SO UPS GROUP

International Financial Reporting Standards (IFRS) Consolidated Financial Statements

for the year ended 31 December 2010

Contents

ZAO KPMG
10 Presnenskaya Naberezhnaya
Moscow, Russia 123317

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

Independent Auditors' Report

To the Board of Directors of Open Joint Stock Company "System Operator of the United Power System" (OJSC SO UPS):

We have audited the accompanying consolidated financial statements of OJSC SO UPS 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.

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24 June 2011

In millions of Russian Roubles (RUB)

Consolidated Statement of Financial Position as at 31 December 2010

	Notes	31 December 2010	31 December 2009
ASSETS			
Non-current assets			
Property, plant and equipment	5	14,632	13,317
Intangible assets	6	1,486	1,348
Other non-current assets	7	1,760	3,863
Total non-current assets		**17,878**	**18,528**
Current assets			
Cash and cash equivalents		6,561	6,170
Accounts receivable and prepayments	8	389	676
Income tax receivable		73	57
Inventories		90	47
Other current assets		49	18
Total current assets		**7,162**	**6,968**
TOTAL ASSETS		**25,040**	**25,496**
EQUITY AND LIABILITIES			
Equity attributable to the shareholder			
Share capital registered	9	2,576	2,576
Share premium	9	7,800	7,800
Revaluation reserve	5	4,880	4,866
Contribution from the shareholder	9	608	608
Retained earnings		3,394	1,731
Total equity		**19,258**	**17,581**
Non-current liabilities			
Non-current debt	10	575	2,422
Deferred income tax liabilities	15	718	782
Retirement benefit obligations	11	881	800
Total non-current liabilities		**2,174**	**4,004**
Current liabilities			
Current debt and current portion of non-current debt	10	1,819	2,203
Accounts payable	12	1,288	1,205
Taxes payable	13	501	503
Total current liabilities		**3,608**	**3,911**
Total liabilities		**5,782**	**7,915**
TOTAL EQUITY AND LIABILITIES		**25,040**	**25,496**

Chairman of the Management Board B.I. Ayuev

Chief Accountant M.S. Sedyakin

«24» июня 2011

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 37.

In millions of Russian Roubles (RUB)

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

	Notes	Year ended 31 December 2010	Year ended 31 December 2009
Revenues			
Dispatch management fees		15,957	16,217
Other income		326	243
Total revenues		**16,283**	**16,460**
Operating expenses			
Wages, benefits and payroll taxes		(8,180)	(7,958)
Depreciation of property, plant and equipment and amortizations of intangible assets	5, 6	(1,776)	(1,450)
Rental expenses		(623)	(645)
Consulting services		(499)	(582)
Repairs and maintenance expenses		(548)	(565)
Transportation expenses		(398)	(413)
Taxes other than income tax		(259)	(254)
Other materials		(150)	(181)
Insurance expense		(189)	(184)
Business travel expenses		(184)	(175)
Telecommunication services		(174)	(176)
Utilities expenses		(105)	(80)
Research costs		(87)	(48)
Revaluation of property, plant and equipment	5	(290)	-
Other operating expenses		(493)	(474)
Operating expenses		**(13,955)**	**(13,185)**
Operating profit		**2,328**	**3,275**
Other income and expenses			
Finance income	14	378	205
Finance costs	14	(416)	(879)
Profit before income tax		**2,290**	**2,601**
Income tax expense	15	(637)	(616)
Profit for the year		**1,653**	**1,985**
Other comprehensive income			
Revaluation of property and plant equipment		16	-
Net change in fair value of available-for-sale financial assets		13	
Income tax on other comprehensive income		(5)	-
Other comprehensive income for the year		**24**	-
Total comprehensive income for the year		**1,677**	**1,985**
Total comprehensive income attributable to Shareholder		**1,677**	**1,985**

Chairman of the Management Board B.I. Ayuev

Chief Accountant M.S. Sedyakin

«24» июня 2011

The consolidated statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 37.

In millions of Russian Roubles (RUB)

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

	Note	Year ended 31 December 2010	Year ended 31 December 2009
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax		**2,290**	**2,601**
Adjustments to reconcile profit before income tax to net cash provided by operations:			
Depreciation and revaluation of property, plant and equipment and amortization of intangible assets	5, 6	2,066	1,450
Retirement benefit charge	11	189	189
Foreign exchange (gain)/loss		(217)	22
Finance costs, net (excluding interests of retirement benefit obligations)	14	147	551
Non-refundable VAT		13	28
Net loss on disposal of property, plant and equipment		2	33
Adjustment for other non-cash activities		42	(18)
Operating cash flows before working capital changes and income tax paid		**4,532**	**4,856**
Working capital changes:			
Change in accounts receivable and prepayments		295	(54)
Change in other current assets		(53)	85
Change in inventories		(43)	(18)
Change in accounts payable and accruals		83	377
Change in taxes payable, other than income tax		(2)	64
Income tax paid		(723)	(869)
Retirement benefits paid	11	(108)	(87)
Net cash generated by operating activities		**3,981**	**4,354**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Additions to property, plant and equipment and intangible assets		(1,371)	(4,391)
Interest received		157	213
Net cash used in investing activities		**(1,214)**	**(4,178)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from borrowings		-	1,253
Repayment of borrowings		(2,323)	(4,774)
Issuance of ordinary shares	9	-	4,244
Interest paid		(99)	(152)
Net cash (used in)/received from financing activities		**(2,422)**	**571**
Increase in cash and cash equivalents		**345**	**747**
Cash and cash equivalents at the beginning of the year		6,170	5,423
Effect of exchange rate fluctuations on cash held		46	-
Cash and cash equivalents at the end of the year		**6,561**	**6,170**

Chairman of the Management Board B.I. Ayuev

Chief Accountant M.S. Sedyakin

«24» июня 2011

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 37.

SO UPS GROUP

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010
In millions of Russian Roubles (RUB)

Consolidated Statement of Changes in Equity for the year ended 31 December 2010

	Share capital	Share capital-non-registered	Share premium	Merger reserve	Revaluation reserve	Contribution from the shareholder	Retained earnings	Total equity
At 1 January 2009	710	2,700	2,722	(955)	4,866	463	701	11,207
Profit for the year	-	-	-	-	-	-	1,985	1,985
Total comprehensive income for the year	-	-	-	-	-	-	**1,985**	**1,985**
Statutory registration of issuance of ordinary shares (Note 9)	725	(2,700)	1,975	-	-	-	-	-
Issuance of ordinary shares (Note 9)	1,141	-	3,103	-	-	-	-	4,244
Other contributions from owners and other movements	-	-	-	955		145	(955)	145
At 31 December 2009	**2,576**	-	**7,800**	-	**4,866**	**608**	**1,731**	**17,581**
Profit for the year	-	-	-	-	-	-	1,653	1,653
Other comprehensive income, net of tax	-	-	-	-	14	-	10	24
Total comprehensive income for the year	-	-	-	-	**14**	-	**1,663**	**1,677**
At 31 December 2010	**2,576**	-	**7,800**	-	**4,880**	**608**	**3,394**	**19,258**

Chairman of the Management Board B.I. Ayuev

Chief Accountant M.S. Sedyakin

"24" июня 2011

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 37.

Note 1. General information

The Company and its operations

The Open Joint Stock Company "System Operator of the United Power System" ("the Company" or JSC "SO UPS") was founded based on the Resolution of the Russian Open Joint Stock Company for Energy and Electrification Unified Energy System of Russia ("RAO UES") No.39r of 13 June 2002 in accordance with the Decree of the Russian Federation Government No.526 of 11 July 2001 'On reforming of electricity (power) generation industry of the Russian Federation'.

The Company's registered office is located at bld. 3, 7 Kitaigorodsky proezd, 109074, Moscow, Russia.

The Company's principal activities include electricity dispatching functions within the Unified Energy System of the Russian Federation and organization of forecasting of power production and consumption.

As at 31 December 2010 the Company had 67 branches (31 December 2009: 67).

The SO UPS Group ("the Group") includes the Company and its subsidiaries. As at 31 December 2010 the Company owned 100 % (2009: 100%) of the share capital of JSC "High Voltage Direct Current Power Transmission Research Institute" (JSC "NIIPT") and 100 % (2009: 100%) of the share capital CJSC "Inspection of Electric Power Facilities" (CJSC "Technical Inspection of UES"). All subsidiaries have been established and operate in the territory of the Russian Federation.

Business environment

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

Relations with the State

As at 31 December 2010 and as at 31 December 2009 the Russian Federation represented by the Federal Agency of State Property Management owned 100 percent of JSC "SO UPS".

The Group's customer base includes a large number of enterprises which are either controlled by or directly relate to the State.

The Government of the Russian Federation directly affects the Company's operations through:

- participation of its representatives on the Board of Directors of the Company;
- regulation by the Federal service on tariffs ("FST") of the fees chargeable by the Company for the provision of dispatching services related to electric power transmission in the Unified Energy System of Russia;
- control over and approval of the Company's investment program; and
- antimonopoly regulation.

Note 2. Basis of preparation

Statement of compliance

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

Each company of the Group maintains its accounting records and prepares its financial statements in accordance with the Regulation on Accounting and Reporting of the Russian Federation. The accompanying Financial Statements are based on the statutory accounting records, with adjustments and reclassifications recorded for the purposes of fair presentation in accordance with IFRS.

Basis of measurement

These consolidated financial statements have been prepared under the historical cost convention except for the property, plant and equipment class "Buildings" which is stated at a revalued amount and financial instruments classified as available-for-sale which are stated at fair value.

Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble ("RUB"), which is the Group's consolidated entities' functional currency and the currency in which these combined and consolidated financial statements are presented. All financial information presented in RUB has been rounded to the nearest million, unless otherwise stated.

New accounting pronouncements

The following 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. 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.

- IAS 27 (2011) *Separate Financial Statements* will become effective for annual periods beginning on or after 1 January 2013. The amended standard carries forward the existing accounting and disclosure requirements of IAS 27 (2008) for separate financial statements with some clarifications. The requirements of IAS 28 (2008) and IAS 31 for separate financial statements have been incorporated into IAS 27 (2011). The amended standard will become effective for annual periods beginning on or after 1 January 2013. Early adoption of IAS 27 (2011) is permitted provided the entity also early-adopts IFRS 10, IFRS 11, IFRS 12 and IAS 28 (2011).

Note 2. Basis of preparation (continued)

- IAS 28 (2011*) Investments in Associates and Joint Ventures* combines the requirements in IAS 28 (2008) and IAS 31 that were carried forward but not incorporated into IFRS 11 and IFRS 12. The amended standard will become effective for annual periods beginning of or after 1 January 2013 with retrospective application required. Early adoption of IAS 28 (2011) is permitted provided the entity also early-adopts IFRS 10, IFRS 11, IFRS 12 and IAS 27 (2011).
- Amendment to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* clarifies that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount are classified as equity instruments even if the fixed amount is determined in foreign currency. A fixed amount can be determined in any currency provided that entity offers these instruments pro rata to all of the existing owners of the same class of its own non-derivative equity instruments. The amendment is applicable for annual periods beginning on or after 1 February 2010. The amendment is expected to have no impact on the Group's consolidated financial statements.
- Amended IFRS 7 *Disclosures – Transfers of Financial Assets* introduces additional disclosure requirements for transfers of financial assets in situations where assets are not derecognised in their entirety or where the assets are derecognised in their entirety but a continuing involvement in the transferred assets is retained. The new disclosure requirements are designated to enable the users of financial statements to better understand the nature of the risks and rewards associated with these assets. The amendment is effective for annual periods beginning on or after 1 July 2011.
- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during the first half of 2011. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Group does not intend to adopt this standard early.
- IFRS 10 *Consolidated Financial Statements* will be effective for annual periods beginning on or after 1 January 2013. The new standard supersedes IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities. IFRS 10 introduces a single control model which includes entities that are currently within the scope of SIC-12 Consolidation – Special Purpose Entities. Under the new three-step control model, an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with that investee, has the ability to affect those returns through its power over that investee and there is a link between power and returns. Consolidation procedures are carried forward from IAS 27 (2008). When the adoption of IFRS 10 does not result a change in the previous consolidation or non-consolidation of an investee, no adjustments to accounting are required on initial application.

Note 2. Basis of preparation (continued)

When the adoption results a change in the consolidation or non-consolidation of an investee, the new standard may be adopted with either full retrospective application from date that control was obtained or lost or, if not practicable, with limited retrospective application from the beginning of the earliest period for which the application is practicable, which may be the current period. Early adoption of IFRS 10 is permitted provided an entity also early-adopts IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011).

- IFRS 11 *Joint Arrangements* will be effective for annual periods beginning on or after 1 January 2013 with retrospective application required. The new standard supersedes IAS 31 Interests in Joint Ventures. The main change introduced by IFRS 11 is that all joint arrangements are classified either as joint operations, which are consolidated on a proportionate basis, or as joint ventures, for which the equity method is applied. The type of arrangement is determined based on the rights and obligations of the parties to the arrangement arising from joint arrangement's structure, legal form, contractual arrangement and other facts and circumstances. When the adoption of IFRS 11 results a change in the accounting model, the change is accounted for retrospectively from the beginning of the earliest period presented. Under the new standard all parties to a joint arrangement are within the scope of IFRS 11 even if all parties do not participate in the joint control. Early adoption of IFRS 11 is permitted provided the entity also early-adopts IFRS 10, IFRS 12, IAS 27 (2011) and IAS 28 (2011).
- IFRS 12 *Disclosure of Interests in Other Entities* will be effective for annual periods beginning on or after 1 January 2013. The new standard contains disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The expanded and new disclosure requirements aim to provide information to enable the users to evaluate the nature of risks associated with an entity's interests in other entities and the effects of those interests on the entity's financial position, financial performance and cash flows. Entities may early present some of the IFRS 12 disclosures early without a need to early-adopt the other new and amended standards. However, if IFRS 12 is early-adopted in full, then IFRS 10, IFRS 11, IAS 27 (2011) and IAS 28 (2011) must also be early-adopted.
- IFRS 13 *Fair value measurement* will be effective for annual periods beginning on or after 1 January 2013. The new standard replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It provides a revised definition of fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurement that currently exist in certain standards. The standard is applied prospectively with early adoption permitted. Comparative disclosure information is not required for periods before the date of initial application.
- Amendment to IAS 12 *Income taxes – Deferred Tax: Recovery of Underlying Assets*. The amendment introduces an exception to the current measurement principles for deferred tax assets and liabilities arising from investment property measured using the fair value model in accordance with IAS 40 *Investment Property*. The exception also applies to investment

Note 2. Basis of preparation (continued)

property acquired in a business combination accounted for in accordance with IFRS 3 *Business Combinations* provided the acquirer subsequently measures the assets using the fair value model. In these specified circumstances the measurement of deferred tax liabilities and deferred tax assets should reflect a rebuttable presumption that the carrying amount of the underlying asset will be recovered entirely by sale unless the asset is depreciated or the business model is to consume substantially all the asset. The amendment is effective for periods beginning on or after 1 January 2012 and is applied retrospectively.

- 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.
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* provides guidance on accounting for debt for equity swaps by the debtor. The interpretation clarifies that an entity's equity instruments qualify as "consideration paid" in accordance with paragraph 41 of International Financial Reporting Standards IAS 39 *Financial Instruments: Recognition and Measurement.* Additionally, the interpretation clarifies how to account for the initial measurement of own equity instruments issued to extinguish a financial liability and how to account for the difference between the carrying amount of the financial liability extinguished and the initial measurement amount of the equity instruments issued. IFRIC 19 is applicable for annual periods beginning on or after 1 July 2010.
- 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.

Critical accounting estimates and assumptions

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

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

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

Note 5 - Revaluation of class Buildings of property, plant and equipment

Note 5 - Useful life of property, plant and equipment

Note 11 - Retirement benefit obligations

Note 15 - Deferred tax assets

Note 2. Basis of preparation (continued)

Changes in accounting policies and presentation

With effect from 1 January 2010, the Group changed its accounting policy for leases of land. The amendment to IAS 17 Leases regarding the leases of land became effective from 1 January 2010. The amendment removed the earlier exemption which allowed leases of land to be classified as operating leases regardless of the length of the lease term. The amendedguidance 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 5).

Note 3. Summary of significant accounting policies

(a) Consolidation principles

The Group's consolidated financial statements incorporate the results, cash flows, assets and liabilities of JSC "SO UPS" and its subsidiaries. Subsidiaries are those entities over which the Company has the ability to control the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

All intragroup transactions and balances, and any unrealized income and expenses arising from the intragroup transactions are eliminated on consolidation. Unrealized gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency transactions

Monetary assets and liabilities which are held by the Group and denominated in foreign currencies at the balance sheet date are translated into RUB at the exchange rates effective at that date. Foreign currency transactions are accounted for at the exchange rates effective at the date of the transaction. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

(c) Dividends

Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared and approved by shareholder before or on the balance sheet date. Dividends are disclosed when they are declared after the reporting date, but before the financial statements are authorized for issue.

(d) Property, plant and equipment

Items of property, plant and equipment, except for buildings, are stated at acquisition or construction cost less accumulated depreciation and impairment losses. Property, plant and equipment items comprising the Buildings class are stated at a revalued amount. Revaluation is carried out on a regular basis to ensure that the carrying amount does not differ significantly from that, which would be determined using the fair value at the reporting date. The

Note 3. Summary of significant accounting policies (continued)

frequency of revaluations depends upon the movements in the fair values of the assets being revalued.

The increase in the carrying amount arising on revaluation of an item of property, plant and equipment is recognised directly in the revaluation reserve in other comprehensive income except to the extent that it reverses a previous revaluation decrease of the same item of property, plant and equipment recognised in profit or loss, in which case it is recognised in profit or loss. A revaluation decrease on the carrying amount of an item of property, plant and equipment is recognised in profit or loss except to the extent that it reverses a previous revaluation increase recognised directly in other comprehensive income, in which case the reversing amount is recognised directly in other comprehensive income.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

The Group recognizes deferred tax assets and liabilities arising from revaluation of items of property, plant and equipment directly in equity, except when the revaluation result was recognised in profit or loss.

At each reporting date the management assesses whether there is any indication of impairment of property, plant and equipment (other than the class Buildings). If any such indication exists, the management estimates the recoverable amount which is determined as the higher of an asset’s fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the difference is recognised as an expense (impairment loss) in profit or loss. An impairment loss recognised in prior years is reversed if there has been a change in the estimates used to determine an asset's recoverable amount.

Renewals and improvements are capitalized and the assets replaced are retired. The cost of repair and maintenance are expensed as incurred.

Gains and losses arising from the retirement of property, plant and equipment are included in the income statement as incurred. For items of property, plant and equipment carried at revalued amounts, any revaluation surplus in equity relating to these items is released to retained earnings on retirement via direct transfer in equity.

Depreciation on property, plant and equipment is calculated on a straight-line basis over the estimated useful life of the asset when it is available for use. Land is not depreciated. The useful lives, in years, of assets by type of facility are as follows:

	The useful lives
Buildings	20 to 50 years
Electrical equipment	15 to 20 years
Computer, dispatching and communication equipment	3 to 20 years
Other PPE items (motor vehicles, office equipment, furniture and fixtures etc.)	3 to 20 years

Useful lives of property, plant and equipment are reviewed annually.

(e) Intangible Assets

All of the Group’s intangible assets have definite useful lives and primarily include capitalized computer software and licences.

Note 3. Summary of significant accounting policies (continued)

Acquired computer software and licences are capitalized on the basis of the costs incurred to acquire and bring them to use.

After initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation of intangible assets is calculated on a straight-line basis over the useful lives of 1-5 years.

At each reporting date the management assesses whether there is any indication of impairment of intangible assets. If impaired, the carrying amount of intangible assets is written down to the higher of the assets' fair value less costs to sell and their value in use.

Research costs are recognised as an expense as incurred. Development costs are recognised as intangible assets only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure incurred during the development. Other development expenditures are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. The carrying value of development costs is reviewed for impairment annually.

(f) Cash and Cash Equivalents

Cash and cash equivalents comprise cash at banks, cash on hand and cash deposited on demand at banks with an original maturity of three months or less.

(g) Accounts receivable and prepayments

Accounts receivable are recorded inclusive of value added taxes less an allowance made for impairment of these receivables. An allowance for doubtful debtors is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the allowance is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the original effective rate of interest. Where provision has been made for impairment of receivables, the impairment loss is recognised for the gross amount of the debtor's balance, including value added tax.

(h) Value added tax on purchases and sales

Output value added tax ("VAT") related to sales is payable to tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the statement of financial position on a gross basis and disclosed separately as an asset and liability.

(i) Borrowings

Borrowings are initially recognised at fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are measured at amortised cost using the effective interest method; any difference between the initial fair value of the consideration received (net of transaction costs) and the redemption amount is recognised in profit or loss as an interest expense over the period of the borrowings.

Note 3. Summary of significant accounting policies (continued)

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily requires extended period to prepare the asset for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are recognised as an expense in the period in which they were incurred. Borrowing costs include interest costs and other costs incurred by the Group in connection with borrowings.

The Group capitalizes borrowing costs relating to all the qualifying assets for which the commencement date for construction is on or after 1 January 2009. The Group continues to recognize as an expense the borrowing costs associated with the construction projects for which the commencement date is before 1 January 2009.

(j) Accounts payable and accrued charges

Accounts payable are stated inclusive of value added tax. Trade payables are accrued when the counterparty performed its obligations under the contract and are carried at amortised cost using the effective interest method.

(k) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(l) Employee benefits

In the normal course of business the Group contributes to the Russian Federation state pension scheme on behalf of its employees. Mandatory contributions to the governmental pension scheme are expensed when incurred and included in wages, benefits and payroll taxes in the income statement.

The Group incurs employee costs related to the provision of other benefits such as medical insurance and accident insurance, which are also expensed when incurred.

The Group operates defined benefit plans that cover the majority of the Group’s employees.

Benefit plans define the amount of pension benefits that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses. The defined benefit obligations are calculated using the projected unit credit method.

The present value of the defined benefit obligations are determined by discounting the estimated future cash outflows using the interest rate of government bonds that are denominated in the currency in which the benefits will be paid associated with the operation of the plans, and that have terms to maturity approximating the terms of the related pension liabilities.

Note 3. Summary of significant accounting policies (continued)

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of the plan assets or 10% of the defined benefit obligations are charged or credited to profit or loss over the employees' expected average remaining working lives.

(m) Deferred income tax

Deferred income tax is provided using the balance sheet liability method for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, except where the temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit.

A deferred tax asset for deductible temporary differences is recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

The Group's uncertain tax positions are reassessed by management at every balance sheet date. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the balance sheet date and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the balance sheet date.

(n) Revenue recognition

Revenue from rendering services is recognised in the period the services are provided. Revenue amounts are presented exclusive of value added taxes. Revenue from rendering dispatching services related to electric power transmission is determined based on tariffs authorised and approved by the Federal service on tariffs ("FST").

(o) Operating leases

Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

Note 4. Balances and transactions with related parties

The Group's related parties are represented by:

- other companies under the State control;
- members of the Company's Board of Directors and members of the Company's Management Board.

In millions of Russian Roubles (RUB)

Note 4. Balances and transactions with related parties (continued)

State-controlled entities

In the normal course of business the Group enters into transactions with other entities under the State control. The Group had the following significant transactions and balances with state-controlled entities:

	For the year ended 31 December 2010	For the year ended 31 December 2009
Dispatch management fees	10,577	5,976
Consulting services costs	362	265

	31 December 2010	31 December 2009
Accounts receivable	65	301
Cash and cash equivalents	5,291	5,319
Accounts payable	51	85
Current debt (Note 10) (non-interest bearing)	1,819	1,638
Non-current debt (Note 10) (with fixed interest rate 7% per annum)	575	542

The dispatch services were provided to the companies under the State control on the same terms as those to the other companies at the set tariffs.

Current and non-current debt included promissory notes issued by the Company. The terms of the issued promissory notes are disclosed in Notes 9 and 10.

Directors' compensation

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

Fees, compensation or allowances to the members of the Board of Directors for their services in that capacity and for attending Board meetings are paid depending on results for the year.

The short-term compensations paid to the members of the Board of Directors and Management Board in monetary and non-monetary (medical insurance, provision of accommodation) forms amounted to RUB 72 million and RUB 70 million for the years ended 31 December 2010 and 31 December 2009, respectively.

The members of the Management Board also participate in the Company's pension plan (Note 11).

In millions of Russian Roubles (RUB)

Note 5. Property, plant and equipment

	Buildings	Electrical equipment	Computer, dispatching and communication equipment	Land	Other	Construction in progress	TOTAL
Cost / Appraised value							
Balance at 1 January 2010	**8,664**	**1,144**	**4,801**	**374**	**424**	**1,546**	**16,953**
Additions	289	65	1,691	90	64	841	3,040
Transfers	835	3	211	-	5	(1,054)	-
Disposals	-	(18)	(80)	-	(7)	(1)	(106)
Revaluation increase	16	-	-	-	-	-	16
Revaluation decrease to profit or loss	(290)	-	-	-	-	-	(290)
Elimination of depreciation for revalued assets	(571)	-	-	-	-	-	(571)
Balance at 31 December 2010	**8,943**	**1,194**	**6,623**	**464**	**486**	**1,332**	**19,042**
Accumulated depreciation							
Balance at 1 January 2010	**(277)**	**(536)**	**(2,630)**	**-**	**(193)**	**-**	**(3,636)**
Charge for the period	(294)	(175)	(918)	-	(60)	-	(1,447)
Additions	-	-	-	-	(2)	-	(2)
Disposals	-	17	80	-	7	-	104
Elimination of depreciation for revalued assets	571	-	-	-	-	-	571
Balance at 31 December 2010	**-**	**(694)**	**(3,468)**	**-**	**(248)**	**-**	**(4,410)**
Net book value as at 1 January 2010	**8,387**	**608**	**2,171**	**374**	**231**	**1,546**	**13,317**
Net book value as at 31 December 2010	**8,943**	**500**	**3,155**	**464**	**238**	**1,332**	**14,632**

In millions of Russian Roubles (RUB)

Note 5. Property, plant and equipment (continued)

	Buildings	Electrical equipment	Computer, dispatching and communication equipment	Land	Other	Construction in progress	TOTAL
Cost / Appraised value							
Balance at 1 January 2009	**8,090**	**1,036**	**3,979**	**355**	**329**	**1,529**	**15,318**
Additions	284	125	786	19	72	444	1,730
Transfers	291	2	102	-	32	(427)	-
Disposals	(1)	(19)	(66)	-	(9)	-	(95)
Balance at 31 December 2009	**8,664**	**1,144**	**4,801**	**374**	**424**	**1,546**	**16,953**
Accumulated depreciation and impairment							
Balance at 1 January 2009	**-**	**(368)**	**(2,004)**	**-**	**(153)**	**-**	**(2,525)**
Charge for the period	(277)	(168)	(680)	-	(48)	-	(1,173)
Disposals	-	-	54	-	8	-	62
Balance at 31 December 2009	**(277)**	**(536)**	**(2,630)**	**-**	**(193)**		**(3,636)**
Net book value as at 1 January 2009	**8,090**	**668**	**1,975**	**355**	**176**	**1,529**	**12,793**
Net book value as at 31 December 2009	**8,387**	**608**	**2,171**	**374**	**231**	**1,546**	**13,317**

In millions of Russian Roubles (RUB)

Note 5. Property, plant and equipment (continued)

The table below provides information about the carrying amount that would have been recognised had the assets of the "Buildings" class been carried under the cost model:

	Buildings
Cost	
Balance at 1 January 2010	**3,041**
Additions	289
Transfers	835
Balance at 31 December 2010	**4,165**
Accumulated Depreciation and Impairment	
Balance at 1 January 2010	**(279)**
Charge for the period	(113)
Balance at 31 December 2010	**(392)**
Net book value as at 1 January 2010	**2,762**
Net book value as at 31 December 2010	**3,773**

	Buildings
Cost	
Balance at 1 January 2009	**2,474**
Additions	284
Transfers	291
Disposals	(8)
Balance at 31 December 2009	**3,041**
Accumulated Depreciation and Impairment	
Balance at 1 January 2009	**(199)**
Charge for the period	(86)
Disposals	6
Balance at 31 December 2009	**(279)**
Net book value as at 1 January 2009	**2,275**
Net book value as at 31 December 2009	**2,762**

Construction in progress represents the carrying amount of property, plant and equipment that has not yet been put into operation.

Depreciation is charged once an asset is available for use.

Revaluation Starting from 1 January 2007 the Group adopted the revaluation model for property, plant and equipment comprising the "Buildings" class (see Note 3).

Property, plant and equipment items comprising the "Buildings" class were revalued as at 1 January 2007, as at 31 December 2008 and as at 31 December 2010 by independent appraisers.

Fair values were estimated using appropriate valuation techniques and were based on observable market prices in an active market.

In millions of Russian Roubles (RUB)

Note 5. Property, plant and equipment (continued)

As a result of the revaluation performed as at 31 December 2010, the Company's equity increased by RUB 14 million, comprising an increase in carrying value of Buildings of RUB 16 million, net of a related deferred tax liability of RUB 2 million and a revaluation decrease of RUB 290 million was recognised in profit or loss.

Operating leases

The Group leases a number of land areas, buildings and other properties under operating lease. The lease payments due are determined based on the lease agreements and payable as follows:

	31 December 2010	31 December 2009
Under one year	197	352
Between one and five years	238	500
Over five years	522	649
Total	**957**	**1,501**

The above lease agreements are signed for 1 to 49 years for land areas and for short-term period (less than 1 year) for other properties and may be extended for a longer period. The lease payments are subject to review on a regular basis to reflect market rent prices.

Note 6. Intangible assets

	Computer software and licences	Construction in progress (computer software SCADA/EMS system)	Development costs	Total
Cost				
Balance at 1 January 2010	1,667	453	113	2,233
Additions	401	53	13	467
Transfers	59	-	(59)	-
Disposals	(1)	-	-	(1)
Balance at 31 December 2010	**2,126**	**506**	**67**	**2,699**
Accumulated amortisation and impairment				
Balance at 1 January 2010	(885)	-	-	(885)
Amortisation expense	(329)	-	-	(329)
Disposals	1	-	-	1
Balance at 31 December 2010	**(1,213)**	**-**	**-**	**(1,213)**
Net book value				
Balance at 1 January 2010	**782**	**453**	**113**	**1,348**
Balance at 31 December 2010	**913**	**506**	**67**	**1,486**

In millions of Russian Roubles (RUB)

Note 6. Intangible assets (continued)

	Computer software and licences	Construction in progress (computer software SCADA/EMS system)	Development costs	Total
Cost				
Balance at 1 January 2009	**1,300**	**397**	**68**	**1,765**
Additions	341	56	74	471
Transfers	29	-	(29)	-
Disposals	(3)	-	-	(3)
Balance at 31 December 2009	**1,667**	**453**	**113**	**2,233**
Accumulated amortisation and impairment				
Balance at 1 January 2009	**(611)**	-	-	**(611)**
Amortisation expense	(277)	-	-	(277)
Disposals	3	-	-	3
Balance at 31 December 2009	**(885)**	-	-	**(885)**
Net book value				
Balance at 1 January 2009	**689**	**397**	**68**	**1,154**
Balance at 31 December 2009	**782**	**453**	**113**	**1,348**

Note 7. Other non-current assets

	31 December 2010	31 December 2009
Advances to suppliers	1,603	3,738
Financial assets available-for-sale	114	109
Trade receivables	42	16
Non-current portion of value added tax recoverable	1	-
Total	**1,760**	**3,863**

The advances to suppliers include advances for agreement between the Company and Siemens AG for the acquisition of new SCADA/EMS systems (computer software “Supervisory Control And Data Acquisition”) in the amount of RUB 486 million as at 31 December 2010 (31 December 2009: RUB 3,012 million).

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

In millions of Russian Roubles (RUB)

Note 8. Accounts receivable and prepayments

	31 December 2010	31 December 2009
Trade receivables (net of provision for impairment of RUB 63 million as at 31 December 2010 and RUB 26 million as at 31 December 2009)	165	502
Other receivables	78	16
Financial accounts receivable and prepayments	**243**	**518**
Advances to suppliers	99	36
Value added tax recoverable	47	122
Non-financial accounts receivable and prepayments	**146**	**158**
Total	**389**	**676**

Tax prepayments balances will be settled by means of offset against future tax liabilities.

Management has determined the provision for impairment of accounts receivable based on specific customer identification, customer payment trends, subsequent receipts and settlements and the analysis of expected future cash flows. Management believes that the Group will be able to realise the net receivable amount through direct collections and other non-cash settlements, and that therefore, the recorded value of accounts receivable approximates their fair value.

Note 9. Equity

Share capital

	31 December 2010	31 December 2009
Issued and fully paid:		
Registered share capital: Ordinary shares	2,576	2,576
Share premium	7,800	7,800
Total Share capital	**10,376**	**10,376**

As at 31 December 2010 the total number of authorised ordinary shares was 3,810,560,564 (31 December 2009: 3,810,560,564) with a nominal value per share of 1 (one) RUB each, including the issued, fully paid and registered ordinary shares of 2,576,367,429 (31 December 2009: 2,576,367,429).

Dividends

In accordance with the Russian legislation, the Company distributes profits as dividends or transfers them to reserves on the basis of financial statements prepared in accordance with Russian Accounting Rules. Russian legislation identifies the basis of distribution as the net profit. However, this legislation and other statutory laws and regulations are open to legal interpretation and accordingly management believes at present it would not be appropriate to disclose an amount of distributable reserves in these financial statements.

In 2010 no dividends were declared or paid for the years ended 31 December 2009 and 31 December 2010 respectively.

In millions of Russian Roubles (RUB)

Note 9. Equity (continued)

Contribution from the shareholder

During 2009 the Company paid the promissory notes for the amount of RUB 4,244 million and reissued non-interest-bearing promissory notes in the amount of RUB 1,818 million payable on demand but not earlier than 31 December 2010. The effect of the discount on the reissued promissory notes of RUB 145 million, net of income tax, was recognised directly in equity as a contribution from the shareholder.

The effective interest rate applied was 11.04%.

Note 10. Current and non-current debt

	Currency	Effective interest rate	Due	31 December 2010	31 December 2009
Non-current debt					
EBRD [1]	EUR	4.746 %	2015	-	1,916
EBRD [2]	EUR	4.246 %	2012	-	529
Notes payable	RUB	7.000 %	2012	575	542
Total				**575**	**2,987**
Less current portion of non-current debt				-	**(565)**
Total non-current debt				**575**	**2,422**
Current debt					
Notes payable	RUB	0%		1,819	1,638
Current portion of non-current debt				-	565
Total current debt and current portion of non-current debt				**1,819**	**2,203**
				2,394	**4,625**

Debt maturity

Due for repayment	31 December 2010	31 December 2009
Before one year	1,819	2,203
Between one and two years	575	634
Between two and three years	-	942
Between three and four years	-	338
Between four and five years	-	338
After five years	-	170
Total	**2,394**	**4,625**

[1] The loan is obtained at the floating rate of EURIBOR + 3.75%. The maximum loan facility is EURO 60 million.

[2] The loan is obtained at the floating rate of EURIBOR + 3.25%. The maximum loan facility is EURO 20 million.

In millions of Russian Roubles (RUB)

Note 10. Current and non-current debt (continued)

The Group has not entered into hedging arrangements in respect of its foreign currency obligations or interest rate exposure.

During 2007 the Company issued interest-bearing promissory notes (with fixed interest rate of 7% per annum) for the total amount of RUB 469 million payable on demand but not earlier than 31 December 2012.

During 2009 the Company issued non-interest-bearing promissory notes for the amount of RUB 1,818 million payable on demand but not earlier than 31 December 2010. In 2009 the effect of the discount on reissued notes was RUB 181 million. The effective interest rate applied was 11.04%.

Note 11. Retirement benefit obligations

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

Amounts recognised in the Statement of Financial Position:

	31 December 2010	31 December 2009
Present value of funded defined benefit obligations	1,242	1,234
Deficit in plan	1,242	1,234
Net actuarial loss not recognised in the Statement of Financial Position	(301)	(369)
Unrecognised past service cost	(60)	(65)
Net liability in the Statement of Financial Position	**881**	**800**

Amounts recognised in the Statement of Comprehensive Income:

	Year ended 31 December 2010	Year ended 31 December 2009
Current service cost	54	48
Past service cost	5	7
Interest cost	109	101
Recognised actuarial loss	21	33
Total	**189**	**189**

Changes in the present value of the Company's defined benefit obligation and plan assets are as follows:

	Year ended 31 December 2010	Year ended 31 December 2009
Benefit obligations		
Benefit obligations as at 1 January	1,234	1,139
Current service cost	54	48
Past service cost	-	1
Interest cost	109	101
Actuarial (gains)/losses on obligation	(47)	32
Benefits paid	(108)	(87)
Benefit obligations as at 31 December	**1,242**	**1,234**

The Group expects to contribute RUB 70 million to the defined benefit plans during the year ending 31 December 2011.

In millions of Russian Roubles (RUB)

Note 11. Retirement benefit obligations (continued)

Principal actuarial assumptions are as follows:

	31 December 2010, %	31 December 2009, %
Discount rate	8.00	9.00
Salary increase	7.50	8.00
Inflation	6.00	6.50

Life expectancies (at standard age of retirement) are as follows:

	31 December 2010	31 December 2009
Male aged 60	14	14
Female aged 55	23	23

Note 12. Accounts payable

	31 December 2010	31 December 2009
Payroll liabilities	716	659
Trade payables	330	416
Other creditors	242	130
Total	**1,288**	**1,205**

Note 13. Taxes payable

	31 December 2010	31 December 2009
Value added tax	338	343
Property tax	70	60
Unified social tax	20	20
Employee taxes	62	63
Other taxes	11	17
Total	**501**	**503**

Note 14. Finance income and finance costs

	Year ended 31 December 2010	Year ended 31 December 2009
Interest expense (debt)	(126)	(177)
Interest costs (benefit plans)	(109)	(101)
Unwinding of discount of non-interest promissory notes	(181)	(579)
Foreign exchange loss	-	(22)
Finance costs	**(416)**	**(879)**
Interest income	160	203
Effect of discounting of non-current accounts receivable	1	2
Foreign exchange gain	217	-
Finance income	**378**	**205**
Net finance costs	**(38)**	**(674)**

In millions of Russian Roubles (RUB)

Note 15. Income tax

	Year ended 31 December 2010	Year ended 31 December 2009
Current income tax charge	(706)	(824)
Deferred income tax benefit	69	208
Total income tax expense	**(637)**	**(616)**

During 2010, the Group was subject to 20% income tax rate (in 2009: 20%).

Reconciliation between the theoretical and the actual income tax charge is provided below:

	Year ended 31 December 2010	Year ended 31 December 2009
Profit before income tax	**2,290**	**2,601**
Theoretical tax charge at applicable tax rate	(458)	(520)
Tax effect of items which are not deductible or assessable for taxation purposes	(95)	(96)
Underprovided in prior years	(84)	-
Total income tax expense	**(637)**	**(616)**

Tax effects of components of other comprehensive income:

	Year ended 31 December 2010			Year ended 31 December 2009		
	Before tax	**Tax charge**	**After tax**	**Before tax**	**Tax charge**	**After tax**
Revaluation of property and plant equipment	16	(2)	14	-	-	-
Net change in fair value of available-for-sale financial assets	13	(3)	10	-	-	-
Total	**29**	**(5)**	**24**	-	-	-

Deferred income tax. Differences between IFRS and Russian statutory taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for income tax purposes. Deferred income tax assets and liabilities are measured at 20 %, the rate expected to be applicable when the assets or liabilities will reverse.

Deferred income tax assets/(liabilities)	1 January 2010	Recognised in profit or loss	Charged to other comprehensive income	31 December 2010
Property, plant and equipment	(1,063)	(3)	(2)	(1,068)
Current debt	(36)	36	-	-
Pension obligation	160	19	(3)	176
Accounts payable and accrued charges	65	19	-	84
Accounts receivable	48	(14)	-	34
Intangible assets	37	27	-	64
Others	7	(15)	-	(8)
Total deferred income tax assets/(liabilities), net	**(782)**	**69**	**(5)**	**(718)**

In millions of Russian Roubles (RUB)

Note 15. Income tax (continued)

Deferred income tax assets/(liabilities)	1 January 2009	Recognized in profit or loss	Recognized directly in equity	31 December 2009
Property, plant and equipment	(1,103)	40	-	(1 063)
Current debt	(116)	116	(36)	(36)
Pension obligation	140	20	-	160
Accounts payable and accrued charges	48	17	-	65
Accounts receivable	28	20	-	48
Intangible assets	25	12	-	37
Others	24	(17)	-	7
Total deferred income tax assets/(liabilities), net	**(954)**	**208**	**(36)**	**(782)**

Deferred income tax assets are recognised to the extent that it is probable that future profits will be available against which the Group can utilize the benefits therefore. Temporary differences on property, plant and equipment relate to differences in depreciation rates and revaluation.

In October 2007 RAO UES transferred the shares of JSC “NIIPT” amounting to RUB 1,028 million as a contribution to the share capital of the JSC “SO UPS”. The tax base of the shares was determined according to the transferor accounting data of RUB 0.028 million. As at 31 December 2010 the Group has not recognised a deferred tax liability in amount of RUB 205 million (31 December 2009: RUB 205 million) in respect of temporary difference associated with investment in this subsidiary as the Group is able to control the timing of the reversal of these temporary difference and does not intend to reverse it in the foreseeable future.

Note 16. Commitments

Capital commitments. Future capital expenditures for which contracts have been signed amounted to RUB 1,982 million as at 31 December 2010 (31 December 2009: RUB 1,616 million), including the expenditures under the agreement between the Company and Siemens AG for the acquisition of new SCADA/EMS systems in the amount of RUB 0 million as at 31 December 2010 (31 December 2009: RUB 407 million).

Note 17. 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 plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group’s operations and financial position.

Legal proceedings

The Group is a party to certain legal proceedings arising in the ordinary course of business. In the opinion of management, there are no other current legal proceedings or other claims

Note 17. Contingencies (continued)

outstanding, which, upon final disposition, will have a material adverse effect on the financial position of the Group.

Taxation

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 enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

Note 18. Financial instruments and risk management

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.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group’s risk management framework. The Management Committee is responsible for developing and monitoring the Group’s risk management policies.

In millions of Russian Roubles (RUB)

Note 18. Financial instruments and risk management (continued)

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 Management Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The oversight role is assigned to Internal Audit, which undertakes both regular and ad hoc reviews of risk management controls and procedures.

Financial instruments by categories:

	Loans and accounts receivable	**Other financial liabilities**	**Total**
At 31 December 2010			
Other non-current assets (Note 7)	42	-	42
Accounts receivable and prepayments (Note 8)	243	-	243
Cash and cash equivalents	6,561	-	6,561
Total financial assets	**6,846**	**-**	**6,846**
Non-current debt (Note 10)	-	575	575
Current debt (Note 10)	-	1,819	1,819
Accounts payable (Note 12)	-	1,288	1,288
Total financial liabilities	**-**	**3,682**	**3,682**
At 31 December 2009			
Other non-current assets (Note 7)	16	-	16
Financial assets available-for-sale (Note 7)	109	-	109
Accounts receivable and prepayments (Note 8)	518	-	518
Cash and cash equivalents	6,170	-	6,170
Total financial assets	**6,813**	**-**	**6,813**
Non-current debt (Note 10)	-	2,422	2,422
Current debt (Note 10)	-	2,203	2,203
Accounts payable (Note 12)	-	1,205	1,205
Total financial liabilities	**-**	**5,830**	**5,830**

Credit risk

Financial assets which potentially subject the Group to concentrations of credit risk consist of cash and cash equivalents and trade receivables principally.

At the reporting date the maximum exposure to credit risk was:

	Book value	
	At 31 December 2010	**At 31 December 2009**
Accounts receivable and prepayments (Note 8)	243	518
Cash and cash equivalents	6,561	6,170
Total financial assets	**6,804**	**6,688**

In millions of Russian Roubles (RUB)

Note 18. Financial instruments and risk management (continued)

a) Cash

The cash has been deposited in the financial institutions with no more than minimal exposure to the default risk at the time of account opening.

Cash in bank	Rate	Rating agency	31 December 2010	31 December 2009
JSC The All-Russia Bank of Development of Regions	**Ba2 (stable)**	Moody's Investors Service	5,164	5,179
CJSC Raiffeisenbank Austria	**Baa3 (negative)**	Moody's Investors Service	619	530
JSC Eurofinance Mosnarbank	**Ba3 (stable)**	Moody's Investors Service	299	199
CJSC VTB 24	**Baa1 (stable)**	Moody's Investors Service	127	140
Other	-	-	352	122
Total cash and cash equivalents			**6,561**	**6,170**

b) Accounts receivable

Credit risk related to accounts receivable is managed at the Group level. In most cases the Group does not calculate their customers' credit status but rates their creditworthiness on the basis of the financial position, prior experience and other factors.

The Group's trade customers principally represent electricity utilities entities. The table below shows the net balances of main trade customers:

	At 31 December 2010	At 31 December 2009
Rosenergoatom	-	184
Irkutskenergo	-	102
OGK-5	-	69
OGK-3	64	66
OJSC Kaustic	-	24
Kaliningradskaya GK	-	13
InterRao EES	17	-
Novo-Rysanskaya TEC	20	-
Tverskie kommunalniy systemy	12	-
Experimentalnya TES	9	-
Others	121	60
Total	**243**	**518**

Credit risk related to accounts receivable is systematically monitored and is considered when the provision for impairment is made. The carrying amount of accounts receivable, net of the provision for impairment, represents the maximum amount exposed to credit risk. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provision for impairment already recorded.

The table below shows the movement in the allowance for impairment in respect of trade receivables (see Note 8) during the year:

	2010	2009
Balance at 1 January	26	43
Increase during the year	50	6
Amounts written off against trade receivables	-	(2)
Decrease due to reversal	(13)	(21)
Balance at 31 December	**63**	**26**

In millions of Russian Roubles (RUB)

Note 18. Financial instruments and risk management (continued)

The provision for impairment in respect of receivables is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amount considered irrecoverable is written off against the financial asset directly.

As at 31 December 2010 the receivables past due for which no allowance was recorded amounted to RUB 63 million (at 31 December 2009: RUB 35 million). This was caused by the respective counterparties' failure to pay.

The table below shows the aging of the receivables:

	At 31 December 2010		At 31 December 2009	
	Book value	Impairment	Book value	Impairment
Not past due	230	-	460	-
Past due 0 to 1 months	-	-	9	-
Past due 1 to 3 months	18	6	10	-
Past due 3 to 6 months	20	20	13	1
Past due 6 months to 1 year	23	23	13	5
Past due more than 1 year	15	14	39	20
Total	**306**	**63**	**544**	**26**

Liquidity risk

Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The Group has procedures with the objective of minimising such losses, such as maintaining sufficient cash and other highly liquid current assets.

The table below shows the financial liability contractual maturity dates, including the estimated amounts of interest payments as at 31 December:

	Book value	Contractual cash flows	0 to 12 months	1 year to 2 years	2 years to 3 years	3 years to 4 years	4 years to 5 years	Over 5 years
At 31 December 2010								
Promissory notes	2,394	2,460	1,819	641	-	-	-	-
Account payable	1,288	1,288	1,288	-	-	-	-	-
Total	**3,682**	**3,748**	**3,107**	**641**	**-**	**-**	**-**	**-**

	Book value	Contractual cash flows	0 to 12 months	1 year to 2 years	2 years to 3 years	3 years to 4 years	4 years to 5 years	Over 5 years
At 31 December 2009								
Bank loans	2,445	2,887	715	762	486	392	362	170
Promissory notes	2,180	2,459	1,818	-	641	-	-	-
Account payable	1,205	1,205	1,205	-	-	-	-	-
Total	**5,830**	**6,551**	**3,738**	**762**	**1,127**	**392**	**362**	**170**

Note 18. Financial instruments and risk management (continued)

Non-interest bearing promissory notes with a nominal value of RUB 1,819 million (2009: RUB 1,818 million) relate to the category of liabilities payable on demand and have the maturity of “0 to 12 months”. As at the reporting date the Company has the absolute right to postpone the repayment of obligation for at least 12 months after the balance sheet date.

Market risk

The Group takes on exposure to market risks. Market risks arise from (a) assets and liabilities in foreign currencies, and (b) interest bearing assets and liabilities, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

a) *Foreign exchange risk.* The Group operates within the Russian Federation. The majority of the Group’s purchases and borrowings are denominated in RUB. The Group does not have arrangements to hedge foreign exchange risks of the Group’s operations.

Exposure to currency risk

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

In millions of	**RUB 2010**	**EUR 2010**	**RUB 2009**	**EUR 2009**
Cash	472	12	-	-
Bank loans	-	-	(2,446)	(56)
Gross exposure	472	12	(2,446)	(56)
Net exposure	472	12	(2,446)	(56)

The following significant exchange rates applied during the year:

in RUB	**Average rate**		**Reporting date spot rate**	
	2010	**2009**	**2010**	**2009**
EUR 1	40.2980	44.1299	40.7886	43.8173

Sensitivity analysis

A strengthening of the RUB against the euro at 31 December would have increased (decreased) profit or loss before taxes by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2009, albeit that the reasonably possible foreign exchange changes rate variances were different, as indicated below.

Note 18. Financial instruments and risk management (continued)

Effect in millions of RUB

	Strengthening	Weakening
	Profit or loss	Profit or loss
31 December 2010		
EUR (5% movement)	24	(24)
31 December 2009		
EUR (5% movement)	(122)	122

b) 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 Group has no significant interest bearing asset.

Currently the Group does not operate a formal management program focusing on the unpredictability of financial markets or seeking to minimize potential adverse effect on the financial performance of the Group.

The effect on profit from a change in EURIBOR by 5% is RUB 0 million (2009: RUB 6 million).

Fair value

Management believes that the fair value of financial assets and liabilities is not significantly different from their carrying amounts. The book value less impairment provision of trade receivables is assumed to approximate their fair value due to the short-term nature of the receivables. The fair value of financial liabilities for the purpose of disclosure in the financial statements is estimated by discounting future contractual cash flows at the current market interest rate that is available for the Group for similar financial instruments.

The maximum exposure to each type of risk is limited by fair value of each class of financial instruments.

	31 December 2010		31 December 2009	
	Book value	Fair value	Book value	Fair value
Other non-current assets (Note 7)	42	42	16	16
Financial assets available-for-sale (Note 7)	101	114	109	109
Accounts receivable (Note 8)	243	243	518	518
Cash and cash equivalents	6,561	6,561	6,170	6,170
Non-current debt (Note 10)	575	575	2,422	2,422
Current debt (Note 10)	1,819	1,819	2,203	2,203
Accounts payable (Note 12)	1,288	1,288	1,205	1,205

Note 19. Events subsequent to the reporting date

The Company is negotiating new terms of the credit agreement with EBRD to further finance the project with the new terms encompassing credit facilities up to EUR 60 million and credit term until June 2017. A supplemental agreement to the credit agreement is expected to be signed in the second quarter of 2011.

In February 2011 the Company prolonged the maturity date of non-interest bearing promissory notes for the amount of RUB 1,818 million, which will be payable on demand but not earlier than 1 March 2013.