OJSC INTERREGIONAL DISTRIBUTION GRID COMPANY OF VOLGA
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

Contents

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Independent Auditors' Report

To the management of OJSC Interregional Distribution Grid Company of Volga

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

ZAO KPMG

ZAO KPMG
6 May 2011

(in thousands of Russian Roubles, unless otherwise stated)

	Note	31 December 2010	31 December 2009
ASSETS			
Non-current assets			
Property, plant and equipment	8	26,734,234	25,269,115
Intangible assets	9	116,766	151,721
Other non-current assets	10	615,203	879,049
Total non-current assets		**27,466,203**	**26,299,885**
Current assets			
Inventories	11	905,110	785,816
Income tax receivable		199,612	84,926
Trade and other receivables	12	2,278,764	3,046,090
Prepayments for current assets	13	317,550	410,472
Cash and cash equivalents	14	1,475,500	425,060
Other current assets	15	21,646	552,620
Total current assets		**5,198,182**	**5,304,984**
TOTAL ASSETS		**32,664,385**	**31,604,869**
EQUITY AND LIABILITIES			
Share capital	16	17,857,780	17,857,780
Retained earnings		3,842,932	3,275,433
Total equity		**21,700,712**	**21,133,213**
Non-current liabilities			
Deferred income tax liabilities	26	954,180	1,062,448
Employee benefits	17	738,563	682,441
Loans and borrowings	18	5,193,889	5,831,527
Trade and other payables	19	252,211	65,582
Total non-current liabilities		**7,138,843**	**7,641,998**
Current liabilities			
Loans and borrowings	18	88,453	194,528
Trade and other payables	19	3,386,960	1,906,564
Income tax payable		211	3
Other taxes payable	20	349,206	728,563
Total current liabilities		**3,824,830**	**2,829,658**
Total liabilities		**10,963,673**	**10,471,656**
TOTAL EQUITY AND LIABILITIES		**32,664,385**	**31,604,869**

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

General Director Ryabikin V.A.

Chief Accountant Tamlenova I.A.

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 8 to 38.

(in thousands of Russian Roubles, unless otherwise stated)

	Note	Year ended 31 December 2010	Year ended 31 December 2009
Revenue	21	39,560,330	29,484,257
Operating expenses	22	(38,488,062)	(27,483,468)
Other income, net	24	94,540	22,576
Operating profit		**1,166,808**	**2,023,365**
Finance income	25	3,153	2,239
Finance costs	25	(281,516)	(504,229)
Profit before income tax		**888,445**	**1,521,375**
Income tax expense	26	(320,946)	(216,538)
Profit for the year		**567,499**	**1,304,837**
Total comprehensive income		**567,499**	**1,304,837**
Earnings per share - basic and diluted (in RUB)	16	0.0032	0.0073

The consolidated statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 8 to 38.

(in thousands of Russian Roubles, unless otherwise stated)

	Note	Year ended 31 December 2010	Year ended 31 December 2009
OPERATING ACTIVITIES:			
Profit before income tax for the year		**888,445**	**1,521,375**
Adjustments for:			
Depreciation and amortisation	8,9	2,811,174	2,837,759
Write-off and charge of impairment of accounts receivable		670,976	603,781
Provision for obsolescence		1,610	(1,848)
Finance costs		281,516	504,229
Finance income		(3,153)	(2,239)
Loss on disposal of property, plant and equipment		23,799	14,180
Impairment of construction in progress		(14,198)	38,257
Accounts payable written-off		(1,428)	(61,787)
Other non-cash transactions		(10,358)	(612,419)
Operating profit before working capital changes and income tax paid		**4,648,383**	**4,841,288**
Working capital changes:			
Decrease /(increase) in trade and other receivables		24,187	(814,506)
Decrease in prepayments		101,501	58,922
(Increase)/decrease in inventories		(120,904)	45,759
Decrease in other current assets		1,848	10,035
Decrease /(increase) in other non-current assets		97,816	(118,994)
Increase/(decrease) in trade and other payables		2,159,005	(331,860)
Increase in long-term liabilities		56,122	23,544
(Decrease)/increase in taxes payable other than income		(379,357)	129,274
Cash flows from operations before income taxes and interest paid		**6,588,601**	**3,843,462**
Income tax paid		(543,692)	(363,329)
Interest paid		(327,867)	(681,982)
Net cash flows from operating activities		**5,717,042**	**2,798,151**
INVESTING ACTIVITIES:			
Acquisition of property, plant and equipment		(4,190,072)	(2,191,385)
Proceeds from disposal of property, plant and equipment		22,866	1,095
Proceeds from sale of investments		265	63,520
Interest received		3,153	2,239
Net cash flows used in investing activities		**(4,163,788)**	**(2,124,531)**
FINANCING ACTIVITIES:			
Proceeds from loans and borrowings		7,845,978	14,103,561
Repayment of loans and borrowings		(8,190,088)	(14,508,164)
Repayment of finance lease liabilities		(158,704)	(327,901)
Net cash flows used in financing activities		**(502,814)**	**(732,504)**
Net increase/(decrease) in cash and cash equivalents		**1,050,440**	**(58,884)**
Cash and cash equivalents at beginning of year		**425,060**	**483,944**
Cash and cash equivalents at end of year		**1,475,500**	**425,060**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 8 to 38.

(in thousands of Russian Roubles, unless otherwise stated)

	Share capital	Accumulated profit (Accumulated loss)	Total equity
As at 1 January 2009	**17,857,780**	**1,970,596**	**19,828,376**
Total comprehensive income	-	1,304,837	1,304,837
As at 31 December 2009	**17,857,780**	**3,275,433**	**21,133,213**
As at 1 January 2010	**17,857,780**	**3,275,433**	**21,133,213**
Total comprehensive income	-	567,499	567,499
As at 31 December 2010	**17,857,780**	**3,842,932**	**21,700,712**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 8 to 38.

(in thousands of Russian Roubles, unless otherwise stated)

Note 1. Background

(a) The Group and its operations

Open Joint-Stock Company "Interregional Distribution Grid Company of Volga" (hereafter, the "Company" or OJSC IDGC of Volga) and its subsidiaries (together referred to as the "Group") comprise Russian open joint stock companies as defined in the Civil Code of the Russian Federation. The Company was set up on 29 June 2007 based on Resolution no. 191p of 22 June 2007 and pursuant to the Board of Directors' decision (board of directors' meeting minutes no. 250 of 27 April 2007) of the Russian Open Joint-Stock Company RAO "United Energy Systems of Russia" (hereafter, "RAO UES").

The Company's registered office is 42/44 Pervomayskaya Street, Saratov, Russian Federation, 410031.

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

The Group's significant subsidiaries are:

	% owned	
Name	**31 December 2010**	**31 December 2009**
OJSC Chuvashskaya avtotransportnaya kompaniya	99.99	99.99
OJSC Sanatoriy Solnechny	99.99	99.99
OJSC Sotsialnaya Sfera-M	100	100

As at 31 December 2010 and 31 December 2009 the Government of the Russian Federation owned 52.7% of the shares of IDGC Holding, which in turn owned 67.63% of the Company.

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

(b) Russian business environment

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

Note 2. Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

The Consolidated Financial Statements are prepared on the historical cost basis except:

- Financial investments classified as available-for-sale are stated at fair value;
- Property, plant and equipment were revalued to determine deemed cost as part of the adoption of IFRSs as at 1 January 2006.

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian rouble ("RUB"), which is the functional currency for the Company and its' subsidiaries and the currency in which these Consolidated Financial Statements are presented. All financial information presented in Russian roubles has been rounded to the nearest thousand.

(d) Use of judgments, estimates and assumptions

The preparation of 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 8 – Property, plant and equipment;

Note 12 – Trade and other receivables;

Note 17 – Employee benefits.

(e) Changes in accounting policies

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

Note 3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in the Financial statements, and have been applied consistently by Group entities, except as explained in note 2 (e), which addresses changes in the accounting policy for leases of land.

(a) Basis of consolidation

(i) Subsidiaries

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

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

(ii) Acquisitions from entities under common control

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

(iii) Investments in associates (equity accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity. Investments in associates are accounted for using the equity method. This consolidated Financial Statements include the Group's share of the income and expenses of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an associate, the carrying amount of that interest (including any non-current investments) is reduced to nil and the recognition of further losses is discontinued, except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(iv) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the Financial Statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency

(i) Foreign currency transactions

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

(c) Financial instruments

(i) Non-derivative financial instruments

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

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

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

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

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

Loans and receivables

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

Cash and cash equivalents comprise cash balances 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 previous categories. The Group's investments in equity securities and certain debt securities are classified as available-for-sale 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(i)(i) and foreign currency differences on available-for-sale debt instruments (see Note 3(b)(i)), are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised or impaired, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses. 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

The Group initially recognises debt securities issued on the date that they are originated. All other financial liabilities are recognised initially on the date at which the Group becomes a party to the contractual provisions of the instrument.

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

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

The Group has the following non-derivative financial liabilities: loans and borrowings and trade and other payables.

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

(iii) Derivative financial instruments

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

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

(d) Share capital

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

(e) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment, except for land, are measured at cost less accumulated depreciation and impairment losses. The deemed cost of property, plant and equipment at 1 January 2006, the date of transition to IFRSs, was determined by reference to its fair value at that date.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and 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 capitalised as part of that equipment. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within "other income" in profit or loss.

(ii) Subsequent costs

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

(iii) Depreciation

Depreciation is calculated based on the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

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

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

Type of property, plant and equipment	Useful lives (in years)
Buildings	15-50
Transmission networks	5-20
Equipment for electricity transformation	5-20
Other	1-30

(f) Intangible assets

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

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

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The estimated useful lives for the current and comparative periods are 3 to 10 years.

(g) 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 recognised on the Group's statement of financial position. Operating lease payments (net of benefits granted by the lessor) are recognised in profit or loss on a straight line basis over the lease term.

(h) Inventories

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

(i) Impairment

(i) Financial assets

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

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is an objective evidence of impairment.

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

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income, and presented in the fair value reserve in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, impairment losses on equity investments are not reversed through profit or loss. Any subsequent recovery in the fair value of an impaired available-for-sale equity investments is recognised in other comprehensive income.

(ii) Non-financial assets

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

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. 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 goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

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

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

(j) Employee benefits

(i) Defined contribution plans

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

(ii) Defined benefit post-employment plans

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

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

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

(iii) Other non-current employee benefits

The Group's net obligation in respect of long term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed using the projected unit credit method. Any actuarial gains or losses are recognised in profit or loss in the period in which they arise.

(iv) Short-term benefits

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

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

(k) Provisions

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

(l) Revenue

(i) Electricity distribution and sales of electricity

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

(ii) Connection services

Revenue from connection services represents a non-refundable fee for connecting the customer to the electricity grid network. The terms, conditions and amounts of these fees are negotiated separately and are independent from fees generated by electricity transmission services.

Revenue is recognized when electricity is activated and the customer is connected to the grid network, or, for contracts where connection services are performed in stages, revenue is recognized in the proportion to the stage of completion when act of acceptance is signed by the customer.

(iii) Other services

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

(m) Government subsidies

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

(n) Other expenses

(i) Lease payments

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

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

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

(ii) Social expenditure

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

(o) Finance income and costs

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

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

Foreign currency gains and losses are reported on a net basis.

Income tax expense

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

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

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

(p) 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.

(q) Guarantees

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

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

(s) New Standards and Interpretations not yet adopted

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

- Revised IAS 24 *Related Party Disclosures (2010)* introduces an exemption from the basic disclosure requirements in relation to related party disclosures and outstanding balances, including commitments, for government-related entities. Additionally, the standard has been revised to simplify some of the presentation guidance that was previously non-reciprocal. The revised standard is to be applied retrospectively for annual periods beginning on or after 1 January 2011. The Group has not yet determined the potential effect of the amendment.

- Amendments to IFRIC 14: *IAS 19 – The limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* clarifies the accounting treatment for prepayments made when there also is a minimum funding requirement. The amendment becomes effective for annual periods beginning on or after 1 January 2011 and is applied retrospectively. The Group has not yet determined the potential effect of the amendment.
- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in several phases and is intended to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement* once the project is completed by the end of 2010. The first phase of IFRS 9 was issued in November 2009 and relates to the recognition and measurement of financial assets. The 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.
- 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.

Note 4. Determination of fair value

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or 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 and debt securities

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

(b) Trade and other receivables

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

(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. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option. For finance leases the market rate of interest is determined by reference to similar lease agreements.

Note 5. Financial risk management

(a) Overview

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

- credit risk
- liquidity risk
- market risk.

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

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

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

(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 cash and cash equivalents, 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 greatest extent possible, to demand prepayments from customers.

Prepayments for connection services are routinely included in the customer service contracts.

The customer base for electricity transmission services for each of the Group's entities is limited to several distribution companies and a small number of large manufacturing enterprises. Payments are tracked regularly and electricity transmission customers are advised of any failures to submit timely payments.

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. The main component of this allowance is a specific provision that relates to individually significant exposures.

(ii) Cash and cash equivalents

The Group attempts to minimise the credit risk exposure for current and deposit accounts with banks by placing temporarily available funds only with the banks that are lendors to the Group.

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due.

(d) Market risk

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

(e) Currency risk

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

(f) Interest rate risk

The Group's interest rate risk arises from short-term and long-term borrowings. Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). The majority of interest rates on current and non-current borrowings are fixed. The Group's operating profits and cash flows from operating activities are largely not dependent on the changes in market interest rates.

(g) Capital management

Management's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Management monitors the level of dividends to ordinary shareholders. 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.

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

Note 6. Disposal of subsidiaries

In September 2009 the subsidiary OJSC Plemsovhoz Magistralny was liquidated. Net liabilities at that date and the loss in the year of liquidation of OJSC Plemsovhoz Magistralny amounted to RUB 39,605 thousand and RUB 7,634 thousand respectively.

Note 7. Operating segments

The Management Board of the Company has been determined as the Group Chief Operating Decision-Maker.

The Group’s primary activity is the provision of electricity transmission services within the regions of the Russian Federation. The internal management reporting system is based on segments relating to electric energy transmission in separate regions of the Russian Federation (branches of the Company) and segments relating to other activities (represented by separate legal entities).

The Management Board regularly evaluates and analyses the financial information of the segments reported in the statutory financial statements of respective segments.

In accordance with the requirements of IFRS 8 based on the information on segment revenue, profit before income tax and total assets reported to the Management Board the following reporting segments were identified:

- Transmission Segments – Mordovia region, Chuvashia region, Orenburg region, Penza region, Samara region, Saratov region, Ulianovsk region – branches of IDGC Volga;
- Other Segments – other Group companies.

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

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

Information regarding the results of each reportable segment is included below. Performance is measured based on segment revenue and profit before income tax, as included in the internal management reports that are reviewed by the Management Board. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

(in thousands of Russian Roubles, unless otherwise stated)

(i) Information about reportable segments for the year ended 31 December 2010

	Transmission								
	Saratov region	**Orenburg region**	**Samara region**	**Penza region**	**Ulianovsk region**	**Chuvashia region**	**Mordovia region**	**Other**	**Total**
Revenue:									
Electricity transmission	7,941,523	10,094,032	8,232,260	4,289,909	3,823,459	2,540,488	1,815,191	-	38,736,862
Connection to the electricity network	83,657	10,660	134,574	12,230	9,343	10,932	15,083	-	276,479
Other revenue	12,961	235,287	55,343	59,995	11,157	29,319	2,967	228,753	635,782
Total segment revenues	**8,038,141**	**10,339,979**	**8,422,177**	**4,362,134**	**3,843,959**	**2,580,739**	**1,833,241**	**228,753**	**39,649,123**
Segment operating profit/(loss)	**587,127**	**466,818**	**(258,859)**	**229,359**	**129,701**	**51,995**	**(32,188)**	**1,684**	**1,175,637**
Segment finance income	465	598	627	518	229	257	114	345	3,153
Segment finance costs	(108,259)	(18,978)	(88,158)	(507)	(19,952)	(43,545)	(26,244)	-	(305,643)
Segment profit/(loss) before income tax	**479,333**	**448,438**	**(346,390)**	**229,370**	**109,978**	**8,707**	**(58,318)**	**2,028**	**873,146**
Segment depreciation and amortisation	(836,071)	(903,039)	(846,027)	(332,544)	(159,634)	(209,998)	(222,277)	(15,501)	(3,525,091)
Segment assets	**15,270,217**	**7,860,830**	**13,074,378**	**3,401,469**	**3,352,593**	**3,265,874**	**2,263,583**	**177,685**	**48,666,629**
Including property, plant and equipment	13,857,113	7,449,274	12,349,499	3,096,004	2,833,270	2,847,820	2,037,338	100,418	44,570,736
Segment liabilities	**2,728,306**	**865,717**	**1,685,437**	**539,235**	**528,560**	**867,616**	**968,957**	**15,247**	**8,199,075**
Capital expenditures	**893,378**	**1,203,502**	**804,658**	**528,102**	**226,249**	**259,006**	**331,169**	**-**	**4,246,064**

(in thousands of Russian Roubles, unless otherwise stated)

(ii) Information about reportable segments for the year ended 31 December 2009

	Transmission								
	Saratov region	**Orenburg region**	**Samara region**	**Penza region**	**Ulianovsk region**	**Chuvashia region**	**Mordovia region**	**Other**	**Total**
Revenue:									
Electricity transmission	6,417,986	6,227,868	5,990,485	3,657,921	2,630,065	2,100,703	1,466,820	–	**28,491,848**
Connection to the electricity network	53,877	61,962	38,458	109,482	41,040	20,310	68,339	–	**393,468**
Other revenue	17,942	226,366	49,476	88,370	14,123	33,189	3,433	257,524	**690,423**
Total segment revenues	**6,489,805**	**6,516,196**	**6,078,419**	**3,855,773**	**2,685,228**	**2,154,202**	**1,538,592**	**257,524**	29,575,739
Segment operating profit/(loss)	**382,123**	**693,032**	**(95,653)**	**119,641**	**393,361**	**(233,993)**	**30,335**	**53,778**	**1,342,624**
Segment finance income	416	357	357	218	161	447	110	173	**2,239**
Segment finance costs	(203,687)	(142,175)	(150,376)	(6,392)	(45,694)	(52,440)	(52,690)	–	**(653,454)**
Segment profit/(loss) before income tax	**178,852**	**551,214**	**(245,672)**	**113,467**	**347,828**	**(285,986)**	**(22,245)**	**53,951**	**691,409**
Segment depreciation and amortisation	809,967	916,466	778,901	331,572	154,120	209,468	216,440	17,504	**3,434,438**
Segment assets	**14,787,890**	**7,905,874**	**14,050,340**	**3,143,422**	**3,140,093**	**3,544,540**	**2,175,324**	**184,665**	**48,932,148**
Including property, plant and equipment	13,816,733	7,130,609	12,392,419	2,899,269	2,773,197	2,797,713	1,927,408	99,693	43,837,041
Segment liabilities	**2,756,988**	**1,156,039**	**2,165,695**	**405,900**	**416,460**	**958,552**	**618,914**	**16,545**	**8,495,093**
Capital expenditures	**504,113**	**499,305**	**497,132**	**303,163**	**104,472**	**159,397**	**126,371**	**–**	**2,193,953**

(in thousands of Russian Roubles, unless otherwise stated)

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

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

Reconciliation of revenues:

	Year ended 31 December 2010	Year ended 31 December 2009
Total revenue for reportable segments	**39,649,123**	**29,575,739**
Inter-segment revenue elimination	(89,299)	(91,482)
Other adjustments	506	-
Revenue per Consolidated Statement of Comprehensive Income	**39,560,330**	**29,484,257**

Reconciliation of profit before income tax:

	Year ended 31 December 2010	Year ended 31 December 2009
Total profit before income tax for reportable segments	**873,146**	**691,409**
Adjustment for property, plant and equipment	862,413	930,741
Provisions relate to the legal proceedings and unsettled claims	71,320	-
Adjustment on intangible assets	17,529	(82,101)
Adjustment for finance lease	8,769	54,921
Accrued salaries and wages	(517,069)	(33,863)
Bad debt allowance adjustment	(401,392)	(103,374)
Retirement benefit obligations recognition	(68,740)	58,642
Other adjustments	42,469	5,000
Profit before tax per Consolidated Statement of Comprehensive Income	**888,445**	**1,521,375**

Reconciliation of depreciation and amortisation:

	Year ended 31 December 2010	Year ended 31 December 2009
Total depreciation for reportable segments	**3,525,091**	**3,434,438**
Adjustment for depreciation of property, plant and equipment	(749,423)	(748,199)
Adjustment for amortization of intangible assets	32,398	154,647
Other adjustments	3,108	(3,127)
Depreciation and amortisation per Consolidated Statement of Comprehensive Income	**2,811,174**	**2,837,759**

Reconciliation of total assets:

	31 December 2010	31 December 2009
Total assets for reportable segments	**48,666,629**	**48,932,148**
Unallocated assets	1,939,867	932,089
Recognition of assets related to employee benefits	522,926	535,544
Adjustment for net book value of property, plant and equipment	(18,073,322)	(18,953,275)
Bad debt allowance adjustment	(147,286)	331,522
Elimination of investments in subsidiaries	(100,529)	(100,529)
Provision for obsolescence of inventories	(37,361)	(35,751)
Discounting of financial assets	(19,610)	(26,563)
Inter-segment balances	(9,175)	(9,339)
Other adjustments	(77,754)	(977)
Total assets per Consolidated Statement of Financial Position	**32,664,385**	**31,604,869**

(in thousands of Russian Roubles, unless otherwise stated)

Reconciliation of property, plant and equipment:

	31 December 2010	31 December 2009
Total property, plant and equipment for reportable segments	**44,570,736**	**43,837,041**
Unallocated property, plant and equipment	164,963	196,327
Advances for acquisition of property, plant and equipment	71,807	188,979
Adjustment for net book value of property, plant and equipment	(18,073,322)	(18,953,275)
Other adjustments	50	43
Property, plant and equipment per Consolidated Statement of Financial Position	**26,734,234**	**25,269,115**

Reconciliation of total liabilities:

	31 December 2010	31 December 2009
Total liabilities of reportable segments	**8,199,075**	**8,495,093**
Unallocated deferred income tax due to differed accounting principles for deferred tax calculation	954,179	1,062,448
Retirement benefit obligations	738,563	682,441
Provisions for salary and wages	600,989	83,920
Provisions relate to the legal proceedings and unsettled claims	518,330	-
Finance lease liabilities	134,917	143,564
Intersegment balances	(9,175)	(9,339)
Other adjustments	(173,205)	13,529
Total liabilities per Consolidated Statement of Financial Position	**10,963,673**	**10,471,656**

Reconciliation of capital expenditures:

	31 December 2010	31 December 2009
Total capital expenditures of reportable segments	**4,246,064**	**2,193,953**
Borrowing cost adjustment	98,816	290,175
Unallocated capital expenditures	24,164	56,919
Advances for acquisition of property, plant and equipment	(117,172)	(308,920)
Finance lease adjustment	-	226,792
Other adjustments	48,148	(36,619)
Total capital expenditures per Consolidated Statement of Financial Position	**4,300,020**	**2,422,300**

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

For the years ended 31 December 2010 and 2009 the group had three major customers - distribution companies in three regions of the Russian Federation - with individual turnovers over 10% of total Group revenues. Revenues from these customers are reported by the transmission segments operating in the Samara, Saratov and Orenburg regions. Total amounts of revenues for these major customers for the year ended 31 December 2010 were RUB 5,538,539 thousand in Samara (2009: RUB 5,462,009 thousand); RUB 5,164,834 thousand in Saratov (2009: RUB 4,349,546 thousand) and RUB 3,910,910 thousand in Orenburg (2009: RUB 3,462,101 thousand).

(in thousands of Russian Roubles, unless otherwise stated)

Note 8. Property, plant and equipment

	Land and buildings	Transmission networks	Equipment for electricity transformation	Construction in progress	Other	Total
Cost						
Balance as 1 January 2009	**5,521,167**	**14,048,904**	**5,499,958**	**3,684,403**	**2,529,293**	**31,283,725**
Reclassification	-	-	(690,497)	-	690,497	-
Additions	8,070	37,324	250,008	1,857,073	269,825	**2,422,300**
Transfers	966,782	487,439	1,577,566	(3,665,690)	633,903	**-**
Disposals	(4,470)	(5,592)	(3,205)	(58,357)	(32,027)	**(103,651)**
Balance as 31 December 2009	**6,491,549**	**14,568,075**	**6,633,830**	**1,817,429**	**4,091,491**	**33,602,374**
Balance as 1 January 2010	**6,491,549**	**14,568,075**	**6,633,830**	**1,817,429**	**4,091,491**	**33,602,374**
Additions	39,034	29,734	11,121	3,902,245	317,887	4,300,021
Transfers	1,278,007	1,112,372	1,440,371	(4,301,194)	470,444	-
Disposals	(13,558)	(13,946)	(17,597)	(7,035)	(82,568)	(134,704)
Balance as 31 December 2010	**7,795,032**	**15,696,235**	**8,067,725**	**1,411,445**	**4,797,254**	**37,767,691**
Accumulated depreciation						
Balance as at 1 January 2009	**(664,288)**	**(3,159,084)**	**(895,142)**	**-**	**(967,170)**	**(5,685,684)**
Reclassification	-	-	71,549	-	(71,549)	**-**
Depreciation for the year	(407,123)	(1,258,902)	(534,466)	-	(461,599)	**(2,662,090)**
Disposals	525	1,756	1,522	-	10,712	**14,515**
Balance at 31 December 2009	**(1,070,886)**	**(4,416,230)**	**(1,356,537)**	**-**	**(1,489,606)**	**(8,333,259)**
Balance as at 1 January 2010	**(1,070,886)**	**(4,416,230)**	**(1,356,537)**	**-**	**(1,489,606)**	**(8,333,259)**
Depreciation for the year	(425,401)	(1,302,061)	(468,832)	-	(561,408)	(2,757,702)
Disposals	6,123	10,180	3,802	-	37,399	57,504
Balance at 31 December 2010	**(1,490,164)**	**(5,708,111)**	**(1,821,567)**	**-**	**(2,013,615)**	**(11,033,457)**
Net book value						
At 1 January 2009	**4,856,879**	**10,889,820**	**4,604,816**	**3,684,403**	**1,562,123**	**25,598,041**
At 31 December 2009	**5,420,663**	**10,151,845**	**5,277,293**	**1,817,429**	**2,601,885**	**25,269,115**
At 31 December 2010	**6,304,868**	**9,988,124**	**6,246,158**	**1,411,445**	**2,783,639**	**26,734,234**

As at 31 December 2010 construction in progress includes advance prepayments for property, plant and equipment of RUB 71,807 thousand (2009: RUB 188,979 thousand).

As at 31 December 2010 construction in progress includes construction materials of RUB 309,534 thousand (as at 31 December 2009: RUB 0 thousand).

Borrowing costs totalling RUB 119,615 thousand as at 31 December 2010 (as at 31 December 2009: RUB 313,159 thousand) were included in the cost of property, plant and equipment and represent interest on loans.

(in thousands of Russian Roubles, unless otherwise stated)

Leased plant and machinery

The Group leases production and transport equipment under a number of finance lease agreements. At the end of each of the leases the Group has the option to purchase the equipment at a beneficial price.

At 31 December 2010 and at 31 December 2009 the net book value of leased property, plant and equipment was as follows:

	31 December 2010	31 December 2009
Cost	1,053,553	1,098,047
Accumulated depreciation	(204,965)	(143,286)
Net book value	**848,588**	**954,761**

Note 9. Intangible assets

	Patents and licenses	Computer software	Total
Cost			
Balance as at 1 January 2009	**308,218**	**225,531**	**533,749**
Additions	-	2,871	2,871
Disposals	**(177,578)**	**(13,792)**	**(191,370)**
Balance as at 31 December 2009	**130,640**	**214,610**	**345,250**
Balance as at 1 January 2010	**130,640**	**214,610**	**345,250**
Additions	-	18,517	18,517
Balance as at 31 December 2010	**130,640**	**233,127**	**363,767**
Accumulated amortisation			
Balance as at 1 January 2009	**(128,677)**	**(80,553)**	**(209,230)**
Amortisation for the year	(155,310)	(20,359)	(175,669)
Disposals	177,578	13,792	191,370
Balance as at 31 December 2009	**(99,230)**	**(94,299)**	**(193,529)**
Balance as at 1 January 2010	**(99,230)**	**(94,299)**	**(193,529)**
Amortisation for the year	(31,410)	(22,062)	(53,472)
Balance as at 31 December 2010	**(130,640)**	**(116,361)**	**(247,001)**
Net book value			
At 1 January 2009	**179,541**	**144,978**	**324,519**
At 31 December 2009	**31,410**	**120,311**	**151,721**
At 31 December 2010	**-**	**116,766**	**116,766**

Intangible assets include mandatory licenses for electricity transmission and capitalised SAP/R3 implementation expenses.

(in thousands of Russian Roubles, unless otherwise stated)

Note 10. Other non-current assets

	31 December 2010	31 December 2009
Financial assets related to the employee benefit fund (available-for-sale)	522,926	535,544
Trade receivables	11,325	106,927
Other receivables	80,652	233,624
Available-for-sale investments	325	7,095
Less: Allowance for impairment of trade receivable	(2)	-
Less: Allowance for impairment of other receivable	(23)	(4,141)
Total	**615,203**	**879,049**

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

The Group’s exposure to credit and currency risks and impairment losses related to non-current accounts receivable are disclosed in note 31.

Note 11. Inventories

	31 December 2010	31 December 2009
Raw materials and supplies	607,625	535,446
Spare parts	272,605	229,991
Other inventories	62,241	56,130
Provision for obsolescence	(37,361)	(35,751)
Total	**905,110**	**785,816**

Note 12. Trade and other receivables

	31 December 2010	31 December 2009
Trade receivables	3,477,406	3,608,766
Taxes receivable	6,469	2,772
Other receivables	274,437	251,093
VAT receivable	52,398	60,833
Less: Allowance for impairment of trade receivables	(1,511,214)	(854,699)
Less: Allowance for impairment of other receivables	(20,732)	(22,675)
Total	**2,278,764**	**3,046,090**

The Group’s exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 31.

Allowance for doubtful debts for 2010 was created mostly in respect of accounts receivable originated before 2010. The Group reassessed the possibility to recover these debts due to changes in judicial practice regarding this matter as legislative framework regarding electricity and tariff regulation consists of numerous regulatory acts of various levels of precedence, the provisions of which are not entirely consistent and requirements of applicable laws by participants in civil relationships may vary.

Note 13. Prepayments for current assets

	31 December 2010	31 December 2009
Prepayments	358,407	527,011
Less: Allowance for impairment of prepayments	(40,857)	(116,539)
Total	**317,550**	**410,472**

(in thousands of Russian Roubles, unless otherwise stated)

Note 14. Cash and cash equivalents

	31 December 2010	31 December 2009
Cash at bank and in hand	1,460,123	425,060
Cash equivalents	15,377	-
Total	**1,475,500**	**425,060**

All cash and cash equivalents are denominated in Russian Roubles. Cash equivalents represent bank notes with original maturities of three month or less. The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 31.

Note 15. Other current assets

	31 December 2010	31 December 2009
Prepayments for insurance	13,292	15,140
Available-for-sale investments	8,354	537,480
Total	**21,646**	**552,620**

As of 31 December 2009 available-for-sale investments include bank promissory notes. The maturity was on 1 February 2010. The interest rate is set at 0.1 % p.a. These promissory notes were repaid at maturity date.

Note 16. Equity

Share capital

	31 December 2010	31 December 2009
Number of ordinary shares authorised, issued and fully paid	178,577,801,146	178,577,801,146
Par value (in RUB)	0.1	0.1
Total share capital (in RUB)	**17,857,780,115**	**17,857,780,115**

Dividends paid and declared

In accordance with Russian legislation the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with Russian Accounting Principles. As at 31 December 2010 the Company had retained earnings, including the profit for the current year, of RUB 4,451,332 thousand (2009: RUB 4,165,826 thousand).

The Group neither declared nor paid dividends for 2010 and 2009.

Earnings per share

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

	Year ended 31 December 2010	Year ended 31 December 2009
Weighted average number of ordinary shares issued	178,577,801,146	178,577,801,146
Profit attributable to the shareholders	567,499	1,304,837
Weighted average earnings per ordinary share – basic (in RUB)	0.0032	0.0073

Note 17. Employee benefits

The Group provides the following long-term pension and social benefit plans:

- defined contribution pension plan (Non-Government Pension Fund of the Electric Power Industry and Non-Government Pension Fund "Professionalniy"); and
- defined benefit pension plans and other long-term defined benefit plans regulated by Collective Bargaining Agreements that include lump sum benefit for pensioners upon retirement, benefits paid in connection with the jubilee dates of pensioners and employees, financial support for pensioners and one-time benefits paid in case of the death of pensioners.

The table below summarises the amounts of defined benefit obligations recognised in the Financial Statements as of 31 December 2010 and as of 31 December 2009.

(in thousands of Russian Roubles, unless otherwise stated)

Amounts recognised in the Consolidated Statement of Financial Position:

	31 December 2010		31 December 2009	
	Post-employment benefits	**Other benefits**	**Post-employment benefits**	**Other benefits**
Present value of funded defined benefit obligations	1,045,087	30,317	1,041,483	6,093
Net actuarial loss not recognised in the statement of financial position	(313,013)	-	(355,982)	-
Past service cost not recognised in the statement of financial position	(23,828)	-	(9,153)	-
Net liability in the Consolidated Statement of Financial Position	**708,246**	**30,317**	**676,348**	**6,093**

Amounts recognised in the Consolidated Statement of Comprehensive Income are as follows:

	Year ended 31 December 2010		Year ended 31 December 2009	
	Post-employment benefits	**Other benefits**	**Post-employment benefits**	**Other benefits**
Current service cost	54,030	470	34,039	110
Interest expenses	86,609	472	71,429	583
Recognised actuarial loss	35,787	7,074	225	(369)
Recognised past service cost	1,474	19,515	36,924	-
Total	**177,895**	**27,531**	**142,617**	**324**

Changes in the present value of the Group's defined benefit obligations are as follows:

	Year ended 31 December 2010		Year ended 31 December 2009	
	Post-employment benefits	**Other benefits**	**Post-employment benefits**	**Other benefits**
Benefit obligations				
Benefit obligations as at the beginning of the year	1,041,483	6,093	863,401	7,303
Current service cost	54,030	470	34,039	110
Interest cost	86,609	472	71,429	583
Actuarial (gain)/loss	(7,187)	7,074	267,623	(369)
Benefits paid	(145,997)	(3,307)	(146,627)	(1,534)
Past service cost	16,149	19,515	(48,382)	-
Benefit obligations as at the end of the year	**1,045,087**	**30,317**	**1,041,483**	**6,093**

Changes in the Group's net benefit obligations are as follows:

(in thousands of Russian Roubles, unless otherwise stated)

	Year ended 31 December 2010		Year ended 31 December 2009	
	Post-employment benefits	**Other benefits**	**Post-employment benefits**	**Other benefits**
Net benefit obligations				
Net benefit obligations as at the beginning of the year	676,348	6,093	680,358	7,303
Net costs for the year	177,895	27,531	142,617	324
Benefits paid	(145,997)	(3,307)	(146,627)	(1,534)
Net benefit obligations as at the end of the year	**708,246**	**30,317**	**676,348**	**6,093**

Principal actuarial estimations are as follows:

	Year ended 31 December 2010	Year ended 31 December 2009
Discount rate	8.00%	8.70%
Future Salary increase	5.00%	5.50%
Future inflation rate	5.00%	5.50%
Mortality table	Russian 2002	Russian 2002
Average expected remaining working life (in years)	9	10
Average period until benefits become vested	7	7

Note 18. Loans and borrowings

Non-current borrowings

	Effective interest rate,%	Currency	Year of maturity	31 December 2010	31 December 2009
Loans and borrowings					
Including:					
OJSC Sberbank Rossii	7,20-7,45	RUB	2012-2013	2,990,000	-
OJSC Sberbank Rossii	-	RUB	2011	-	1,850,000
OJSC Gazprombank	7,28-8,10	RUB	2012-2015	1,495,000	-
OJSC Gazprombank	-	RUB	2011	-	153,000
OJSC Alfa-Bank	7,6	RUB	2012	550,000	1,300,000
OJSC Transkreditbank	-	RUB	2012	-	1,050,000
OJSC JCB Svyaz-Bank	-	RUB	2011	-	895,561
OJSC VTB Bank	-	RUB	2012	-	130,549
Finance lease liability				247,342	646,945
Total non-current debt				**5,282,342**	**6,026,055**
Less: Current portion of finance lease liability				(88,453)	(194,528)
Total				**5,193,889**	**5,831,527**

Current borrowings

	31 December 2010	31 December 2009
Current portion of finance lease liability	88,453	194,528
Total	**88,453**	**194,528**

All loans and borrowings listed above are bank borrowings with fixed interest rate.

(in thousands of Russian Roubles, unless otherwise stated)

The effective interest rate is the market interest rate applicable to the loan at the date of its receipt.

The Group has not entered into any hedging arrangements in respect of its interest rate exposure.

As of 31 December 2010 and 31 December 2009 all loans and borrowings were unsecured.

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

	31 December 2010			**31 December 2009**		
	Minimum lease payments	**Interest**	**Principal**	**Minimum lease payments**	**Interest**	**Principal**
Less than one year	158,042	69,589	88,453	218,031	95,952	122,079
Between one and five years	206,103	47,214	158,889	361,103	109,191	251,912
More than five years	-	-	-	784	175	609
	364,145	**116,803**	**247,342**	**579,918**	**205,318**	**374,600**

The finance lease liabilities are secured by leased assets.

The Group's exposure to currency, interest rate and liquidity risk related to borrowings and finance lease liabilities is disclosed in note 31.

Note 19. Trade and other payables

Non-current payables

	31 December 2010	**31 December 2009**
Advances from customers	252,211	64,499
Other payables	-	1,083
Total	**252,211**	**65,582**

Current payables

	31 December 2010	**31 December 2009**
Trade payables	1,583,622	793,940
Payables to employees	903,066	299,022
Advances from customers	742,778	770,913
Accrued interest payable	3,331	4,755
Dividends payable	-	107
Other payables	154,163	37,827
Total	**3,386,960**	**1,906,564**

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 31.

Note 20. Other taxes payable

	31 December 2010	**31 December 2009**
Payments to social funds	128,504	80,415
Value added tax payable	88,916	521,760
Fines and other penalties payable	40,113	33,351
Property tax payable	26,183	36,806
Other taxes payable	65,490	56,231
Total	**349,206**	**728,563**

(in thousands of Russian Roubles, unless otherwise stated)

Note 21. Revenue

	Year ended 31 December 2010	Year ended 31 December 2009
Electricity transmission	38,736,861	28,491,849
Connection services	360,200	473,082
Other revenue	463,269	519,326
Total	**39,560,330**	**29,484,257**

Other revenues are comprised of repair, construction, maintenance services, rent services and transport revenue.

Note 22. Operating expenses

	Year ended 31 December 2010	Year ended 31 December 2009
Electricity transmission	13,832,073	8,148,918
Purchased electricity	9,730,221	5,774,040
Personnel costs	7,328,536	5,489,576
Depreciation and amortisation	2,811,174	2,837,759
Materials	1,343,912	1,135,929
Write-off and charge of impairment of accounts receivable	670,976	603,781
Consulting services	504,872	653,536
Repair and maintenance costs	397,050	341,388
Rent expenses	354,928	365,880
Electricity for own needs	327,405	282,932
Insurance expenses	235,176	211,873
Taxes other than income tax	217,536	256,529
Security services	128,250	124,764
Social expenditures and charity expenses	44,191	19,938
Loss on the disposal of property, plant and equipment	23,799	14,180
Bank commission	18,307	60,030
Electricity metering services	-	700,826
Other expenses	519,656	461,589
Total	**38,488,062**	**27,483,468**

Note 23. Personnel costs

	Year ended 31 December 2010	Year ended 31 December 2009
Wages and salaries	5,743,325	4,339,732
Payments to social funds	1,379,785	1,006,903
Expense in respect of post-employment defined benefit plan	205,426	142,941
Total	**7,328,536**	**5,489,576**

The average number of employees (including production and non-production staff) was 21,510 in 2010 (2009: 20,012).

Note 24. Other income, net

	Year ended 31 December 2010	Year ended 31 December 2009
Reimbursement from contractors	128,134	37,685
Accounts payable written-off	1,428	61,787
Tax and other penalties	(6,344)	(5,763)
Other income and expenses, net	(28,678)	(71,133)
Total	**94,540**	**22,576**

(in thousands of Russian Roubles, unless otherwise stated)

Note 25. Finance income and costs

	Year ended 31 December 2010	Year ended 31 December 2009
Finance income		
Interest income	3,153	2,239
	3,153	**2,239**
Finance costs		
Interest expense	(186,953)	(389,803)
Interest on finance lease liabilities	(94,563)	(114,426)
	(281,516)	**(504,229)**
Total	**(278,363)**	**(501,990)**

Note 26. Income tax expense

	Year ended 31 December 2010	Year ended 31 December 2009
Current income tax expense	440,135	341,305
Overprovided in prior years	(10,921)	(135,779)
Deferred income tax (benefit)/charge	(108,268)	11,012
Income tax expense	**320,946**	**216,538**

The Group's applicable tax rate in the Russian Federation is the income tax rate of 20% (2009: 20%).

Reconciliation of effective tax rate:

	Year ended 31 December 2010	%	Year ended 31 December 2009	%
Profit before income tax	**888,445**	**100**	**1,521,375**	**100**
Income tax at applicable tax rate	177,689	(20)	304,275	(20)
Overprovided in prior years	(10,921)	1	(135,779)	9
Tax effect of items which are not deductible or taxable for taxation purposes	154,178	(17)	48,042	(3)
Total income tax expense	**320,946**	**(36)**	**216,538**	**(14)**

Deferred tax assets and liabilities

For the year ended 31 December 2010 deferred tax assets and liabilities are attributable to the following items:

	31 December 2010	Recognised in profit or loss	1 January 2010
Accounts payable	111,374	(65,072)	46,302
Trade and other receivables	35,985	(35,985)	-
Employee benefit obligations	147,713	(11,224)	136,489
Inventories	14,243	31,095	45,338
Deferred tax assets	**309,315**	**(81,186)**	**228,129**
Property, plant and equipment	(1,158,874)	(12,625)	(1,171,499)
Non-current assets	(104,585)	(2,072)	(106,657)
Trade and other receivables	(36)	(12,385)	(12,421)
Deferred tax liabilities	**(1,263,495)**	**(27,082)**	**(1,290,577)**
Net deferred tax liabilities	**(954,180)**	**(108,268)**	**(1,062,448)**

(in thousands of Russian Roubles, unless otherwise stated)

For the year ended 31 December 2009 deferred tax assets and liabilities are attributable to the following items:

	31 December 2009	Recognised in profit or loss	1 January 2009
Accounts payable	46,302	(46,302)	-
Employee benefit obligations	136,489	1,043	137,532
Inventories	45,338	(14,920)	30,418
Intangible assets	-	758	758
Deferred tax assets	**228,129**	**(59,421)**	**168,708**
Property, plant and equipment	(1,171,499)	249,592	(921,907)
Non-current assets	(106,657)	8,406	(98,251)
Trade and other receivables	(12,421)	(175,367)	(187,788)
Accounts payable	-	(12,198)	(12,198)
Deferred tax liabilities	**(1,290,577)**	**70,433**	**(1,220,144)**
Net deferred tax liabilities	**(1,062,448)**	**11,012**	**(1,051,436)**

Note 27. Related parties

(a) Control relationships

As at 31 December 2009 and 2009 IDGC Holding was the parent company of the Company.

The party with ultimate control over IDGC of Volga is the Government of the Russian Federation, which holds the majority of the voting rights in IDGC Holding.

The majority of the Group's related party transactions are with the subsidiaries of former RAO UES and other state controlled entities.

(b) Transactions with entities under common control of the parent

Transactions with the Parent's subsidiaries and associates were as follows:

	Year ended 31 December 2010	Year ended 31 December 2009
Revenue:		
Other sales	-	93
Operating expenses:		
Other expenses	(257,040)	(257,040)

Related party transactions are based on normal market prices.

(c) Transactions with other state controlled entities

In the normal course of business the Group enters into transactions with other entities under Government control. Revenue for electricity transmission is based on the tariffs determined by the government. Bank loans are provided on the basis of market rates.

(in thousands of Russian Roubles, unless otherwise stated)

The Group had the following significant transactions with state-controlled entities:

	Year ended 31 December 2010	Year ended 31 December 2009
Revenue:		
Electricity transmission	7,408,973	4,753,107
Connection services	97,732	195,690
Other sales	68,906	74,266
Operating expenses:		
Electricity transmission	(8,999,664)	(6,761,998)
Purchased electricity	(1,509,737)	(1,933,085)
Interest expense	(139,480)	(157,244)
Other expenses	(236,631)	(326,296)

The Group had the following significant balances with state-controlled entities:

	31 December 2010	31 December 2009
Accounts receivable and prepayments	691,998	806,088
Accounts payable	(287,382)	(275,048)
Loans and borrowings	(2,990,000)	(2,878,281)

(d) Transactions with management and close family members

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

Compensation is paid to members of the Board of Directors and top management for their services in full time management positions. The compensation is made up of a contractual salary, non-cash benefits, and performance bonuses depending on results for the period according to Russian statutory financial statements.

Members of the Board of Directors and the top management of the Group received the following remuneration:

	Year ended 31 December 2010		Year ended 31 December 2009	
	Members of Board of Directors	Top management	Members of Board of Directors	Top management
Salaries and bonuses	17,493	100,861	10,279	27,772

Note 28. Operating leases

The Group leases a number of land plots owned by local governments under operating lease.

Land lease payments are determined by lease agreements and are as follows:

	31 December 2010	31 December 2009
Less than one year	336,970	334,416
Between one year and five years	487,555	579,451
After five years	4,612,756	3,179,623
Total	**5,437,281**	**4,093,490**

The land plots leased by the Group are the territories on which power lines, equipment for electricity transformation and other assets are located. Lease payments are reviewed regularly to reflect market rentals. Some contracts for land lease are concluded for 49 years, other contracts are concluded for one year with prolongation.

In accordance with contracts for land lease the land title does not pass. After contract term expiration it can be terminated. The rent paid to the landlord of the land is increased to market rent at regular intervals, and the Group does not participate in the value of the land, it was determined that substantially all the risks and rewards of the land are with the landlord. As such, the Group determined that the leases are operating leases.

(in thousands of Russian Roubles, unless otherwise stated)

During the year ended 31 December 2010 RUB 354,928 thousand (2009: RUB 365,880 thousand) was recognised in profit or loss in respect of operating lease payments.

The Group leased out administrative buildings and other equipment under operating leases. Lease payments are determined by lease agreements and are as follows:

	31 December 2010	**31 December 2009**
Less than one year	36,345	50,617
Between one year and five years	107,501	120,453
After five years	1,022,788	971,075
Total	**1,166,634**	**1,142,145**

Lease payments are reviewed regularly to reflect market rentals. The main part of the contracts for the lease of buildings is for 49 years.

Note 29. Commitments

Capital commitments

As at 31 December 2010 the Group has outstanding commitments under contracts for the purchase and construction of property, plant and equipment for RUB 150,162 thousand (as at 31 December 2009: RUB 421,777 thousand).

Note 30. Contingencies

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.

Litigation

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

Taxation contingencies

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

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

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. Company 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.

(in thousands of Russian Roubles, unless otherwise stated)

Other contingencies

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

Note 31. Financial instruments

(a) Fair value hierarchy

The fair value of financial assets and liabilities is determined as follows:

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- The fair value of other financial assets and financial liabilities (excluding derivatives) are determined in accordance with generally accepted pricing models based on a discounted cash flow analysis using prices from observable current market transactions.

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

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

	31 December 2010	**31 December 2009**
Level 1	523,251	535,791
Level 2	-	-
Level 3	8,354	544,329
Total	**531,605**	**1,080,120**

The financial instruments of the Group carried at fair value represent available-for-sale investments.

The table below analyses changes of financial assets in Level 3.

	31 December 2010	**31 December 2009**
Balance at beginning of the year	**544,329**	**9,132**
Total gains or losses recognised in profit or loss	1,786	(2,283)
Purchases	-	601,000
Sales and settlements	(537,761)	(63,520)
Balance at end of the year	**8,354**	**544,329**

(b) Credit risk

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

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date is represented in the table below:

(in thousands of Russian Roubles, unless otherwise stated)

	31 December 2010	31 December 2009
Cash and cash equivalents	1,475,500	425,060
Trade and other receivables (net of allowance for impairment)	2,120,916	2,986,370
Financial assets related to employee benefit fund	522,926	535,544
Other non-current assets (net of allowance for impairment)	325	7,095
Other current assets	8,354	537,480
Total	**4,128,021**	**4,491,549**

The Group's three most significant customers, regional distribution entities, account for RUB 559 846 thousand of trade receivables carrying amount at 31 December 2010 (31 December 2009: four customers RUB 1,997,238 thousand).

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

	31 December 2010	31 December 2009
Electricity transmission	3,052,949	3,213,593
Connection services	126,945	131,588
Other sales	308,837	370,512
Less: Allowance for impairment of accounts receivable	(1,511,216)	(854,699)
Total	**1,977,515**	**2,860,994**

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

	31 December 2010		31 December 2009	
	Gross	Impairment	Gross	Impairment
Not past due	1,523,108	(8,130)	1,857,068	(7,547)
Past due not more 3 months	215,254	(62,692)	1,377,324	(376,932)
Past due more than 3 months and not more than 6 months	161,315	(82,181)	27,156	(14,442)
Past due more than 6 months and not more than 1 year	298,798	(190,810)	530,649	(406,999)
Past due more than one year	1,422,289	(1,188,158)	75,689	(75,595)
Total	**3,620,764**	**(1,531,971)**	**3,867,886**	**(881,515)**

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

	Year ended 31 December 2010	Year ended 31 December 2009
Balance at 1 January	**881,515**	**655,792**
Charge of additional allowance for doubtful debtors	1,225,011	578,086
Reversal of the allowance for doubtful debtors	(482,635)	(351,532)
Accounts receivable written off through allowance for bad debts	(91,920)	(831)
Balance at 31 December	**1,531,971**	**881,515**

The allowance accounts in respect of trade and other receivables are used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amounts considered irrecoverable and is written off against the financial asset directly.

(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.

(in thousands of Russian Roubles, unless otherwise stated)

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

As at 31 December 2010:

	Carrying amount	Contractual cash flows	Less than 6 months	6-12 months	1-2 years	2-5 years	Over 5 years
Financial liabilities							
Unsecured loans and borrowings	5,035,000	5,830,524	184,996	184,676	4,008,127	1,452,725	-
Finance lease liabilities	247,342	364,145	84,346	73,696	118,655	87,448	-
Trade and other payables	1,741,116	1,741,116	1,739,132	1,984	-	-	-
Total	7,023,458	7,935,785	2,008,474	260,356	4,126,782	1,540,173	-

As at 31 December 2009:

	Carrying amount	Contractual cash flows	Less than 6 months	6-12 months	1-2 years	2-5 years	Over 5 years
Financial liabilities							
Unsecured loans and borrowings	5,379,110	6,528,605	325,455	320,700	4,301,818	1,580,632	-
Finance lease liabilities	374,600	579,918	114,921	103,110	167,765	193,338	784
Trade and other payables	837,605	837,605	824,942	12,655	8	-	-
Total	**6,591,315**	**7,946,128**	**1,265,318**	**436,465**	**4,469,591**	**1,773,970**	**784**

(d) Foreign exchange risk

The Group primarily operates within the Russian Federation. The majority of the Group’s operations are denominated in RUB.

(e) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group is exposed to interest rate risk through market value fluctuations of interest-bearing long-term borrowings. The majority of interest rates on long term and short term borrowings are fixed, these are disclosed in Note 18. The Group has no significant interest-bearing assets. Currently the Group does not operate a formal management program focusing on the unpredictability of financial markets or seeking to minimise potential adverse effects on the financial performance of the Group.

(f) Fair values 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.

(g) Capital management

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

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

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

No Group’s entity is subject to externally imposed capital requirements.

(h) Fair values

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