (loss)/ profit	(91 631)	(174 864)	21 358	1 420 873	(2 190 039)	807 763	219 807	(319 480)	3 706	28 468	(274 039)
Finance income	-	-	-	-	53	-	3	11	491	178	736
Finance costs	(339 756)	(43 616)	(9 857)	(22 871)	(113 179)	(97 689)	-	(2 416)	(4 646)	(1 412)	(635 442)
Segment (loss)/ profit before income tax	(506 358)	(278 024)	2 852	1 126 639	(2 524 724)	(306 752)	198 418	(343 075)	33 392	18 926	(2 578 706)
Depreciation and amortization	622 688	239 135	123 095	589 917	604 901	268 897	157 417	458 891	31 602	32 146	3 128 689
Segment assets <i>Including property, plant and equipment</i>	9 216 032	2 842 554	2 405 132	7 800 755	8 792 589	6 506 144	2 089 598	5 322 128	1 304 962	1 119 775	47 399 669
Segment liabilities	7 513 659	2 274 788	1 911 800	6 583 365	7 130 696	4 354 666	1 832 580	4 981 493	351 623	246 225	37 180 895
Capital expenditures	4 418 128	771 090	639 080	1 115 321	3 785 354	2 704 146	324 058	340 527	993 587	958 636	16 049 927
	449 768	240 951	200 003	861 734	473 051	902 253	279 273	444 585	67 126	15 328	3 934 072

The inter-segment revenue included in other revenue of "Others" was RUB 1 230 081 thousand.

The significant decrease in revenue and operating profit of Krasnoyarskenergo and Chitaenergo segments caused by the termination of the number of contracts for electricity distribution in Krasnoyarsk and Zabaykalsk regions. Management considers to recover the current year losses in future periods based on the current legislative regulation of energy industry.

OJSC IDGC of Siberia
Notes to the Consolidated Financial Statements for the year ended 31 December 2010
(in thousands of Russian Rubles, unless otherwise stated)

(f) Information about reportable segments as at and for the year ended 31 December 2009:

	Transmission							Total			
	Altayenergo	Buryatenergo	Gorno-Altayskie elektricheskie seti	Kuzbassenergo - RES	Krasnoyarsk- energo	Onskenergo	Khakas- energo		Chitaenergo	Tyvaenergo	Others
Revenue											
Electricity transmission	4 138 088	2 506 841	213 008	12 098 964	8 277 446	4 195 603	2 356 596	3 427 851	522 169	-	37 736 566
Connection services	9 101	39 393	10 975	324 186	452 585	38 499	89 607	416 191	32 663	-	1 413 200
Other	17 135	14 198	2 211	8 927	307 870	38 785	5 398	18 357	26 059	1 090 666	1 529 606
Total segment revenues	4 164 324	2 560 432	226 194	12 432 077	9 037 901	4 272 887	2 451 601	3 862 399	580 891	1 090 666	40 679 372
Segment operating (loss)/ profit	(140 315)	6 410	(35 734)	(157 427)	313 314	311 790	137 863	593 467	(19 823)	39 254	1 048 799
Finance income	-	2	-	-	72	5	3	30	-	-	415
Finance costs	(544 036)	(55 659)	(1 170)	(51 335)	(150 945)	(126 423)	-	(419)	(4 955)	(2 912)	(937 854)
Segment (loss)/ profit before income tax	(830 431)	(41 613)	(38 943)	(277 197)	53 424	(170 578)	119 647	484 588	41 223	(3 237)	(663 117)
Depreciation and amortization	669 048	235 637	58 152	539 134	573 625	283 954	130 657	435 483	37 539	37 036	3 000 265
Segment assets <i>Including property, plant and equipment</i>	9 575 544	3 010 576	1 916 335	7 605 966	9 354 290	4 757 154	2 084 804	5 474 707	1 131 974	787 519	45 698 869
	7 705 234	2 286 984	1 840 871	6 338 756	7 360 174	3 749 593	1 731 737	5 041 141	312 999	257 713	36 625 202
Segment liabilities	4 267 199	578 098	168 535	1 757 818	2 473 240	1 731 123	256 464	474 537	899 462	932 127	13 538 603
Capital expenditures	513 278	241 599	124 237	473 659	701 777	325 566	253 320	790 707	102 026	26 860	3 553 029

The inter-segment revenue included in other revenue of "Others" was RUB 807 111 thousand.

(ii) Reconciliations of reportable segments' revenues, profit or loss, assets and liabilities and other material items**Revenues:**

	Year ended 31 December 2010	Year ended 31 December 2009
Total revenue for reportable segments	45 568 991	40 679 372
Inter-segment revenue elimination	(1 230 081)	(807 111)
Other adjustments	(556 610)	(21 809)
Unallocated	47 066	98 782
Consolidated revenue	43 829 366	39 949 234

Loss before income tax:

	Year ended 31 December 2010	Year ended 31 December 2009
Total loss before income tax for reportable segments	(2 578 706)	(663 117)
Adjustment for depreciation of property, plant and equipment	(153 736)	(177 275)
Adjustments for financial lease	1 040	(46 244)
Discounting of accounts receivable	(53 664)	9 248
Adjustment for allowance for impairment of accounts receivable	725 372	101 125
Adjustment for change in fair value of available-for-sale investments	(85 027)	(140 619)
Recognition of employee benefits obligations	30 203	(62 697)
Capitalized interest	56 919	72 571
Discounting of accounts payable	(73 851)	(38 232)
Adjustment of revenue	(425 233)	-
Other adjustments	(38 519)	60 224
Unallocated	(39 415)	(13 321)
Consolidated loss before income tax	(2 634 617)	(898 337)

Total assets:

	31 December 2010	31 December 2009
Total assets for reportable segments	47 399 669	45 698 869
Inter-segment balances	(919 560)	(968 305)
Elimination of investments in subsidiaries	(481 370)	(502 266)
Adjustment for net book value of property, plant and equipment	(2 333 793)	(2 115 629)
Recognition of financial assets related to employee benefit fund	486 604	451 619
Adjustment for prepaid expenses write-off	(168 979)	(340 183)
Provision for inventory obsolescence	(12 282)	(31 210)
Adjustment for deferred tax	(453 635)	(418 109)
Adjustments for finance lease	299 492	388 670
Capitalized interest	197 722	149 382
Other adjustments	(74 254)	60 893
Unallocated	812 735	1 458 122
Consolidated total assets	44 752 349	43 831 853

OJSC IDGC of Siberia**Notes to the Consolidated Financial Statements for the year ended 31 December 2010***(in thousands of Russian Roubles, unless otherwise stated)***Total liabilities:**

	<u>31 December 2010</u>	<u>31 December 2009</u>
Total liabilities for reportable segments	16 049 927	13 538 603
Inter-segment balances	(919 560)	(968 305)
Adjustment for deferred tax	1 544 563	1 970 390
Unused vacation and annual bonus provision	423 211	185 038
Finance lease liabilities	145 523	226 841
Employee benefit obligations	213 858	209 076
Discounting of accounts payable	(55 487)	(84 581)
Other adjustments	(68 724)	73 301
Unallocated	3 602 955	2 558 595
Consolidated total liabilities	<u>20 936 266</u>	<u>17 708 958</u>

Significant customers of the Group are state controlled entities. The amounts of revenues from such entities are disclosed in note 34. Revenues from state controlled entities are reported by all segments of the Group.

For the year ended 31 December 2010 the Group had two major customers - companies in two regions of the Russian Federation with individual turnover over 10% of total Group revenues: in Kuzbassenergo-RES segment - RUB 6 344 682 thousand, in Krasnoyarskenergo segment - RUB 4 899 504 thousand (in 2009 - two major customers: in Kuzbassenergo-RES segment - RUB 4 916 431 thousand, in Krasnoyarskenergo segment - RUB 4 168 510 thousand).

8 Revenue and other operating income

	<u>Year ended</u> <u>31 December 2010</u>	<u>Year ended</u> <u>31 December 2009</u>
Revenue		
Electricity transmission	41 299 280	37 532 516
Connection services	1 151 533	1 413 200
Repairs and maintenance	250 780	320 810
Heat	206 278	281 268
Rent	170 134	165 295
Other	751 361	236 145
	<u>43 829 366</u>	<u>39 949 234</u>
Other operating income		
	<u>Year ended</u> <u>31 December 2010</u>	<u>Year ended</u> <u>31 December 2009</u>
Fines and penalties	153 782	118 604
Gain on disposal of subsidiaries	416 766	-
Gain on disposal of property, plant and equipment	-	19 344
Other income	128 708	444 426
	<u>699 256</u>	<u>582 374</u>

9 Operating expenses

	Year ended 31 December 2010	Year ended 31 December 2009
Transmission fee to FGC UES	10 888 457	9 928 526
Electricity transmission	8 617 201	6 486 916
Personnel costs (note 10)	8 413 706	6 979 858
Purchased electricity for compensation of technological losses	7 392 654	6 482 949
Depreciation and amortization	3 597 788	3 555 198
Raw materials and supplies	1 825 835	1 074 583
Repairs and maintenance	1 710 547	1 638 853
Consulting, legal and audit services	646 184	619 027
Transportation	573 361	450 899
Rent	250 477	194 185
Security	225 335	221 216
Taxes other than income tax	222 786	164 454
Telecommunication services	142 550	180 851
Insurance	124 155	156 600
Allowance for impairment of accounts receivable	73 952	329 196
Heat for own needs	60 778	37 845
Provision for inventory obsolescence	8 737	-
Electricity metering services	-	587 132
Other	1 634 408	1 414 702
	46 408 911	40 502 990

10 Personnel costs

	Year ended 31 December 2010	Year ended 31 December 2009
Wages and salaries	6 327 854	5 427 146
Payroll taxes	1 549 978	1 270 239
Expense in respect of post-employment defined benefit plan	92 312	142 737
Income in respect of long-term service benefits	-	(21 618)
Bonus provision and unused vacation expense/(income)	182 639	(101 511)
Other	260 923	262 865
	8 413 706	6 979 858

In 2010 the average number of employees (including production and non production employees) was 19 962 employees (2009: 20 054 employees).

11 Finance income and costs

	Year ended 31 December 2010	Year ended 31 December 2009
Finance income		
Effect of discounting of financial instruments	21 461	28 813
Interest income	10 316	5 732
Other	1 945	288
	<u>33 722</u>	<u>34 833</u>
Finance costs		
Interest expense	600 512	861 019
Effect of discounting of financial instruments	148 976	57 798
Interest on finance lease liabilities	25 479	42 971
Impairment of available-for-sale financial assets	13 083	-
	<u>788 050</u>	<u>961 788</u>

12 Income tax benefit

	Year ended 31 December 2010	Year ended 31 December 2009
Current tax benefit/ (expense)		
Current year	(10 513)	(136 859)
Over provided in prior years	20 865	44 440
	<u>10 352</u>	<u>(92 419)</u>
Deferred tax benefit		
Origination and reversal of temporary differences	232 426	216 692
	<u>242 778</u>	<u>124 273</u>

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

Reconciliation of effective tax rate:

	Year ended 31 December 2010	%	Year ended 31 December 2009	%
Loss before income tax	(2 634 617)	(100)	(898 337)	(100)
Income tax benefit at applicable tax rate	526 924	20	179 667	20
Net tax effect of items which are not deductible / not taxable for taxation purposes	(305 011)	(12)	(99 834)	(11)
Over provided in prior years	20 865	1	44 440	5
	<u>242 778</u>	<u>9</u>	<u>124 273</u>	<u>14</u>

*(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	6 716 435	23 292 204	5 997 852	2 985 278	1 976 966	40 968 735
Additions	62 582	43 704	153 864	208 860	3 046 037	3 515 047
Transfers	763 326	1 280 936	1 073 739	517 128	(3 635 129)	-
Disposals	(14 489)	(27 793)	(13 264)	(66 505)	(77 967)	(200 018)
Balance at 31 December 2009	7 527 854	24 589 051	7 212 191	3 644 761	1 309 907	44 283 764
Balance at 1 January 2010	7 527 854	24 589 051	7 212 191	3 644 761	1 309 907	44 283 764
Additions	38 418	17 052	87 279	219 902	3 567 635	3 930 286
Transfers	872 872	1 115 260	946 565	426 453	(3 361 150)	-
Disposals	(34 604)	(21 144)	(10 293)	(43 751)	(65 120)	(174 912)
Disposal of subsidiaries (note 6)	-	-	-	(3 728)	(2 911)	(6 639)
Balance at 31 December 2010	8 404 540	25 700 219	8 235 742	4 243 637	1 448 361	48 032 499
Depreciation						
Balance at 1 January 2009	(600 342)	(3 292 589)	(954 564)	(849 438)	-	(5 696 933)
Depreciation for the year	(415 169)	(1 821 497)	(637 048)	(482 433)	-	(3 356 147)
Disposals	2 691	9 401	4 787	51 046	-	67 925
Balance at 31 December 2009	(1 012 820)	(5 104 685)	(1 586 825)	(1 280 825)	-	(8 985 155)
Balance at 1 January 2010	(1 012 820)	(5 104 685)	(1 586 825)	(1 280 825)	-	(8 985 155)
Depreciation for the year	(421 405)	(1 841 483)	(618 215)	(564 377)	-	(3 445 480)
Disposals	7 829	4 408	2 353	23 976	-	38 566
Disposal of subsidiaries (note 6)	-	-	-	1 242	-	1 242
Balance at 31 December 2010	(1 426 396)	(6 941 760)	(2 202 687)	(1 819 984)	-	(12 390 827)
Net book value						
At 1 January 2009	6 116 093	19 999 615	5 043 288	2 135 840	1 976 966	35 271 802
At 31 December 2009	6 515 034	19 484 366	5 625 366	2 363 936	1 309 907	35 298 609
At 31 December 2010	6 978 144	18 758 459	6 033 055	2 423 653	1 448 361	35 641 672

As at 31 December 2010 construction in progress includes prepayments for property, plant and equipment of RUB 113 249 thousand (as at 31 December 2009: RUB 92 385 thousand).

The amount of capitalized interest in 2010 was RUB 56 919 thousand (in 2009: RUB 72 571 thousand). The capitalisation rate used to determine the amount of borrowing cost eligible for capitalisation in the year ended 31 December 2010 was 8.7 % (in 2009: 15.6 %).

*(in thousands of Russian Roubles, unless otherwise stated)***Leased plant and machinery**

The Group leases production equipment and transportation vehicles under a number of finance 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 349 322 thousand (31 December 2009: RUB 447 332 thousand). The leased equipment secures lease obligations.

14 Intangible assets

	Software	Licenses	Certificates	Other intangible assets	Total
Cost					
Balance at 1 January 2009	82 680	12 513	614 636	4 765	714 594
Additions	182 133	-	7 544	213	189 890
Balance at 31 December 2009	264 813	12 513	622 180	4 978	904 484
Balance at 1 January 2010	264 813	12 513	622 180	4 978	904 484
Additions	63 403	5 715	7 131	1 450	77 699
Disposals	-	-	(5 379)	(213)	(5 592)
Balance at 31 December 2010	328 216	18 228	623 932	6 215	976 591
Amortisation					
Balance at 1 January 2009	(1 186)	(7 720)	(303 124)	(3 648)	(315 678)
Amortisation for the year	(5 613)	-	(192 830)	(608)	(199 051)
Balance at 31 December 2009	(6 799)	(7 720)	(495 954)	(4 256)	(514 729)
Balance at 1 January 2010	(6 799)	(7 720)	(495 954)	(4 256)	(514 729)
Amortisation for the year	(26 450)	(8 680)	(116 708)	(470)	(152 308)
Balance at 31 December 2010	(33 249)	(16 400)	(612 662)	(4 726)	(667 037)
Net book value					
At 1 January 2009	81 494	4 793	311 512	1 117	398 916
At 31 December 2009	258 014	4 793	126 226	722	389 755
At 31 December 2010	294 967	1 828	11 270	1 489	309 554

15 Deferred tax liabilities**Recognized deferred tax assets and liabilities**

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

	Assets		Liabilities		Net	
	2010	2009	2010	2009	2010	2009
Property, plant and equipment	1 660	981	(3 266 857)	(3 548 897)	(3 265 197)	(3 547 916)
Inventories	-	6 242	(17 059)	-	(17 059)	6 242
Trade and other receivables	140 139	143 361	-	-	140 139	143 361
Other current assets	-	2 570	-	-	-	2 570
Trade and other payables	144 486	183 906	-	-	144 486	183 906
Tax loss carry-forwards	170 254	164 732	-	-	170 254	164 732
Other	66 325	63 709	(122 446)	(119 125)	(56 121)	(55 416)
Deferred tax assets/(liabilities)	522 864	565 501	(3 406 362)	(3 668 022)	(2 883 498)	(3 102 521)

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(in thousands of Russian Roubles, unless otherwise stated)

Movements in temporary differences during the year

	31 December 2009	Disposal of subsidiaries (note 6)	Recognized in profit or loss	Recognized in other comprehensive income	31 December 2010
Property, plant and equipment	(3 547 916)	-	282 719	-	(3 265 197)
Inventories	6 242	(5 533)	(17 768)	-	(17 059)
Trade and other receivables	143 361	(1 017)	(2 205)	-	140 139
Other current assets	2 570	(2 570)	-	-	-
Trade and other payables	183 906	(122)	(39 298)	-	144 486
Tax loss carry-forwards	164 732	-	5 522	-	170 254
Other	(55 416)	(634)	3 456	(3 527)	(56 121)
Deferred tax assets/(liabilities)	(3 102 521)	(9 876)	232 426	(3 527)	(2 883 498)

	1 January 2009	Recognized in profit or loss	Recognized in other comprehensive income	31 December 2009
Property, plant and equipment	(3 621 124)	73 208	-	(3 547 916)
Inventories	7 160	(918)	-	6 242
Trade and other receivables	66 722	76 639	-	143 361
Other current assets	3 010	(440)	-	2 570
Trade and other payables	89 885	94 021	-	183 906
Tax loss carry-forwards	166 343	(1 611)	-	164 732
Other	(18 719)	(24 207)	(12 490)	(55 416)
Deferred tax assets/(liabilities)	(3 306 723)	216 692	(12 490)	(3 102 521)

16 Investments and financial assets

	31 December 2010	31 December 2009
<i>Non-current</i>		
Financial assets related to employee benefit fund	486 604	451 619
Available-for-sale investments	330 409	242 839
	817 013	694 458

Available-for-sale investments represent investments in shares of JSC TGK-13, JSC FGC UES and other securities, which are listed on MICEX, recorded at fair market value (Level 1 in the fair value hierarchy).

Financial assets related to the employee benefit fund relate to the Group contributions accumulated in the solitary 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.

For more detailed information concerning the Group's exposure to credit risks related to investments and financial assets refer to note 30.

*(in thousands of Russian Roubles, unless otherwise stated)***17 Other non-current assets**

	<u>31 December 2010</u>	<u>31 December 2009</u>
Trade accounts receivable	291 392	4 449
Other accounts receivable	21 380	54 337
VAT recoverable	20 385	16 629
Other non-current assets	27 736	27 777
	<u>360 893</u>	<u>103 192</u>

For more detailed information concerning the Group's exposure to credit risks and impairment losses related to trade and other receivables refer to note 30.

18 Cash and cash equivalents

Cash and cash equivalents mainly represent cash in bank accounts amounted to RUB 454 450 thousand denominated in roubles (31 December 2009: RUB 140 242 thousand).

19 Trade and other receivables

	<u>31 December 2010</u>	<u>31 December 2009</u>
Trade receivables from electricity transmission and technological connection	4 142 379	4 686 596
Trade receivables from electricity transmission and technological connection impairment allowance	(110 700)	(427 361)
Other trade receivables	439 022	504 768
Other trade receivables impairment allowance	(120 629)	(214 206)
Other receivables	1 971 302	2 204 623
Other receivables impairment allowance	(555 203)	(904 146)
Total trade and other receivables	<u>5 766 171</u>	<u>5 850 274</u>
Prepayments	<u>31 December 2010</u>	<u>31 December 2009</u>
Prepayments	23 537	290 511
Prepayments impairment allowance	(7)	(9 007)
VAT prepaid	-	42 532
Other taxes prepaid	15 775	9 542
	<u>39 305</u>	<u>333 578</u>

As at 31 December 2010 and 2009 other receivables include accounts receivable from the Committee of Tax, Finance and Credit Policy of the Administration of Altay Region in the amount of RUB 1 001 277 thousand. These receivables were recorded as a result of the Altay Region Arbitrage Court decision as at 6 August 2004. The Committee of Tax, Finance and Credit Policy of the Administration of Altay Region was obliged to pay RUB 1 001 277 thousand to the Company in order to compensate for losses incurred by Altayenergo due to the incorrect setting of energy tariffs for 2002. Management of the Group determined the collectability of these accounts receivable as highly probable, although the maturity date is uncertain. As at 31 December 2010 these accounts receivables were stated at nominal value and were not discounted.

For more detailed information concerning the Group's exposure to credit risks and impairment losses related to trade and other receivables refer to note 30.

*(in thousands of Russian Roubles, unless otherwise stated)***20 Inventories**

	<u>31 December 2010</u>	<u>31 December 2009</u>
Materials and supplies	564 543	466 813
Spare parts	164 662	119 195
Other inventories	47 672	73 675
Total inventories	776 877	659 683
Less: provision for inventory obsolescence	(12 282)	(31 210)
Net book value	764 595	628 473

As at 31 December 2010 and 2009 no inventories were pledged under the bank loan agreements.

21 Equity**(a) Share capital**

	<u>31 December 2010</u>	<u>31 December 2009</u>
Number of ordinary shares authorised, issued and fully paid (thousands)	89 367 655	89 367 655
Par value (in RUB)	0.10	0.10

(b) Dividends

In accordance with Russian legislation the Company's distributable reserves are limited to the balance of accumulated retained earnings as recorded in the Company's statutory financial statements prepared in accordance with Russian Accounting Principles. As at 31 December 2010 the Company had retained loss, including loss for the reporting period, of RUB 2 876 124 thousand (as at 31 December 2009 retained earnings - RUB 8 759 thousand).

As at 31 December 2010 and up to the date of approval of the Financial Statements the Group declared no dividends for 2010 and 2009.

22 Earnings per share

	<u>Year ended 31 December 2010</u>	<u>Year ended 31 December 2009</u>
Weighted average number of ordinary shares for the year ended 31 December (thousands of shares)	89 367 655	89 367 655
Total loss attributable to shareholders of the Company	(2 392 196)	(773 248)
Loss per share (in Russian Roubles) – basic and diluted	(0.0268)	(0.0087)

(in thousands of Russian Roubles, unless otherwise stated)

23 Loans and borrowings

This note provides information about the contractual terms of the Group's loans and borrowings. For more information about the Group's exposure to interest rate and liquidity risks, refer to note 30.

Non-current liabilities

Name of lender		Effective interest rate, %			31 December 2010	31 December 2009
		31.12.2010	31.12.2009	Maturity		
OJSC JSCB ROSBANK	Unsecured	7.6-7.9	-	2013	3 747 507	-
JSC Sberbank	Unsecured	6.98-7.87	-	2013	1 655 523	-
JSC Sberbank	Unsecured	7.6	-	2012	1 450 000	-
OJSC Alfa-Bank	Unsecured	-	11.4-11.7	2011	-	1 765 000
OJSC Sviaz-Bank	Unsecured	-	12.5	2011	-	1 660 000
OJSC JSCB ROSBANK	Unsecured	-	15.7	2010	-	1 550 000
OJSC Gazprombank	Unsecured	-	12.0-12.5	2010	-	814 000
OJSC JSCB ROSBANK	Unsecured	-	15.7	2011	-	447 507
OJSC JSCB MFK	Unsecured	-	13	2010	-	200 000
OJSC Eniseiskaya TGC-13	Unsecured	-	refinancing rate	2010	-	886
					6 853 030	6 437 393
Less: current portion of long-term loans						
OJSC JSCB ROSBANK	Unsecured	-	15.7	2010	-	(1 550 000)
OJSC Gazprombank	Unsecured	-	12.0-12.5	2010	-	(814 000)
OJSC JSCB MFK	Unsecured	-	13	2010	-	(200 000)
OJSC Eniseiskaya TGC-13	Unsecured	-	refinancing rate	2010	-	(886)
					6 853 030	3 872 507

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

The carrying value of borrowings approximates their fair value.

Current liabilities

Name of lender		Effective	Effective	31 December 2010	31 December 2009	
		interest rate, % 31.12.2010	interest rate, % 31.12.2009			
OJSC Alfa-Bank	Unsecured	7.7	11.4-11.7	1 765 000	-	
Other loans and borrowings	Unsecured	-	-	6 000	9 846	
					1 771 000	9 846
Current portion of long-term loans						
OJSC JSCB ROSBANK	Unsecured	-	15.7	-	1 550 000	
OJSC Gazprombank	Unsecured	-	12.0-12.5	-	814 000	
OJSC JSCB MFK	Unsecured	-	13	-	200 000	
OJSC Eniseiskaya TGC-13	Unsecured	-	refinancing rate	-	886	
					1 771 000	2 574 732

*(in thousands of Russian Roubles, unless otherwise stated)***24 Finance lease liability**

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

	31 December 2010			31 December 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	91 761	(12 611)	79 150	121 676	(22 020)	99 656
Between one and five years	70 138	(3 760)	66 378	152 555	(16 464)	136 091
	<u>161 899</u>	<u>(16 371)</u>	<u>145 528</u>	<u>274 231</u>	<u>(38 484)</u>	<u>235 747</u>

The finance lease liabilities are secured by the leased assets.

25 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.

Movements in the net liability of the defined benefit obligations are as follows:

	31 December 2010	31 December 2009
	Post employment benefits	Post employment benefits
Total present value of obligations	618 505	521 800
Unrecognised net actuarial loss	(183 195)	(70 872)
Unrecognised past service cost	(221 452)	(241 852)
Recognized liability for defined benefit obligations	<u>213 858</u>	<u>209 076</u>

The amounts recognized in profit or loss are as follows:

	Year ended 31 December 2010	Year ended 31 December 2010	Year ended 31 December 2009	Year ended 31 December 2009
	Post employment benefits	Other long-term benefits	Post employment benefits	Other long-term benefits
Current service cost	26 500	-	28 090	-
Interest expense	42 742	-	26 868	-
Recognized past service costs	20 400	-	87 779	-
Recognized actuarial loss / (gain)	2 670	-	-	(10 609)
Curtailment / settlement gain	-	-	-	(11 009)
Total periodical pension cost	<u>92 312</u>	<u>-</u>	<u>142 737</u>	<u>(21 618)</u>

The expense is recognized in the "personnel costs" as part of operating expenses.

(in thousands of Russian Roubles, unless otherwise stated)

Movements in the present value of the Group's employee benefit obligations are as follows:

	31 December 2010	31 December 2010	31 December 2009	31 December 2009
	Post employment benefits	Other long-term benefits	Post employment benefits	Other long-term benefits
Defined benefit obligations at 1 January	521 800	-	310 980	21 618
Current service cost	26 500	-	28 090	-
Interest expense	42 742	-	26 868	-
Actuarial (gains)/losses	114 993	-	83 180	(10 609)
Benefits paid	(87 530)	-	(52 990)	-
Past service costs	-	-	125 672	-
Curtailment / settlement gain	-	-	-	(11 009)
Defined benefit obligations at 31 December	618 505	-	521 800	-

Principal actuarial assumptions are as follows:

	2010	2009
Discount rate	8.00%	8.70%
Salary increase	5.00%	5.50%
Inflation rate	5.00%	5.50%

26 Other non-current liabilities

	31 December 2010	31 December 2009
Trade payables	5 510	163 456
Other payables and accrued expenses	12 318	247 045
Prepayments from customers for technological connection	596 265	104 106
	614 093	514 607

27 Employee payables

	31 December 2010	31 December 2009
Salaries and wages payable	376 252	343 794
Unused vacation provision	270 976	176 740
Annual bonus provision	158 397	8 298
	805 625	528 832

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

28 Trade and other payables

	<u>31 December 2010</u>	<u>31 December 2009</u>
Trade payables	4 250 352	3 590 297
Other payables and accrued expenses	1 928 723	1 114 778
Prepayments from customers for electricity transmission and technological connection	513 795	695 738
Other prepayments received	31 293	119 583
	<u>6 724 163</u>	<u>5 520 396</u>

29 Other taxes payables

	<u>31 December 2010</u>	<u>31 December 2009</u>
Value added tax	183 474	326 286
Tax fines and penalties	451 659	470 807
Social security contributions	116 491	95 633
Personal income tax	79 878	69 900
Other taxes	48 737	80 444
	<u>880 239</u>	<u>1 043 070</u>

As at 31 December 2010 tax fines and penalties related to income tax, road tax, transport tax and other taxes in the amount of RUB 451 659 thousand charged by the tax authorities in prior periods. The periods to which these fines and penalties relate exceed the acceptable timeframe for being claimed by the tax authorities under Russian legislation (limitation period). The Company has filed claims to the courts regarding each fine and penalty, seeking that they be written-off due to the limitation periods being exceeded. The court of the first instance has already issued a positive decision in respect of road tax, according to which the amounts outstanding should be written-off by the tax authorities. The Company expects positive decisions in respect of other similar cases, where the limitation period has been exceeded. When the respective final court decisions are issued, these amounts will be written-off.

30 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.

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

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosure are included throughout these 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 risk faces by the Group, setting appropriate risk limits and controls, and monitoring risk 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 thousands of Russian Roubles, unless otherwise stated)

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

(b) Credit risk

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

(i) Trade and other receivables

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

To manage credit risk the Group attempts, to the fullest extent possible, to demand prepayments from customers. As a rule, prepayment for connection services is set in 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.

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
Trade and other receivables	6 078 943	5 909 060
Cash and cash equivalents	454 450	140 242
Investments and financial assets	817 013	694 458
	<u>7 350 406</u>	<u>6 743 760</u>

The guarantees are disclosed in the note 33.

The Group's three most significant customers, regional distribution entities, account for RUB 1 229 426 thousand of the trade receivables carrying amount at 31 December 2010 (31 December 2009: four most significant customers, accounted for RUB 1 521 041 thousand).

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

	Carrying amount	
	31 December 2010	31 December 2009
Electricity transmission customers (regional distribution entities)	2 138 041	2 408 079
Electricity transmission customers (others)	1 891 979	1 473 458
Connection services customers	148 044	377 698
Other trade customers	463 399	295 011
	<u>4 641 463</u>	<u>4 554 246</u>

*(in thousands of Russian Roubles, unless otherwise stated)***Impairment losses**

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

	At 31 December 2010		At 31 December 2009	
	Gross	Allowance	Gross	Allowance
Not past due	2 676 383	(11 050)	2 661 534	-
Past due 0-3 months	564 401	(49 930)	1 485 199	(142 509)
Past due 3-12 months	1 607 167	(68 402)	2 052 578	(258 155)
Past due more than 12 months	2 017 524	(657 150)	1 255 462	(1 145 049)
	6 865 475	(786 532)	7 454 773	(1 545 713)

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

	Year ended	Year ended
	31 December 2010	31 December 2009
Balance at 1 January	1 545 713	1 840 953
Net increase during the period	73 952	329 196
Provision used	(833 133)	(624 436)
Balance at 31 December	786 532	1 545 713

(c) Liquidity risk

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

To manage the liquidity risk, the Group has negotiated credit lines with a pool of highly rated commercial banks. As at 31 December 2010 the Group had unused credit lines in the amount of RUB 778 238 thousand (as at 31 December 2009: RUB 3 215 000 thousand).

The contractual maturities of financial liabilities presented including estimated interest payments:

	Carrying amount	Contractual cash flows	12 months or less	Between 1 and 5 years	Over 5 years
Non-derivative financial liabilities as at 31 December 2010					
Loans	8 624 030	10 028 960	1 875 313	8 153 647	-
Finance lease liabilities	145 528	161 899	91 761	70 138	-
Trade and other payables	7 002 528	7 002 528	6 984 700	8 845	8 983
	15 772 086	17 193 387	8 951 774	8 232 630	8 983
Financial guarantees	53 828	53 828	53 828	-	-

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(in thousands of Russian Roubles, unless otherwise stated)

	Carrying amount	Contractual cash flows	12 months or less	Between 1 and 5 years	Over 5 years
Non-derivative financial liabilities as at 31 December 2009					
Loans	6 447 239	10 003 834	3 810 398	6 193 436	-
Finance lease liabilities	235 747	274 231	121 676	152 555	-
Trade and other payables	5 644 408	5 644 408	5 233 907	387 004	23 497
	<u>12 327 394</u>	<u>15 922 473</u>	<u>9 165 981</u>	<u>6 732 995</u>	<u>23 497</u>
Financial guarantees	<u>124 944</u>	<u>124 944</u>	<u>124 944</u>	<u>-</u>	<u>-</u>

Financial guarantees are disclosed in note 33.

(d) Market risk

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

(i) Interest rate risk

The Group's income and operating cash flows are largely independent of changes in market interest rates. The Group is exposed to interest rate risk only through market value fluctuations of loans and borrowings. The interest rates on most loans and borrowings are fixed. Changes in interest rates impact primarily loans and borrowings by changing their fair value (fixed rate debt).

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

Profile

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

Fixed rate instruments	Carrying amount 31 December 2010	Carrying amount 31 December 2009
Loans and borrowings	8 624 030	6 447 239
Finance lease liabilities	145 528	235 747
	<u>8 769 558</u>	<u>6 682 986</u>

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

(e) Fair values

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

The basis for determining fair value is disclosed in note 4.

Fair value of available-for-sale investments (refer to note 16) was determined in accordance with quoted prices at MICEX.

*(in thousands of Russian Roubles, unless otherwise stated)***(f) Capital management**

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

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

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

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 share capital at all times.

31 Operating lease

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

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

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

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

	<u>31 December 2010</u>	<u>31 December 2009</u>
Less than one year	160 321	164 580
Between one year and five years	379 643	295 873
More than five years	3 016 845	2 264 600
	<u>3 556 809</u>	<u>2 725 053</u>

In 2010 the amount of rent expense under operating leases recognized in profit or loss was RUB 250 477 thousand (in 2009: RUB 194 185 thousand).

32 Commitments**(a) Capital commitments**

The Group has outstanding commitments under the contracts for the purchase and construction of property, plant and equipment and capital investment programme for RUB 2 905 223 thousand as at 31 December 2010, net of VAT (as at 31 December 2009: RUB 3 367 053 thousand).

33 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 property, plant and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

(b) Litigation

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

*(in thousands of Russian Roubles, unless otherwise stated)***(c) 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 position in their interpretation and enforcement of tax legislation.

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

(d) Environmental matters

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

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

(e) Guarantees

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

	Amount per agreement	Amount per agreement
	31 December 2010	31 December 2009
OJSC Promsvyazbank	50 058	103 078
OJSC Sberbank	3 770	21 866
	53 828	124 944

(f) Other contingencies

The Group believes that the electricity services provided are generally in compliance with the Russian legislation regulating electric power transmission. However, based on the lack of elaboration of legislation that regulates the lease of Unified National (All-Russia) Electricity Network property ("last-mile") there is a risk of unilateral refusal of some Groups' customers to execute their contractual obligation to pay for services under "last mile" contracts for the transmission of electricity and courts may agree with the customer's view.

The potential amount of such claims cannot be reliably estimated as each claim would have individual legal circumstances and respective estimation would be based on variety of assumptions and judgments, which makes it impracticable. The Group did not recognize as at the reporting date any provision for those 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.

34 Related parties**(a) Control relationships**

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

*(in thousands of Russian Roubles, unless otherwise stated)***(b) Management remuneration**

There are no transactions or balances with key management and their close family members except for remuneration in the form of salary and bonuses. Total remuneration paid to management for the year ended 31 December 2010 was RUB 104 462 thousand (2009: RUB 109 181 thousand).

Total remuneration paid to the members of the Board of Directors and the Management Board for the year ended 31 December 2010 was RUB 8 413 thousand (2009: RUB 8 698 thousand).

(c) Transactions with other related parties

The majority of the Group's related party transactions are with the entities under common control of the parent and other state controlled entities.

Revenue

	Transaction value 31 December 2010	Outstanding balance 31 December 2010	Transaction value 31 December 2009	Outstanding balance 31 December 2009
Electricity transmission:				
Entities under common control of the parent	673 509	451 666	522 169	317 009
Other state controlled entities	9 812 210	1 683 937	8 491 437	1 533 686
Other revenue:				
Entities under common control of the parent	46 903	8 375	43 391	152 563
Other state controlled entities	797 237	1 294 840	1 144 127	1 253 746
	<u>11 329 859</u>	<u>3 438 818</u>	<u>10 201 124</u>	<u>3 257 004</u>

Expenses

	Transaction value 2010	Outstanding balance 31 December 2010	Transaction value 2009	Outstanding balance 31 December 2009
Electricity transmission:				
Entities under common control of the parent	157 185	-	146 582	-
Other state controlled entities	15 694 166	1 310 750	13 125 406	1 410 688
Other expenses:				
Entities under common control of the parent	337 615	31 176	317 040	201 441
Other state controlled entities	419 775	370 774	420 222	280 772
	<u>16 608 741</u>	<u>1 712 700</u>	<u>14 009 250</u>	<u>1 892 901</u>

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

(d) Prepayments received

	Outstanding balance 31 December 2010	Outstanding balance 31 December 2009
Other state controlled entities	170 973	358 154
Other related parties	-	89 940
	<u>170 973</u>	<u>448 094</u>

(e) Prepayments issued

	Outstanding balance 31 December 2010	Outstanding balance 31 December 2009
Other state controlled entities	51 358	20 052
	<u>51 358</u>	<u>20 052</u>

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

OJSC IDGC of Siberia**Notes to the Consolidated Financial Statements for the year ended 31 December 2010***(in thousands of Russian Roubles, unless otherwise stated)***(f) Loans and borrowings**

	Amount obtained 2010	Outstanding balance 31 December 2010	Amount obtained 2009	Outstanding balance 31 December 2009
State controlled entities	8 810 547	3 105 523	4 937 000	1 660 000
Other related parties	-	-	-	886
	8 810 547	3 105 523	4 937 000	1 660 886

Loans are received at market interest rates (refer to note 23).

35 Subsequent events

On 11 March 2011 the Board of Directors of the Company approved an increase in the Company's charter capital through issuance of 6 605 021 036 additional ordinary shares under a closed-subscription placement. On 21 April the Federal Service of Financial Markets registered the additional issued shares. The privilege for share purchase is given to JSC IDGC Holding.