FEDERAL GRID COMPANY UES GROUP

CONSOLIDATED FINANCIAL STATEMENTS

PREPARED IN ACCORDANCE WITH

INTERNATIONAL FINANCIAL REPORTING STANDARDS

FOR THE YEAR ENDED 31 DECEMBER 2010

pwc

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Board of Directors of Open Joint Stock Company «Federal Grid Company of Unified Energy System» (JSC FGC UES):

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

Management's Responsibility for the Financial Statements

2 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

3 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 whether the financial statements are free from material misstatement.

4 An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

Opinion

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

Emphasis of Matter

7 Without qualifying our opinion, we draw attention to Notes 1 and 5 to the accompanying consolidated financial statements. The Russian Federation has a controlling interest in the Group and governmental economic and social policies affect the Group's financial position, results of operations and cash flows.

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
29 April 2011

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Consolidated Statement of Financial Position as at 31 December 2010
(in millions of Russian Roubles)

	Notes	31 December 2010	31 December 2009 (restated)	1 January 2009 (restated)
ASSETS				
Non-current assets				
Property, plant and equipment	6	851,228	739,042	465,367
Intangible assets	7	6,189	6,392	6,933
Investments in associated companies	8	348	58,451	44,632
Available-for-sale investments	9	9,531	35,229	11,774
Long-term promissory notes	10	11,046	8,952	51,010
Other non-current assets	11	2,507	959	3,216
Total non-current assets		**880,849**	**849,025**	**582,932**
Current assets				
Cash and cash equivalents	12	13,573	33,699	15,685
Bank deposits	13	4,606	10,187	2,386
Short-term promissory notes	10	43,156	48,681	57,251
Accounts receivable and prepayments	14	32,672	29,295	31,103
Profit tax prepayments		581	988	3,635
Inventories	15	5,602	3,271	2,767
		100,190	**126,121**	**112,827**
Non-current assets held-for-sale	16	90,609	-	-
Total current assets		**190,799**	**126,121**	**112,827**
TOTAL ASSETS		**1,071,648**	**975,146**	**695,759**
EQUITY AND LIABILITIES				
Equity				
Share capital: Ordinary shares	17	616,781	576,757	576,757
Treasury shares	17	(6,864)	(6,864)	(6,864)
Share premium	17	10,501	10,347	10,347
Reserves	17	361,267	290,674	18,572
Retained earnings		(108,525)	(71,959)	(9,681)
Equity attributable to the shareholders of		**873,160**	**798,955**	**589,131**
Non-controlling interest		944	1,570	1,346
Total equity		**874,104**	**800,525**	**590,477**
Non-current liabilities				
Deferred profit tax liabilities	18	83,657	83,385	36,383
Non-current debt	19	50,000	6,000	17,318
Retirement benefit obligations	20	4,318	3,439	2,933
Total non-current liabilities		**137,975**	**92,824**	**56,634**
Current liabilities				
Accounts payable to the shareholders of FGC	17	11,193	40,178	-
Current debt and current portion of non-current debt	21	7,385	7,545	16,211
Accounts payable and accrued charges	22	39,760	32,938	31,456
Other taxes payable	23	1,231	1,136	981
Total current liabilities		**59,569**	**81,797**	**48,648**
Total liabilities		**197,544**	**174,621**	**105,282**
TOTAL EQUITY AND LIABILITIES		**1,071,648**	**975,146**	**695,759**

Authorised for issue and signed on behalf of the Management Board:

29 April 2011

First Deputy Chairman of the Management Board — D.A. Troshenkov

Head of Accounting, Financial Reporting and Internal Control — A.P. Noskov

The accompanying notes on pages 9 to 57 are an integral part of these consolidated financial statements

Consolidated Statement of Comprehensive Income for the year ended 31 December 2010
(in millions of Russian Roubles)

	Notes	Year ended 31 December 2010	Year ended 31 December 2009 (restated)
Revenues	24	113,330	87,580
Other operating income	24	4,484	4,287
Operating expenses	25	(87,873)	(78,216)
Gain on sale of investments in associates and available-for-sale investments	8,9	606	1,504
Loss on re-measurement of assets held-for-sale	16	(6,896)	-
Impairment of property, plant and equipment and intangible assets	6,7	(846)	2,957
Revaluation loss on property, plant and equipment	6	-	(104,456)
Operating profit / (loss)		**22,805**	**(86,344)**
Finance income	26	5,807	10,000
Finance costs	27	(619)	(1,484)
Impairment of available-for-sale investments and associates	8,9	(235)	(2,018)
Loss on dilution of share in associates	8	(2,790)	-
Share of result of associates	8	(833)	1,893
Profit / (loss) before profit tax		**24,135**	**(77,953)**
Profit tax	18	(5,752)	13,979
Profit / (loss) for the period		**18,383**	**(63,974)**
Other comprehensive income			
Change in revaluation reserve for property, plant and equipment	6	-	301,727
Foreign currency translation difference	8	(22)	9
Change in fair value of available-for-sale investments	9,17	18,800	25,035
Share of other comprehensive income of associates	8	-	13,390
Profit tax recorded directly in other comprehensive income	18	(3,760)	(66,139)
Other comprehensive income for the period, net of profit tax		**15,018**	**274,022**
Total comprehensive income for the period		**33,401**	**210,048**
Profit / (loss) attributable to:			
Shareholders of JSC "FGC UES"	28	19,009	(63,316)
Non-controlling interest		(626)	(658)
Total comprehensive income attributable to:			
Shareholders of JSC "FGC UES"		34,027	209,824
Non-controlling interest		(626)	224
Earning / (loss) per ordinary share for profit / (loss) attributable to the shareholders of JSC "FGC UES" – basic and diluted (in Russian Roubles)	**28**	**0.015**	**(0.055)**

Authorised for issue and signed on behalf of the Management Board:

29 April 2011

First Deputy Chairman of the Management Board D.A. Troshenkov

Head of Accounting, Financial Reporting and Internal Control A.P. Noskov

The accompanying notes on pages 9 to 57 are an integral part of these consolidated financial statements

FGC UES Group

Consolidated Statement of Cash Flows for the year ended 31 December 2010
(in millions of Russian Roubles)

	Notes	Year ended 31 December 2010	Year ended 31 December 2009 (restated)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit / (loss) before profit tax		**24,135**	**(77,953)**
Adjustments to reconcile profit before profit tax to net cash provided by operations			
Depreciation of property, plant and equipment	25	30,185	16,740
Loss on disposal of property, plant and equipment	25	910	1,413
Revaluation loss on property, plant and equipment	6	-	104,456
Impairment of property, plant and equipment and intangible assets	6,7	846	(2,957)
Loss on re-measurement of assets held-for-sale	14	6,896	-
Amortisation of intangible assets	25	869	930
Impairment of available-for-sale investments and associates	8,9	235	2,018
Gain on disposal of available-for-sale investments and associates	8, 9	(606)	(1,504)
Share of result of associates	8	833	(1,893)
Loss on decrease of share in associates due to dilution of share capital	8	2,790	
Accrual of bad debt provision	25	(2,164)	5,527
Finance income	26	(5,807)	(10,000)
Finance costs	27	619	1,484
Other non-cash operating income		49	861
Operating cash flows before working capital changes and profit tax paid		**59,790**	**39,122**
Working capital changes:			
Increase in accounts receivable and prepayments		(975)	(3,572)
Increase in inventories		(2,329)	(542)
(Increase) / decrease in other non-current assets		(1,548)	437
Increase in accounts payable and accrued charges		7,935	1,233
Decrease in taxes payable, other than profit tax		(998)	(2,403)
Increase in retirement benefit obligations		879	506
Profit tax paid		(9,305)	(2,326)
Net cash generated by operating activities		**53,449**	**32,455**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(140,939)	(90,079)
Purchase of intangible assets		(861)	(855)
Purchase of promissory notes		(56,932)	-
Investment in bank deposits		(3,988)	(8,130)
Redemption of promissory notes		55,963	56,725
Redemption of bank deposits		9,569	2,351
Disposal of available-for-sale investments	9	-	2,496
Dividends received		512	396
Interest received		9,633	4,623
Net cash used in investing activities		**(127,043)**	**(32,473)**

Consolidated Statement of Cash Flows for the year ended 31 December 2010
(in millions of Russian Roubles)

CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from shares issuance	17	11,193	40,178
Proceeds from current borrowings		-	4,000
Proceeds from issuance of non-current debt		50,000	-
Repayment of debt		(7,000)	(23,985)
Dividends paid		-	(39)
Interest paid		(725)	(2,122)
Net cash generated by financing activities		**53,468**	**18,032**
Net (decrease) / increase in cash and cash equivalents		**(20,126)**	**18,014**
Cash and cash equivalents at the beginning of the period	12	**33,699**	**15,685**
Cash and cash equivalents at the end of the period	12	**13,573**	**33,699**

Authorised for issue and signed on behalf of the Management Board:

29 April 2011

First Deputy Chairman of the Management Board D.A. Troshenkov

Head of Accounting, Financial Reporting and Internal Control A.P. Noskov

Consolidated Statement of Changes in Equity for the year ended 31 December 2010
(in millions of Russian Roubles)

	Note	Share capital	Share premium	Treasury shares	Reserves (Note 17)	Retained earnings	Total	Non-controlling interest	Total equity
As at 1 January 2010		**576,757**	**10,347**	**(6,864)**	**290,674**	**(71,959)**	**798,955**	**1,570**	**800,525**
Comprehensive income for the period									
Profit / (loss) for the period		-	-	-	-	19,009	**19,009**	(626)	**18,383**
Other comprehensive income, net of related profit tax									
Foreign currency translation difference	8	-	-	-	(22)	-	**(22)**	-	**(22)**
Gain on change of fair value of available-for-sale investments	9	-	-	-	15,040	-	**15,040**	-	**15,040**
Change in revaluation reserve for property, plant and equipment		-	-	-	(1,316)	1,316	-	-	-
Total other comprehensive income		-	-	-	*13,702*	*1,316*	***15,018***	-	***15,018***
Total comprehensive income for the period		-	-	-	13,702	20,325	**34,027**	(626)	**33,401**
Transactions with shareholders of FGC UES recorded directly in equity									
Issue of share capital	17	40,024	154	-	-	-	**40,178**	-	**40,178**
Transfer of merger reserve to retained earnings	17	-	-	-	56,891	(56,891)	-	-	-
Total transactions with shareholders of FGC UES		40,024	154	-	56,891	(56,891)	**40,178**	-	**40,178**
As at 31 December 2010		**616,781**	**10,501**	**(6,864)**	**361,267**	**(108,525)**	**873,160**	**944**	**874,104**

The accompanying notes on pages 9 to 57 are an integral part of these consolidated financial statements

Consolidated Statement of Changes in Equity for the year ended 31 December 2010
(in millions of Russian Roubles)

		Attributable to shareholders of FGC UES							
	Note	**Share capital**	**Share premium**	**Treasury shares**	**Reserves (Note 17)**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
As at 1 January 2009		**576,757**	**10,347**	**(6,864)**	**18,572**	**(9,681)**	**589,131**	**1,346**	**590,477**
Comprehensive income for the period									
Loss for the period		-	-	-	-	(63,316)	**(63,316)**	(658)	**(63,974)**
Other comprehensive income, net of related profit tax									
Share of other comprehensive income of associates	8,17	-	-	-	10,749	(37)	**10,712**	-	**10,712**
Foreign currency translation difference	8	-	-	-	9	-	**9**	-	**9**
Gain on change of fair value of available-for -sale investments	17	-	-	-	21,919	-	**21,919**	-	**21,919**
Change in revaluation reserve for property, plant and equipment	17	-	-	-	239,425	1,075	**240,500**	**882**	**241,382**
Total other comprehensive income		-	-	-	**272,102**	**1,038**	**273,140**	**882**	**274,022**
Total comprehensive income for the period					**272,102**	**(62,278)**	**209,824**	**224**	**210,048**
As at 31 December 2009		**576,757**	**10,347**	**(6,864)**	**290,674**	**(71,959)**	**798,955**	**1,570**	**800,525**

Authorised for issue and signed on behalf of the Management Board:

29 April 2011

First Deputy Chairman of the Management Board — D.A. Troshenkov

Head of Accounting, Financial Reporting and Internal Control — A.P. Noskov

Note 1. The Group and its operations

Open Joint Stock Company "Federal Grid Company of Unified Energy System" ("FGC UES" or "the Company") was established on 25 June 2002 as a wholly-owned subsidiary of the Russian Open Joint Stock Company for Energy and Electrification United Energy System of Russia ("RAO UES") ultimately controlled by the Government of the Russian Federation.

RAO UES itself was created as the holder of certain significant electricity power generation, transmission and distribution assets during the industry privatization in 1992.

The Company was established in the course of the Russian electric utilities industry restructuring, to maintain and operate the high voltage electricity transmission network, received from RAO UES and its subsidiaries, and to provide electricity transmission services using that network. During 2002 - 2008 the Group consolidated electricity transmission businessess previousely controlled by RAO UES. In 2008 the reorganization of RAO UES was completed and RAO UES ceased to exist as a legal entity. FGC UES is RAO UES's legal successor.

As at 31 December 2010 the FGC UES Group (the "Group") comprises FGC UES and its subsidiaries presented in Note 4.

The Group's primary activity is the provision of services for the transmission of electric power via the Unified National Electrical Network ("UNEN").

The Company's ordinary registered uncertified shares are traded on the MICEX and RTS exchanges under the trading code "FEES". Starting from March 2011 the Company's Global Depository Receipts (GDRs) are listed on the Main Market of the London Stock Exchange.

The registered office of the Company is located at 5a, Academician Chelomey Str., 117630, Moscow, Russian Federation.

Relations with the state. At 31 December 2010, following an additional issue of shares (Note 17) the state owned 79 percent of the voting ordinary shares of the Company (at 31 December 2009 – 77.66 percent). The Government of the Russian Federation ("RF") is the ultimate controlling party of the Company.

The RF directly affects the Group's operations through regulation by the Federal Tariff Service (FTS).

The investment program of FGC UES is subject to approval by the Ministry of Industry and Electricity and FTS.

As described in the *Operating environment* section below, the Government's economic, social and other policies could have material effects on the operations of the Group.

Operating environment. The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation and high interest rates. The recent global financial crisis has had a severe effect on the Russian economy and the financial situation in the Russian financial and corporate sectors significantly deteriorated since mid-2008. In 2010, the Russian economy experienced a moderate recovery of economic growth. The recovery was accompanied by a gradual increase of household incomes, lower refinancing rates, stabilisation of the exchange rate of the Russian Rouble against major foreign currencies, and increased liquidity levels in the banking sector.

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and frequent changes. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

Management determined impairment provisions by considering the economic situation and outlook at the end of the reporting period. The Group's assets are tested for impairment using the 'incurred loss' model required by the applicable accounting standards. These standards require recognition of impairment losses for receivables that arose from past events and prohibit recognition of impairment losses that could arise from future events, no matter how likely those future events are.

Management is unable to predict all developments in the economic environment which could have an impact on the Group's operations and consequently what effect, if any, they could have on the financial position of the Group. Management believes it is taking all the necessary measures to support the sustainability and development of the Group's business.

Note 2. Basis of preparation

Statement of compliance. These consolidated financial statements ("Financial Statements") have been prepared in accordance with, and comply with, International Financial Reporting Standards ("IFRS") and its interpretations. The Financial Statements have been prepared under the historical cost convention, as modified by the revaluation of property, plant and equipment and available-for-sale financial assets.

Each enterprise of the Group individually maintains its own books of accounts and prepares its statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation ("RAR"). The accompanying Financial Statements are based on the statutory records and adjusted and reclassified for the purpose of fair presentation in accordance with IFRS.

Functional and presentation currency. The national currency of the Russian Federation is the Russian Rouble (RR), which is the functional currency of the Group entities and the currency in which these Financial Statements are presented. All financial information presented in RR has been rounded to the nearest million, unless otherwise stated.

New accounting developments. These consolidated financial statements have been prepared by applying the accounting policies consistent with those of the annual financial statements for the year ended 31 December 2009, except for those policies which were changed to comply with the new or amended standards and interpretations that are in force for the financial periods beginning on 1 January 2010.

(a) Certain new standards and interpretations became effective for the Group from 1 January 2010:

- IFRIC 17, "Distributions of Non-Cash Assets to Owners" (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets should be recognised in profit or loss when the entity settles the dividend payable.

- IFRIC 18, "Transfers of Assets from Customers" (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers.

- IAS 27, "Consolidated and Separate Financial Statements" (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 requires an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the previous standard required the excess losses to be allocated to the owners of the parent in most cases). During 2010 year the Group recognised such losses related to the non-controlling interests in the amount of RR 428 million. The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. The Group has applied this accounting policy in prior years. The revised standard also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary has to be measured at its fair value.

- IFRS 3, "Business Combinations" (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 allows entities to choose to measure non-controlling interests using the previous IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer has to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss for the year. Acquisition-related costs are accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer has to recognise a liability for any contingent purchase consideration at the acquisition date. Changes in the value of that liability after the acquisition date are recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone.

Note 2. Basis of preparation (continued)

- Group Cash-settled Share-based Payment Transactions - Amendments to IFRS 2, "Share-based Payment" (effective for annual periods beginning on or after 1 January 2010). The amendments provide a clear basis to determine the classification of share-based payment awards in both consolidated and separate financial statements. The amendments incorporate into the standard the guidance in IFRIC 8 and IFRIC 11, which are withdrawn. The amendments expand on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation. The amendments also clarify the defined terms in the Appendix to the standard.
- Eligible Hedged Items—Amendment to IAS 39, "Financial Instruments: Recognition and Measurement" (effective with retrospective application for annual periods beginning on or after 1 July 2009). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations.
- IFRS 1, "First-time Adoption of International Financial Reporting Standards" (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009). The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes.
- Additional Exemptions for First-time Adopters - Amendments to IFRS 1, "First-time Adoption of IFRS" (effective for annual periods beginning on or after 1 January 2010). The amendments exempt entities using the full cost method from retrospective application of IFRSs for oil and gas assets and also exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4, 'Determining Whether an Arrangement Contains a Lease' when the application of their national accounting requirements produced the same result.
- Amendment to IAS 24, "Related Party Disclosures" (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. Revised IAS 24 was early adopted by the Group.
- Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss for the year and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. In addition, the amendments clarifying classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary published as part of the Annual Improvements to International Financial Reporting Standards, which were issued in May 2008, are effective for annual periods beginning on or after 1 July 2009.

  Unless otherwise stated above, the amendments and interpretations did not have any significant effect on the Group's consolidated financial statements.

(b) Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2011 or later and which the Group has not early adopted:

Note 2. Basis of preparation (continued)

- Classification of Rights Issues - Amendment to IAS 32 (issued on 8 October 2009; effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives.

- IFRIC 19, "Extinguishing Financial Liabilities with Equity Instruments" (effective for annual periods beginning on or after 1 July 2010). This IFRIC clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in profit or loss based on the fair value of the equity instruments compared to the carrying amount of the debt.

- Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14 (effective for annual periods beginning on or after 1 January 2011). This amendment will have a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan. It removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement.

- Limited exemption from comparative IFRS 7 disclosures for first-time adopters - Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2010). Existing IFRS preparers were granted relief from presenting comparative information for the new disclosures required by the March 2009 amendments to IFRS 7, Financial Instruments: Disclosures. This amendment to IFRS 1 provides first-time adopters with the same transition provisions as included in the amendment to IFRS 7.

- IFRS 9, Financial Instruments Part 1: Classification and Measurement. IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities. Key features are as follows:

  - Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

  - An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.

  - All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

  - Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated as at fair value through profit or loss in other comprehensive income.

  While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted.

- Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a

Note 2. Basis of preparation (continued)

result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose the carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose the fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period; IAS 1 was amended to clarify that the components of the statement of changes in equity include profit or loss, other comprehensive income, total comprehensive income and transactions with owners and that an analysis of other comprehensive income by item may be presented in the notes; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits.

- Disclosures—Transfers of Financial Assets – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011.). The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood.

- Recovery of Underlying Assets – Amendments to IAS 12 (issued in December 2010 and effective for annual periods beginning on or after 1 January 2012). The amendment introduced a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. SIC-21, "Income Taxes" – Recovery of Revalued Non-Depreciable Assets, which addresses similar issues involving non-depreciable assets measured using the revaluation model in IAS 16, "Property, Plant and Equipment", was incorporated into IAS 12 after excluding from its scope investment properties measured at fair value.

- Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters – Amendments to IFRS 1 (issued in December 2010 and effective for annual periods beginning on or after 1 July 2011). The amendment regarding severe hyperinflation creates an additional exemption when an entity that has been subject to severe hyperinflation resumes presenting or presents for the first time, financial statements in accordance with IFRS. The exemption allows an entity to elect to measure certain assets and liabilities at fair value; and to use that fair value as the deemed cost in the opening IFRS statement of financial position. The IASB has also amended IFRS 1 to eliminate references to fixed dates for one exception and one exemption, both dealing with financial assets and liabilities. The first change requires first-time adopters to apply the derecognition requirements of IFRS prospectively from the date of transition, rather than from 1 January 2004. The second amendment relates to financial assets or liabilities where the fair value is established through valuation techniques at initial recognition and allows the guidance to be applied prospectively from the date of transition to IFRS rather than from 25 October 2002 or 1 January 2004. This means that a first-time adopter may not need to determine the fair value of certain financial assets and liabilities at initial recognition for periods prior to the date of transition. IFRS 9 has also been amended to reflect these changes.

The Group does not expect the amendments to have any material effect on its financial statements.

Going concern. These Financial Statements have been prepared on a going concern basis, which contemplates the realisation of assets and the satisfaction of liabilities in the normal course of business.

(in millions of Russian Roubles unless otherwise stated)

Note 2. Basis of preparation (continued)

Critical accounting estimates and assumptions. Management has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these Financial Statements in conformity with IFRS. Estimates and judgments are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving preparation of estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the Financial Statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Property, plant and equipment. The Group assessed the recoverable amount of non-current assets as at 31 December 2010 applying certain estimates (Note 6). Actual results may be different from these estimates.

Classification as non-current assets held for sale. The Group management believes that the sale of assets to JSC "Inter RAO UES" (Note 16) was highly probable as at 31 December 2010 and the assest are available for immediate sale.

Tax contingencies. Russian tax legislation is subject to varying interpretations and changes, which can occur frequently. Where the Group management believes it is probable that their interpretation of the relevant legislation and the Group's tax positions cannot be sustained, an appropriate amount is accrued in these IFRS Financial Statements. The possible tax claims in respect of certain open tax positions of the Group companies are disclosed in Note 29.

Restatement. Prior to 31 December 2010 The Group had not maintained adequate accounting records for IFRS purpose regarding the original cost, revalued amounts, depreciation and impairment provision at the level of individual items of property, plant and equipment. As of the date of preparing the financial statements for the year ended 31 December 2010 the Group had completed its work on detailed accounting records regarding items of property, plant and equipment. Completion of the preparation of these records resulted in reclassifications of property, plant and equipment groups. Management considers that newly adopted classification is more correct and representative of the structure of the Group. Comparative information for 2009 and 2008 has been restated in line with the new classification.

As at 31 December 2009:

Property, plant and equipment groups for IFRS purpose	**As originally presented**	**Reclassification**	**As reclassified at 31 December 2009 (*)**
Buildings	21,194	(13,475)	7,719
Power transmission grids	412,970	17,069	430,039
Substations	123,585	(2,983)	120,602
Construction in progress	173,708	(1,335)	172,373
Other	8,863	724	9,587

As at 1 January 2009:

Property, plant and equipment groups for IFRS purpose	**As originally presented**	**Reclassification**	**As reclassified at 1 January 2009 (*)**
Buildings	14,723	(7,998)	6,725
Power transmission grids	141,447	25	141,472
Substations	82,059	18,566	100,625
Construction in progress	210,884	(691)	210,193
Other	18,236	(9,902)	8,334

(*) - The amounts are presented before correction adjustments described below.

In addition, the Group revised presentation of the Statement of Comprehensive Income for the year ended 31 December 2009:

	As originally presented	**Reclassification**	**As reclassified for the year ended 31 December 2009**
Reversal of impairment provision for property, plant and equipment	9,642	(9,642)	-
Specific impairment of property, plant and equipment and intangible assets	(2,287)	2,278	-
Impairment of property, plant and equipment and intangible assets	-	7,355	7,355

(in millions of Russian Roubles unless otherwise stated)

Note 2. Basis of preparation (continued)

In addition, the individual items of property, plant and equipment registers identified certain errors regarding the previously recognized revaluation effects in both the consolidated statement of comprehensive income and in the consolidated statement of changes in equity, the previously recognized depreciation expenses and reversal of impairment in the consolidated statement of comprehensive income and the related effects on deferred tax balances. The Group has corrected these errors by adjusting the respective balances as at 1 January 2009 and 31 December 2009 in these financial statements. These restatements had the following effect on previously issued financial statements:

As at 1 January 2009:

	As reported	Adjustment	As restated
Property, plant and equipment	467,349	(1,982)	465,367
Total non-current assets	584,914	(1,982)	582,932
Total assets	**697,741**	**(1,982)**	**695,759**
Reserves	(2,860)	21,432	18,572
Retained earnings	13,337	(23,018)	(9,681)
Total equity	**592,063**	**(1,586)**	**590,477**
Deferred profit tax liabilities	36,779	(396)	36,383
Total non-current liabilities	57,030	(396)	56,634
Total liabilities	**105,678**	**(396)**	**105,282**
Total equity and liabilities	**697,741**	**(1,982)**	**695,759**

As at and for the year ended 31 December 2009:

	As reported	Adjustment	As restated
Property, plant and equipment	740,320	(1,278)	739,042
Total non-current assets	850,303	(1,278)	849,025
Total assets	**976,424**	**(1,278)**	**975,146**
Reserves	267,533	23,141	290,674
Retained earnings	(47,795)	(24,164)	(71,959)
Total equity	**801,548**	**(1,023)**	**800,525**
Deferred profit tax liabilities	83,640	(255)	83,385
Total non-current liabilities	93,079	(255)	92,824
Total liabilities	**174,876**	**(255)**	**174,621**
Total equity and liabilities	**976,424**	**(1,278)**	**975,146**

Impairment of property, plant and equipment and intangible assets	7,355	(4,398)	2,957
Revaluation loss	(105,693)	1,237	(104,456)
Operating loss	**(83,183)**	**(3,161)**	**(86,344)**
Loss before profit tax	(74,792)	(3,161)	(77,953)
Profit tax	13,347	632	13,979
Loss for the period	**(61,445)**	**(2,529)**	**(63,974)**
Other comprehensive income			
Change in revaluation reserve for property, plant and equipment	297,862	3,865	301,727
Profit tax recorded directly in other comprehensive income	(65,366)	(773)	(66,139)
Other comprehensive income for the period, net of profit tax	**270,930**	**3,092**	**274,022**
Total comprehensive income for the period	**209,485**	**563**	**210,048**
Loss attributable to:			
Shareholders of JSC "FGC UES"	(61,196)	(2,120)	(63,316)
Non-controlling interest	(249)	(409)	(658)
Total comprehensive income attributable to:			
Shareholders of JSC "FGC UES"	209,261	563	209,824
Non-controlling interest	224	-	224
Loss per ordinary share for loss attributable to the shareholders of JSC "FGC UES" – basic and diluted (in Russian Roubles)	(0,053)	(0,002)	(0,055)

Note 2. Basis of preparation (continued)

The third statement of financial position as of 1 January 2009 is presented in these Financial Statements as a result of the reclassifications and restatement described above. This requirement to present the additional opening statement of financial position, when the entity has made a restatement or reclassification, extends to the information in the related notes. Management considered materiality and concluded that it is sufficient for an entity to present such information only in those notes that have been impacted by a restatement or a reclassification and state in the Financial Statements that the other notes have not been impacted by the restatement or reclassification. The omission of the notes to the additional opening statement of financial position is therefore, in management's view, not material.

Note 3. Summary of significant accounting policies

Principles of consolidation. The Financial Statements comprise the financial statements of FGC UES and the financial statements of those entities whose operations are controlled by FGC UES. Control is presumed to exist when FGC UES controls, directly or indirectly, through subsidiaries, more than 50 percent of voting rights. The Group holds 49% of the voting rights in JSC "Kuban Trunk Grids", a fully consolidated subsidiary. The Group has the power to govern the financial and operating policies of this subsidiary on the basis of a significant shareholding combined with other factors which allow the Group to exercise control, most importantly: FGC UES has appointed the majority of the members of the Board of Directors, FGC UES is the dominant owner and FGC UES has in substance full control of all aspects of the entity assets and operations.

All inter-company balances and transactions have been eliminated. The non-controlling interest in the Group subsidiaries has been disclosed as part of the Group's equity.

Purchases of subsidiaries from parties under common control. Purchases of subsidiaries from parties under common control are accounted for using the predecessor values method. Under this method the consolidated financial statements of the combined entity are presented as if the businesses had been combined from the beginning of the earliest period presented or, if later, the date when the combining entities were first brought under common control. The assets and liabilities of the subsidiary transferred under common control are at the predecessor entity's carrying amounts. The predecessor entity is considered to be the highest reporting entity in which the subsidiary's IFRS financial information was consolidated. Related goodwill inherent in the predecessor entity's original acquisitions is also recorded in these consolidated financial statements. Any difference between the carrying amount of net assets, including the predecessor entity's goodwill, and the consideration for the acquisition is accounted for in the consolidated financial statements as an adjustment to retained earnings within equity.

Associates. Associates are entities over which the Company has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The carrying amount of associates includes goodwill identified on acquisition and is reduced by accumulated impairment losses, if any. The Group discontinues the use of the equity method of accounting from the date when it ceases to have significant influence in the associate.

The Group's share of the post-acquisition profits or losses of associates is recorded in profit or loss, and its share of post-acquisition movements in the Group's other comprehensive income. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Financial instruments - key measurement terms. Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Note 3. Summary of significant accounting policies (continued)

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these Financial Statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the Statement of Financial Position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument.

Classification of financial assets. The Group holds financial assets of the following measurement categories: loans and receivables and available-for-sale financial assets.

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term.

All other financial assets are included in the available-for-sale category, which includes investment securities which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Classification of financial liabilities. The Group's financial liabilities are carried at amortised cost.

Initial recognition of financial instruments. The Group's financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

Derecognition of financial assets. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Available-for-sale investments. The Group classifies investments as available for sale at the time of purchase. Available-for-sale investments are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in profit or loss as finance income. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are deferred in other comprehensive income until the investment is derecognised or impaired at which time the cumulative gain or loss is removed from other comprehensive income to profit or loss for the period.

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of available-for-sale investments.

A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss– is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through current period's profit or loss.

(in millions of Russian Roubles unless otherwise stated)

Note 3. Summary of significant accounting policies (continued)

Foreign currency. Monetary assets and liabilities, which are held by the Group entities and denominated in foreign currencies at the end of the reporting period, are translated into Russian Roubles at the official exchange rates prevailing at that date. Foreign currency transactions are accounted for at the exchange rates prevailing 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.

As at 31 December 2010, the official rate of exchange as determined by the Central Bank of the Russian Federation, between the Russian Rouble and the US Dollar ("US$") was RR 30.48:US$ 1.00 (31 December 2009 – RR 31.24:US$ 1.00); between the Russian Rouble and Euro: RR 40.33:Euro 1.00 (31 December 2009 RR 43.39:Euro 1.00).

Property, plant and equipment. Property, plant and equipment are stated at revalued amounts less any subsequent accumulated depreciation and any subsequent accumulated impairment losses, where required.

Property, plant and equipment are subject to revaluation on a regular basis to ensure that the carrying amount does not differ materially from that which is determined using the fair value at the end of the reporting period. The frequency of revaluation depends upon the movements in the fair values of the assets being revalued. Increases in the carrying amount arising on revaluation of property, plant and equipment are credited to other comprehensive income and increase the revaluation reserve in equity; the increase is recognised in current period profits to the extent that it reverses previously recognised impairment loss of the same assets.

Decreases that offset previous increases of the same asset are recognised in other comprehensive income and decrease the previously recognised revaluation reserve in equity; all other decreases are recognised in profit or loss for the period. Any accumulated depreciation at the date of revaluation is eliminated against the gross amount of the assets, and the net amount is restated to the revalued amount of the asset.

The revaluation reserve in respect of an item of property, plant and equipment is transferred directly to retained earnings when the item is derecognised (on the retirement or disposal of the asset).

Renewals and improvements are capitalised and the assets replaced are retired. The cost of minor repair and maintenance are expensed as incurred. Gains and losses arising from the retirement of property, plant and equipment are included in profit or loss as incurred.

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. The useful lives are reviewed at each financial year end and, if expectations differ from previous estimates, the changes are recognised prospectively.

The useful lives, in years, of assets by type of facility are as follows:

	Useful lives
Buildings	25-60
Electric power transmission grids	30-50
Substations	15-35
Other	5-15

At each reporting date the management assess whether there is any indication of impairment of property, plant and equipment. 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 impairment loss is recognised as current period loss to the extent it exceeds the previous revaluation surplus in equity on the same asset. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Intangible assets. All of the Company's intangible assets have definite useful lives and primarily include capitalised computer software and licences.

Acquired computer software and licences are capitalised on the basis of the costs incurred to acquire and bring them to use. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits, are recognised as intangible assets. 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.

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 value in use and fair value less cost to sell.

Note 3. Summary of significant accounting policies (continued)

Research costs are recognised as an expense as incurred. Costs incurred on development projects 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.

Cash and cash equivalents. Cash comprises cash in hand and cash deposited on demand at banks. Cash equivalents comprise short-term highly liquid investments that are readily convertible into cash and have a maturity of three months or less from the date of origination and are subject to insignificant changes in value.

Bank deposits. Bank deposits comprise cash deposited at banks with a maturity date exceeding three months from the acquisition date.

Promissory notes. Promissory notes are financial assets with fixed or determinable cash flows recognized initially at fair value and subsequently carried at amortized cost using the effective interest method. The Group classifies a promissory note as short-term when it expects to realise it within twelve months after the reporting period. All other promissory notes are classified as long-term.

Trade and other receivables. Trade and other receivables are recorded inclusive of value added tax (VAT). Trade and other receivables are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the counterparty, impairment is measured using the original effective interest rate before the modification of terms.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account in profit or loss.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account in profit or loss.

Prepayments. Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss.

Inventories. Inventories mostly include repair materials and spare parts for transmission assets. Inventories are valued at the lower of cost and net realisable value. Cost of inventory is determined on the weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business, less selling expenses.

Note 3. Summary of significant accounting policies (continued)

Value added tax. Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of receivables from customers or (b) delivery of 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. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

Non-current assets classified as held for sale. Non-current assets and disposal groups (which may include both non-current and current assets) are classified in the statement of financial position as 'non-current assets held for sale' if their carrying amount will be recovered principally through a sale transaction (including loss of control of a subsidiary holding the assets) within twelve months after the reporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for a sale at a reasonable price; (d) the sale is expected within one year; and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn.

Non-current assets or disposal groups classified as held for sale in the current period's statement of financial position are not reclassified or re-presented in the comparative statement of financial position to reflect the classification at the end of the current period.

A disposal group is a group of assets (current or non-current) to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

Held for sale disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs to sell. Reclassified non-current financial instruments and deferred taxes are not subject to the write down to the lower of their carrying amount and fair value less costs to sell.

Income taxes. Income taxes have been provided for in these consolidated financial statements in accordance with Russian legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in the profit or loss unless it relates to transactions that are recognised, in the same or a different period, in other comprehensive income.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits/losses for the current and prior periods. Taxes other than on income are recorded as operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is provided on post acquisition retained earnings and other post acquisition movements in reserves of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

The Group's uncertain tax positions are reassessed by management at each end of the reporting period. 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 end of the reporting period 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 end of the reporting period.

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

Note 3. Summary of significant accounting policies (continued)

Advances received. Advances received are a deferred income for the future connection services and are reflected at not discounted cost.

Debt. Debt is recognised initially at its fair value plus transaction costs that are directly attributable to its issue. Fair value is determined using the prevailing market rate of interest for a similar instrument, if significantly different from the transaction price. In subsequent periods, debt is stated at amortised cost using the effective interest method; any difference between the fair value of the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss as an interest expense over the period of the debt obligation.

Borrowing costs are expensed in the period in which they are incurred if not related to purchase or construction of qualifying assets. Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets, if the commencement date for capitalisation is on or after 1 January 2009. The commencement date for capitalisation is when (a) the Group incurs expenditures for the qualifying asset; (b) it incurs borrowing costs; and (c) it undertakes activities that are necessary to prepare the asset for its intended use or sale. Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale. The Group capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the group's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

Pension and post-employment benefits. In the normal course of business the Group makes mandatory social security contributions to the Russian Federation state pension scheme on behalf of its employees. These contributions are expensed when incurred and included in employee benefit expenses and payroll taxes in profit or loss.

In addition, the Group maintains a number of post employment and other long-term benefit plans which are defined benefit in nature. These plans include life pension, lump sum upon retirement, financial support after retirement, jubilee and death benefits and cover majority of the Group's employees. Under the pension plan amount of pension benefits that an employee will receive after retirement dependents on his date of birth, number of years of service, position, salary and presence of awards. The Group settles its liability to provide life pension through a non-state pension fund. However, the assets held in the non-state pension fund do not meet definition of plan assets in accordance with IAS 19. These assets are accounted for as other non-current assets. Other benefits, apart from life pension payable via the non-state pension fund, are provided when they are due directly by the Group.

The liability recognised in the Statement of Financial Position in respect of the defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date together with adjustments for unrecognised actuarial gains or losses and past service cost. 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 interest rate of government bonds that have terms to maturity approximating the terms of the related pension liabilities.

With regard to post employment benefits, actuarial gains and losses in excess of 10% of the defined benefit obligation are recognised as an expense over the average remaining working life of employees. Past service costs are recognised immediately as an expense in the consolidated statement of comprehensive income to the extent that the benefits have vested, and are otherwise recognised on a straight-line basis over the average period until the benefits vest.

Actuarial gains and losses and past service costs related to other long-term employee benefits are recognised as an expense in the consolidated statement of comprehensive income when they arise.

Operating leases. Where the Group is a lessee in a lease which does not transfer substantially all the risk and rewards incidental to ownership from the lessor to the Group, the total lease payments, including those on expected termination, are charged to profit or loss on a straight-line basis over the period of the lease.

(in millions of Russian Roubles unless otherwise stated)

Note 3. Summary of significant accounting policies (continued)

Finance lease liabilities. Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in debts. The interest cost is charged to profit or loss over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

Treasury shares. Treasury shares are stated at weighted average cost. Any gains or losses arising on the disposal of treasury shares are recorded directly in shareholders' equity.

Dividends. Dividends are recognised as a liability and deducted from equity at the end of the reporting period only if they are declared (approved by shareholders) before or on the end of the reporting period. Dividends are disclosed when they are declared after the end of the reporting period, but before the financial statements are authorised for issue.

Non-controlling interest. Non-controlling interest represents minority's proportionate share of the equity and comprehensive income of the Group's subsidiaries. This has been calculated based upon the non-controlling interests' ownership percentage of these subsidiaries. Specific rights on liquidation for preference shareholders of subsidiaries are included in the calculation of non-controlling interests. The Group uses the 'economic entity' approach to the recognition of non-controlling interest. Any gains or losses resulting from the purchases and sales of the non-controlling interests are recognised in the statement of changes in equity.

Revenue recognition. Revenue amounts are presented exclusive of value added tax. Revenue from rendering the electricity transmission services is recognised in the period when the services are provided. Revenue from sales of electricity is recognised on the delivery of electricity. Revenue from connection services represents a non-refundable fee for connecting the customer to the electricity grid network and is recognized when the customer is connected to the grid network.

Share capital. Ordinary shares with discretionary dividends are classified as equity upon completion of share issue and registration of the issue in the Federal Financial Markets Service. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Earnings per share. Earnings per share is determined by dividing the profit or loss attributable to owners of the Company by the weighted average number of participating shares outstanding during the reporting period.

Note 4. Principal subsidiaries

All subsidiaries are incorporated and operate in the Russian Federation.

The principal subsidiaries as at 31 December 2010 and 31 December 2009 are presented below:

	31 December 2010		31 December 2009	
Name	**Ownership, %**	**Voting, %**	**Ownership, %**	**Voting, %**
Transmission companies:				
JSC "The Kuban Trunk Grids"	49.0	49.0	49.0	49.0
JSC "The Tomsk Trunk Grids"	52.0	59.9	52.0	59.9
Other companies				
JSC "Power Industry Research and Development Centre"	100.0	100.0	100.0	100.0
JSC "Energostroisnabkomplekt"	100.0	100.0	100.0	100.0
JSC "Nurenergo"	77.0	77.0	77.0	77.0
JSC "The principle electricity transmission service company of Unified National Electrical Network"	100.0	100.0	100.0	100.0
JSC "Specialized electricity transmission service company of Unified National Electrical Network"	100.0	100.0	100.0	100.0
JSC "Engineering and Construction Management Centre of Unified energy system"	100.0	100.0	100.0	100.0
JSC "DalEnergosetProject"	100.0	100.0	100.0	100.0
JSC "Mobile gas-turbine electricity plants"	100.0	100.0	100.0	100.0
LLC "Index Energetiki"	100.0	100.0	100.0	100.0

(in millions of Russian Roubles unless otherwise stated)

Note 4. Principal subsidiaries (continued)

JSC "Power Industry Research and Development Centre". JSC "Power Industry Research and Development Centre" is a research and development project institution in the sphere of electric power.

JSC "Energostroisnabkomplekt". JSC "Energostroisnabkomplekt" organises the supply of goods and services for companies operating in the industry.

JSC "Nurenergo". JSC "Nurenergo" performs electricity and heat distribution and sale activities in the Republic of Chechnya. Due to the difficult operating environment in the Republic of Chechnya, JSC "Nurenergo" has negative net assets after accounting for impairment (Note 6).

JSC "DalEnergoSetProject". JSC "DalEnergoSetProject" is a grid engineering company.

JSC "Mobile gas-turbine electricity plants". The primary activity of the company is generating and sale of electricity provided by mobile gas-turbine electricity plants used in power deficient points of the power system or in peak periods as temporary source of additional capacity.

LLC "Index Energetiki" owns minority shares in electricity industry entities, former subsidiaries of RAO UES. Control over LLC "Index Energetiki" was obtained as a result of the reorganization of RAO UES.

JSC "Specialized electricity transmission service company of Unified National Electrical Network". The main activities of this company are technical inspection, maintenance and regular and emergency repairs of power grids and other electric power facilities of UNEG.

JSC "Engineering and Construction Management Centre of Unified energy system". The main activity of this company is functioning as a customer-developer in capital construction projects associated with the reconstruction and technical modernization of electricity supply facilities and infrastructure.

Note 5. Balances and transactions with related parties

State controlled entities

In the normal course of business the Group enters into transactions with entities under Government control, large portion of the Group's primary activity - transmission services are rendered to entities controlled by Government of Russian Federation at the regulated tariffs. The Group borrows funds from banks under Government control at the prevailing market rates. Taxes are accrued and settled in accordance with Russian tax legislation.

During the year ended 31 December 2010 and 2009 the Group had the following significant transactions with state controlled entities:

	Year ended 31 December 2010	**Year ended 31 December 2009**
Transmission revenue	100,562	77,135
Electricity sales	2,004	1,336
Connection services	500	2,418

Significant balances with state controlled entities are presented below:

	31 December 2010	**31 December 2009**
Cash and cash equivalents	6,725	3,405
Bank deposits	618	3,244
Long-term promissory notes (Note 10)	1,599	671
Short-term promissory notes (Note 10)	19,478	46,331
Trade receivables (Net of allowance for doubtful debtors of RR 375 million as at 31 December 2010 and 4,569 million as at 31 December 2009)	8,655	6,042
Accounts payable to the shareholders of FGC UES	(11,193)	(40,178)
Accounts payable and accrued charges	(14,580)	(10,834)
Current debt	(505)	(505)

Tax balances and charges are disclosed in Notes 17, 22 and 24. Tax transactions are disclosed in the Statement of Comprehensive Income.

(in millions of Russian Roubles unless otherwise stated)

Note 5. Balances and transactions with related parties (continued)

Directors' compensation. Compensation is paid to members of the 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. Also, additional medical coverage is provided to the members of Management Board and their close family members.

Remuneration to the members of the Board of Directors is paid for their services in that capacity and for attending Board meetings. Fees, compensation or allowances, are not paid to the members of the Board of Directors who are government employees.

Total remuneration in the form of salary, bonuses and non-cash benefits provided to the members of the Board of Directors and Management Board for the year ended 31 December 2010 and 2009 was as follows:

	Year ended 31 December 2010		Year ended 31 December 2009	
	Expense	**Accrued liability**	**Expense**	**Accrued liability**
Short-term compensation, including salary and bonuses	176	-	98	1
Remuneration for serving on the Board of Directors	3	-	4	-
Post-employment benefits	14	72	12	58
Total	**193**	**72**	**114**	**59**

The amount of the short-term compensation to members of the Management Board represents remuneration accrued during the respective year, including bonuses based on the results of the preceding financial year. The amount of bonus for the results of the reporting financial year is determined after the date when these Financial Statements are authorised for issue.

(in millions of Russian Roubles unless otherwise stated)

Note 6. Property, plant and equipment

	Buildings	Power transmission grids	Substations	Construction in progress	Other	Total
Appraisal value or cost						
Opening balance as at 1 January 2010	7,719	430,039	120,602	171,095	9,587	739,042
Additions	565	136	1,118	139,877	3,180	144,876
Transfers	170	7,534	13,758	(21,932)	470	-
Disposals	(197)	(174)	(1,077)	(464)	(66)	(1,978)
Reversal of impairment provision	-	-	-	1,358	-	1,358
Closing balance as at 31 December 2010	8,257	437,535	134,401	289,934	13,171	883,298
Including PPE under finance lease	-	-	2,273	-	-	2,273
Accumulated depreciation and impairment						
Opening balance as at 1 January 2010 (*)	-	-	-	-	-	-
Charge for the period	(214)	(16,231)	(11,617)	-	(2,123)	(30,185)
Impairment loss	-	-	(1,663)	(332)	(14)	(2,009)
Disposals	1	80	24	-	19	124
Closing balance as at 31 December 2010	(213)	(16,151)	(13,256)	(332)	(2,118)	(32,070)
Including PPE under finance lease	-	-	(991)	-	-	(991)
Net book value as at 1 January 2010	7,719	430,039	120,602	171,095	9,587	739,042
Net book value as at 31 December 2010	8,044	421,384	121,145	289,602	11,053	851,228

(*) Accumulated depreciation was eliminated against the gross carrying amount of the assets before the revaluation as at 31 December 2009 was recorded.

(in millions of Russian Roubles unless otherwise stated)

Note 6. Property, plant and equipment (continued)

	Buildings	Power transmission grids	Substations	Construction in progress	Other	Total
Appraisal value or cost						
Opening balance as at 1 January 2009 (restated)	6,966	152,590	118,998	209,692	11,441	499,687
Additions	163	11	5,925	83,642	1,408	91,149
Transfers	759	1,796	14,857	(19,095)	1,683	-
Disposals	(8)	(47)	(966)	(464)	(254)	(1,739)
Elimination of accumulated depreciation and impairment	(485)	(16,905)	(26,958)	(3,235)	(4,987)	(52,570)
Reversal of impairment provision	26	3,089	2,097	-	32	5,244
Reversal of revaluation loss	135	16,135	6,356	363	472	23,461
Revaluation increase	2,331	279,943	45,466	53	2,870	330,663
Decrease in revaluation reserve	(1,209)	(3,158)	(19,284)	(4,860)	(425)	(28,936)
Revaluation loss	(959)	(3,415)	(25,889)	(95,001)	(2,653)	(127,917)
Closing balance as at 31 December 2009 (restated)	7,719	430,039	120,602	171,095	9,587	739,042
Including PPE under finance lease	-	-	2,273	-	-	2,273
Accumulated depreciation and impairment						
Opening balance as at 1 January 2009 (restated)	(241)	(11,118)	(18,373)	(1,481)	(3,107)	(34,320)
Charge for the period	(245)	(5,805)	(8,773)	-	(1,917)	(16,740)
Impairment loss	-	-	-	(1,754)	(67)	(1,821)
Disposals	1	18	188	-	104	311
Elimination of accumulated depreciation and impairment	485	16,905	26,958	3,235	4,987	52,570
Closing balance as at 31 December 2009 (restated)	-	-	-	-	-	-
Including PPE under finance lease	-	-	-	-	-	-
Net book value as at 1 January 2009 (restated)	6,725	141,472	100,625	208,211	8,334	465,367
Net book value as at 31 December 2009 (restated)	7,719	430,039	120,602	171,095	9,587	739,042

Borrowing costs of RR 1,526 million for the year ended 31 December 2010 are capitalised in additions above (for the year ended 31 December 2009 – RR 797 million). A capitalisation rate of 7.6% was used for the year ended 31 December 2010 (for the year ended 31 December 2009 – 7.3%) to determine the amount of borrowing costs eligible for capitalization, representing the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period.

Construction in progress is represented by the carrying amount of property, plant and equipment that has not yet been put into operation and advances to construction companies and suppliers of property, plant and equipment. As at 31 December 2010 such advances amounted to RR 84,320 million net of specific impairment of RR 297 million (as at 31 December 2009 – RR 34,328 million net of revaluation loss of RR 21,115 million and specific impairment RR 1,633 million). During 2010 the advances which were transferred to the carrying amount of assets under construction included the revaluation loss in the amount of RR 21,115 million.

Note 6. Property, plant and equipment (continued)

Other property, plant and equipment include motor vehicles, computer equipment, office fixtures and other equipment.

The Group has the option to purchase land on which electric power transmission lines are located upon application to the state registering body or to formalize the right for rent. According to Russian legislation the expiry date of this option is 1 January 2013. As at 31 December 2010 the Group companies have no intention to purchase this land.

Revaluation. Property, plant and equipment was revalued at 31 December 2009. The revaluation was performed by independent appraisers on a depreciated replacement cost basis, except for most of administrative buildings which were valued on the basis of recent market transactions involving similar assets on arm's length terms. The replacement cost for most power transmission lines, substations and construction in progress is based on their technical capabilities, construction costs and construction cost estimates. The cost to replace the majority of the Group's equipment is measured on the basis of purchase agreements and manufacturers' and selling companies' price-lists. The depreciated replacement cost was tested for impairment using a profitability test with respect to each cash generating unit. The Group's transmission segment (Note 32) was considered as a single cash generating unit.

As at 31 December 2009 as a result of the revaluation the Group's equity increased by RR 241,382 million, comprising an increase in the carrying value of property, plant and equipment of RR 301,727 million, net of a related deferred tax of RR 60,345 million. At the same time, RR 5,244 million of previously recognised impairment was reversed and a revaluation loss of RR 104,456 million was recognised as a loss for the year; a related net deferred tax movement of RR 19,842 million was credited to profit and loss for the year ended 31 December 2009.

As most of the Group's assets relate to the transmission business, any shortfall between the depreciated replacement cost and the result of the profitability test at each revaluation date is allocated pro rata across all assets, including construction in progress which includes advances for construction. Consequently, the revaluation loss recognised on construction in progress should be considered alongside the revaluation increase recorded on other asset groups. The total effect of the revaluation undertaken as at 31 December 2009 on the property, plant and equipment is, when seen in this context, an increase of RR 202,515 million.

The Group assessed the recoverable amount for transmission business as at 31 December 2010.

The following assumptions have been made as part of the impairment test for the companies involved in transmission activity:

- Revenue projections are based on the Group's expectations of an increase of the rate of return on capital employed prior to the transfer to Regulatory Asset Base tariff regulation – up to 10% in 2017;
- The amount of expenditure for the period from 2012 through 2029 required for the maintenance of the current property, plant and equipment is assumed to be equal to the amount of such expenditure determined as allowable for the purpose of tariff regulation;
- A nominal pre-tax discount rate of 11.33% was determined based on the weighted average cost of capital.

The recoverable amount assessed for property, plant and equipment involved in transmission activity approximates its carrying value. Therefore, neither revaluation nor impairment of property, plant and equipment was recorded as at 31 December 2010. If the discount rate would be 0.5% higher the carrying amounts of property, plant and equipment would exceed the recoverable amount by approximately 2%.

For each class of property, plant and equipment stated at revalued amounts in these Financial Statements, the carrying amount that would have been recognized had the assets been carried under the historical cost basis is as follows:

(in millions of Russian Roubles unless otherwise stated)

Note 6. Property, plant and equipment (continued)

	Buildings	Power transmission grids	Substations	Construction in progress	Other	Total
Net book value as at 31 December 2010	4,519	118,145	106,065	373,238	11,816	613,783
Net book value as at 31 December 2009	4,288	117,611	92,070	266,034	9,442	489,455
Net book value as at 31 December 2008	3,204	114,273	82,337	202,257	8,341	410,412

Impairment. In 2010 the Group recognised the impairment provision of non-current assets in the amount of RR 2,009 million (as at 31 December 2009 – RR 1,821 million), the details of which are described below.

JSC "Nurenergo"

The impairment loss recognised in 2010 in the amount of RR 206 million (2009: RR 188 million) arose in relation to property, plant and equipment of JSC "Nurenergo". As a consequence of the economic situation in Chechen Republic, the earnings of JSC "Nurenergo" from sales of electricity purchased on wholesale electricity market do not exceed current operating expenses. An impairment loss was recognised in respect of the balance for all construction in progress and property, plant and equipment in JSC "Nurenergo".

During the year ended 31 December 2010 the Group recorded an impairment provision in relation to advances issued for the purchase of property, plant and equipment and construction in progress in the amount of RR 21 million (for the year ended 31 December 2009 - RR 1,633 million). At the same time RR 1,358 million of previously recognized impairment was reversed at 31 December 2010 (for the year ended 31 December 2009 – nil).

JSC "Mobile gas-turbine plants"

As at 31 December 2010 management revised the business plans of JSC "Mobile gas-turbine plants". Given these developments, management has assessed whether the carrying value of the company's property, plant and equipment and intangible assets at 31 December 2010 is recoverable through future operations. In making this assessment, management has performed an impairment review ("the impairment test") in accordance with IAS 36 by comparing the recoverable amount of property, plant and equipment and intangible assets to their net book values. The recoverable amount was assessed based on value in use, calculated by discounting the estimated future cash flows.

The property, plant and equipment related to electricity generation activity of JSC "Mobile gas-turbine plants" was tested for the impairment using the following assumptions:

- Annual revenue growth of 6% for 2011 – 2015, assessed based on the inflation rate forecasts;
- A pre-tax discount rate of 20.4% was estimated based on weighted average cost of capital.

As a result of using these assumptions the carrying amount of property, plant and equipment exceeded the recoverable amount by RR 1,782 million. The respective impairment loss was recognised in profit and loss for the year ended 31 December 2010 (for the year ended 31 December 2009 – nil).

If the revised estimated pre-tax discount rate applied to the discounted cash flows had been 0.5% higher than management's estimates, the recoverable amount for the Group's property, plant and equipment and intangible assets would be RR 90 million lower.

Except for the assets of JSC "Mobile gas-turbine electricity plants" and JSC "Nurenergo", Management did not identify any other instances where the carrying values of property, plant and equipment or intangible assets of the Group were considered to be impaired thereby requiring the recording of an impairment loss for the year ended 31 December 2010.

Leased property, plant and equipment. Subsequent to the latest revaluation the Group leased certain equipment under a number of finance lease agreements. At the end of each of the leases the Group has the option to purchase the equipment at a beneficial price. At 31 December 2010 the net book value of leased property, plant and equipment was RR 1,282 million (as at 31 December 2009 – RR 2,273 million). The leased equipment is pledged as security for the lease obligations.

(in millions of Russian Roubles unless otherwise stated)

Note 6. Property, plant and equipment (continued)

Operating leases. The Group leases a number of land areas owned by the local government under operating lease. The expected lease payments due are determined based on the lease agreements and payable as follows:

	31 December 2010	31 December 2009
Under one year	340	476
Between two and five years	1,212	1,140
Over five years	6,356	8,482
Total	**7,908**	**10,098**

The above lease agreements are usually signed for period of 1 to 49 years and may be extended for a longer period. The lease payments are subject to review on a regular basis to reflect market rent prices.

As at 31 December 2010 the carrying value of property, plant and equipment leased out under operating lease is RR 1,808 million (as at 31 December 2009 - RR 1,856 million).

Note 7. Intangible assets

	Corporate system of managing geographically dispersed resources	Corporate information management system (SAP-R3)	Other software	Total
Cost at 1 January 2009	1,706	3,952	2,376	8,034
Accumulated amortisation	(361)	(398)	(342)	(1,101)
Carrying value at 1 January 2009	1,345	3,554	2,034	6,933
Additions	1	627	479	1,107
Disposals	-	(81)	(316)	(397)
Disposals of accumulated amortisation	-	-	145	145
Amortisation charge	(171)	(294)	(465)	(930)
Impairment loss	-	(466)	-	(466)
Carrying value at 31 December 2009	1,175	3,340	1,877	6,392
Cost at 31 December 2009	1,707	4,498	2,539	8,744
Accumulated amortisation	(532)	(692)	(662)	(1,886)
Accumulated impairment	-	(466)	-	(466)
Carrying value at 31 December 2009	1,175	3,340	1,877	6,392
Cost at 1 January 2010	1,707	4,498	2,539	8,744
Accumulated amortisation	(532)	(692)	(662)	(1,886)
Accumulated impairment	-	(466)	-	(466)
Carrying value at 1 January 2010	1,175	3,340	1,877	6,392
Additions	-	263	666	929
Disposals	-	(39)	(42)	(81)
Disposals of accumulated amortisation	-	-	13	13
Amortisation charge	(171)	(329)	(369)	(869)
Impairment loss	-	(195)	-	(195)
Carrying value at 31 December 2010	1,004	3,040	2,145	6,189
Cost at 31 December 2010	1,707	4,722	3,163	9,592
Accumulated amortisation	(703)	(1,021)	(1,018)	(2,742)
Accumulated impairment	-	(661)	-	(661)
Carrying value at 31 December 2010	1,004	3,040	2,145	6,189

(in millions of Russian Roubles unless otherwise stated)

Note 7. Intangible assets (continued)

The Corporate system of managing geographically dispersed resources is a software system for gathering, processing and storing information on conditions in the transmission network, which is required for effective maintenance of UNEN. The Corporate system of managing geographically dispersed resources is amortised during 5 years. The Corporate system of managing geographically dispersed resources includes the development cost of RR 847 million at 31 December 2010 and at 31 December 2009.

Corporate information management system (SAP-R3) consists of several modules (parts) and related licences. As at 31 December 2010 only certain modules (parts) were placed in operation and are subject to amortisation. These modules are amortised during 5 years, on a straight-line basis. The Corporate information management system (SAP-R3) includes the development cost of RR 2,399 million as at 31 December 2010 (as at 31 December 2009 - RR 2,178 million).

Other software includes capitalised software development costs that meet the definition of an intangible asset of RR 1,570 million as at 31 December 2010 (as at 31 December 2009 - RR 1,079 million).

As at 31 December 2010 management assessed the recoverable amount of non-current assets of Transmission segment (Note 6), which includes most of the intangible assets of the Group. As a result of the assessment performed no impairment was identified as at that date. In 2010 the Group recorded a specific impairment of RR 195 million in relation to intangible assets which cost is not expected to be recovered.

Note 8. Investments in associated companies

The movements in the carrying value of investments in associates are as follows:

	Year ended 31 December 2010	Year ended 31 December 2009
Carrying value at 1 January	58,451	44,632
Share of result of associates	(833)	1,893
Loss on dilution of share in associates	(2,790)	-
Impairment of investment	-	(1,473)
Translation difference	(22)	9
Disposal of associates	(1,231)	-
Share of other comprehensive income of associates	-	13,390
Transfer to non-current assets held-for-sale	(53,227)	-
Carrying value at 31 December	**348**	**58,451**

The carrying value of investments in associates is as follows:

	31 December 2010	31 December 2009
JSC "WGC-1"	27,559	30,053
JSC "Volzhskaya TGC"	16,268	17,774
JSC "TGC-6"	5,438	6,066
JSC "TGC-11"	3,401	3,624
Other associates	909	934
(Less) transfer to non-current assets held-for-sale	(53,227)	-
Total	**348**	**58,451**

The following is summarised financial information, in aggregate, in respect of significant associates, including those classified as non-current assets held-for-sale:

	Ownership/Voting,%		Assets		Liabilities	
	31 December 2010	31 December 2009	31 December 2010	31 December 2009	31 December 2010	31 December 2009
JSC "WGC-1"	29.4	43.1	117,017	96,081	(23,276)	(26,353)
JSC "TGC-6"	24.7	24.7	49,750	40,625	(21,771)	(10,103)
JSC "Volzhskaya TGC"	31.5	33.7	78,068	69,470	(20,818)	(16,650)
JSC "TGC-11"	27.5	27.5	18,622	19,921	(6,233)	(6,718)

(in millions of Russian Roubles unless otherwise stated)

Note 8. Investments in associated companies (continued)

	Revenue for the year ended		Profit / (loss) for the year ended	
	31 December 2010	31 December 2009	31 December 2010	31 December 2009
JSC "WGC-1"	56,997	49,292	685	(1,428)
JSC "TGC-6"	31,158	22,342	(2,544)	1,951
JSC "Volzhskaya TGC"	69,005	52,390	(811)	4,305
JSC "TGC-11"	19,323	17,394	(814)	2,335

Revaluation of property, plant and equipment of associates. As at 31 December 2009 the property, plant and equipment of associates was revalued by an independent appraiser. The Group's share of the revaluation surplus recognised in the Group's other comprehensive income was RR 14,151 million; the related deferred tax charge of RR 2,830 million was also recognised in other comprehensive income for the year ended 31 December 2009. The revaluation decrease on JSC "TGC-6" in the amount of RR 715 million reduced the revaluation surplus previously recognised in other comprehensive income; the related deferred tax of RR 143 million was credited to other comprehensive income for the year ended 31 December 2009. As at 31 December 2010 the property, plant and equipment have not been revalued.

Impairment of investments in associates. As at 31 December 2009 the Group has assessed whether the carrying value of the investments exceeded their recoverable amount at that date. The Group determined the recoverable amount based on value in use being the present value of the future cash flows expected to be derived from the investment. The future expected cash flows were discounted at 18% being the nominal pre-tax discount rate determined based on the weighted average cost of capital of the associates. In 2009 pursuant to this impairment test, an impairment loss of RR 1,473 million was recognised in relation to the investment in JSC "TGC-6" as a loss for the period; the related deferred tax of RR 295 million was credited to profit and loss. No additional impairment loss was recorded as at 31 December 2010.

Trust management. As of 31 December 2010 the Group's share in JSC "WGC-1" was transferred in trust management to JSC "Inter RAO UES" in favour of the Company. The transfer did not result in the termination of the Group's rights of ownership.

Sale of shares. During the year ended 31 December 2010 the Company sold 2.15% of the shares of JSC "Volzhskaya TGC" for RR 1,837 million. A gain on sale of this investment amounting to RR 606 million was recorded as a Gain on sale of investments in associates and available-for-sale investments in the Statement of Comprehensive Income.

Dilution effect. In the fourth quarter of 2010 JSC "WGC-1"placed an additional issue of ordinary shares. As a result of this issue, the interest of the Group in that Company decreased to 29.4 per cent. A loss on dilution of the Group's share in JSC "WGC-1" was recognised in the Statement of Comprehensive Income in the amount of RR 2,790 million.

Transfer to non-current assets held-for-sale. As at 31 December 2010 all investments in JSC "WGC-1", JSC "TGC-6", JSC "TGC-11", JSC "Volzhskaya TGC" and JSC "UES "GruzRosEnergo", in the total amount of RR 53,227 million, were reclassified as held for sale under IFRS 5 "Non-current assets held-for sale and discontinued operations" as the management of the Company has committed to a plan to transfer these assets during 2011 year to JSC "Inter RAO UES" in exchange for ordinary shares of "Inter RAO UES (Note 16). In March 2011 all the above-mentioned investments in associates, except for that in JSC "UES "GruzRosEnergo", were transferred.

(in millions of Russian Roubles unless otherwise stated)

Note 9. Available-for-sale investments

	31 December 2009	Additions	Change in fair value*	Impairment charge	Transfer to non-current assets held-for-sale	31 December 2010
JSC "IDGC Holding"	4,247	-	2,610	-		6,857
JSC "Inter RAO UES"	2,668	-	6	-		2,674
JSC "Bashkirenergo"	7,699	-	7,852	-	(15,551)	-
JSC "RusHydro"	5,337	4	2,397	-	(7,738)	-
JSC "Mosenergo"	5,878	1	(97)	-	(5,782)	-
JSC "WGC-6"	2,899	-	2,701	-	(5,600)	-
JSC "WGC-4"	2,261	1	1,878	-	(4,140)	-
JSC "WGC-2"	626	-	596	-	(1,222)	-
JSC "TGC-1"	857	-	260	-	(1,117)	-
JSC "WGC-3"	818	-	151	-	(969)	-
JSC "RAO ES Vostoka"	487	-	68	-	(555)	-
JSC "TGC-9"	282	-	147	-	(429)	-
JSC "Kuzbassenergo"	255	-	130	-	(385)	-
JSC "Sangtudinskaya GES-1"	555	-	-	(235)	(320)	-
JSC "TGC-13"	210	-	97	-	(307)	-
JSC "TGC-11 Holding"	150	-	13	-	(163)	-
Total	**35,229**	**6**	**18,809**	**(235)**	**(44,278)**	**9,531**

(in millions of Russian Roubles unless otherwise stated)

Note 9. Available-for-sale investments (continued)

	31 December 2008	Disposal	Change in fair value*	Impairment charge	31 December 2009
JSC "Bashkirenergo"	1,395	-	6,304	-	7,699
JSC "Mosenergo"	1,705	-	4,173	-	5,878
JSC "RusHydro"	2,673	-	2,664	-	5,337
JSC "IDGC Holding"	1,033	-	3,214	-	4,247
JSC "WGC-6"	1,039	-	1,860	-	2,899
JSC "Inter RAO UES"	351	-	2,317	-	2,668
JSC "WGC-4"	528	-	1,733	-	2,261
JSC "TGC-1"	177	-	680	-	857
JSC "WGC-3"	199	-	619	-	818
JSC "WGC-2"	176	-	450	-	626
JSC "Sangtudinskaya GES-1"	1,100	-	-	(545)	555
JSC "RAO ES Vostoka"	86	-	401	-	487
JSC "TGC-9"	100	-	182	-	282
JSC "Kuzbassenergo"	1,003	(2,501)	1,753	-	255
JSC "TGC-13"	74	-	136	-	210
JSC "TGC-11 Holding"	45	-	105	-	150
JSC "TGC-2"	56	(56)	-	-	-
JSC "TGC-14"	34	(43)	9	-	-
Total	**11,774**	**(2,600)**	**26,600**	**(545)**	**35,229**

* - Change in fair value of available-for-sale investments is recognised in other comprehensive income.

JSC "Sangtudinskaya GES-1"

Available-for-sale investments include shares of JSC "Sangtudinskaya GES-1", which is incorporated and operates in Tajikistan. As at 31 December 2010 and 31 December 2009 the Group's interest in JSC "Sangtudinskaya GES-1" was 14.78%. The controlling shareholder in JSC "Sangtudinskaya GES-1" is the Russian Federation.

As at 31 December 2010 the Group has assessed the fair value of shares of JSC "Sangtudinskaya GES-1" using valuation techniques and determined it at the amount of RR 320 million (as at 31 December 2009 – RR 555 million). Pursuant to this assessment, as at 31 December 2010 an accumulated impairment loss had been recognised in relation to the investment in JSC "Sangtudinskaya GES-1" in the amount of RR 780 million.

JSC "Bashkirenergo" and JSC "Kuzbassenergo"

As a result of merger with RAO UES the Group acquired a 21.27% share in JSC "Bashkirenergo" and a 20.27% share in JSC "Kuzbassenergo". Management had assessed the level of influence that the Group has on JSC "Bashkirenergo" and JSC "Kuzbassenergo" and determined that it did not amount to significant influence. Consequently, the investments in these entities were classified as available-for-sale investments.

In November 2009 the Company sold 18.98% of the shares of JSC "Kuzbassenergo" to JSC "InterRAO UES" for RR 2,042 million. A gain on the sale of this available-for-sale investment amounted to RR 1,106 million (including recycling of other comprehensive income amounted to RR 1,565 million) and was recognized in the financial statements for the year ended 31 December 2009. So as at 31 December 2010 the share of the voting rights in JSC "Kuzbassenergo" was 1.29%.

As at 31 December 2010 the share of the voting rights in JSC "Bashkirenergo" was 21.27%.

JSC "TGC-2"

During the year ended 31 December 2009 the Company has sold the shares of JSC "TGC 2" for RR 454 million. A gain on sale of this investment amounted to RR 398 million was recorded as Gain on sale of available-for-sale investments in Statement of Comprehensive Income.

(in millions of Russian Roubles unless otherwise stated)

Note 9. Available-for-sale investments (continued)

Available-for-sale investments valuation

The fair value of the available-for-sale financial instruments was determined based on the quoted market prices except for JSC "Sangtudinskaya GES-1", which fair value was determined based on valuation techniques.

Transfer to non-current assets held-for-sale

As at 31 December 2010 all available-for-sale investments, except for shares of JSC "IDGC Holding" and JSC "Inter RAO UES", in the total amount of RR 44,278 million were reclassified as held for sale under IFRS 5 "Non-current assets held-for sale and discontinued operations" as the management of the Company has committed to a plan to transfer these assets during 2011 year to "Inter RAO UES" in exchange for ordinary shares of "Inter RAO UES (Note 16).

Note 10. Promissory notes

	Rating	Rating agency	Effective interest rate, %	Due	31 December 2010	31 December 2009
Long-term promissory notes						
LLC "Energo Finance"		Not available	9.1%-10.1%	2014	8,466	7,672
JSC "System Operator UES"*		Not available	7.0%-11.1%	2012-2013	1,461	542
JSC "Alfa-Bank"	BB	Fitch Ratings	11.1%-12.6%	2013-2015	371	5
JSC "ROSBANK"	BBB+	Fitch Ratings	12.0%	2015	274	245
JSC "Evrofinance Mosnarbank"	B+	Fitch Ratings	12.6%	2014	214	190
JSC "IDGC of Centre and Volga region"*		Not available	12.6%	2012-2020	138	129
Other long-term promissory notes			11.1%-15.5%	2011-2038	122	169
Total long-term promissory notes					**11,046**	**8,952**
Short-term promissory notes						
JSC "VTB Bank"*	BBB	Fitch Ratings	1.5%-8.5%	2011	19,232	45,083
JSC "Alfa-Bank"	BB	Fitch Ratings	2.6%-13.1%	2011	14,431	1,524
JSC Bank "ROSSIYA"	B-	Fitch Ratings	7.0%	2011	4,076	-
JSC "Promsvyazbank"	BB-	Fitch Ratings	4.9%-5.4%	2011	3,002	-
JSC "International Financial Club"			6.3%	2011	2,002	-
JSC "System Operator UES"*		Not available	7.0%	2010	-	1,114
JSC "Gazprombank"	Baa3	Moody's	15.5%	2010	-	672
JSC "Mosenergo"*		Not available	-	2010	-	86
Other short-term promissory notes			12.6%-15.5%	2010	413	202
Total short-term promissory notes					**43,156**	**48,681**

Companies marked with * above are state-controlled entities (Note 5).

All promissory notes are denominated in Russian roubles.

As at 31 December 2010 and 31 December 2009 the fair value of promissory notes, determined using valuation technique, was RR 58,227 million and RR 57,481 million respectively.

In 2009 the promissory notes of LLC "Otkritie Finance" and LLC "FC Otkritie" were exchanged for non-interest bearing notes of LLC "Energo Finance" payable on demand but not earlier than 12 December 2014. An impairment loss in 2009 was recognised in respect of the promissory notes of LLC "Energo Finance" in the amount of RR 353 million resulting from the change in the conditions of repayment of obligation after a restructuring. No additional impairment loss was recorded as at 31 December 2010.

In 2010 the management of the Company has committed to exchange the short-term promissory notes of JSC "System Operator UES" in the amount of RR 1,114 million for non- interest bearing notes of JSC "System Operator UES" payable on demand but not earlier than 1 March 2013. Effect on initial recognition of these promissory notes was recognised in Statement of Comprehensive Income in the amount of RR 228 million

(in millions of Russian Roubles unless otherwise stated)

Note 11. Other non-current assets

	31 December 2010	31 December 2009
Long-term accounts receivable (Net of allowance for doubtful debtors of RR 224 million as at 31 December 2010 and RR 24 million as at 31 December 2009)	1,707	438
Total financial assets	**1,707**	**438**
Other non-current assets	547	209
VAT recoverable	253	312
Total	**2,507**	**959**

Note 12. Cash and cash equivalents

	31 December 2010	31 December 2009
Cash at bank and in hand	13,373	13,387
Cash equivalents	200	20,312
Total	**13,573**	**33,699**

Cash at bank	Rating	Rating agency	31 December 2010	31 December 2009
JSB "Sberbank"	BBB Baa1	Fitch Ratings Moody's	6,725	2,487
JSC "Alfa-Bank"	BB Ba1 BB-	Fitch Ratings Moody's Standart&Poor's	6,434	9,664
JSB "Gazprombank"	Baa3 BB	Moody's Standart&Poor's	58	1,111
Other			156	125
Total cash at bank			**13,373**	**13,387**

Cash equivalents include short-term investments in certificates of deposit:

Bank deposits	Interest rate	Rating	Rating agency	31 December 2010	31 December 2009
JSB "Sberbank"	2.6%-3.1%	BBB	Fitch Ratings	192	899
JSB "Gazprombank"	4.1%	Baa3	Moody's	-	18,777
OJSC "Alfa-Bank"	2.0%-6.8%	Ba1	Moody's	-	587
Other				8	49
Total bank deposits				**200**	**20,312**

Although some of the banks have no international credit rating, management believes that they are reliable counterparties with a stable position on the Russian market.

There are no deposits denominated in foreign currency included in cash equivalents as at 31 December 2010 and as at 31 December 2009.

(in millions of Russian Roubles unless otherwise stated)

Note 13. Bank deposits

	Interest rate	Rating	Rating agency	31 December 2010	31 December 2009
OJSC "Nomos-bank"	6.5%	Ba3	Moody's	3,000	-
OJSC "Alfa-Bank"	3.8%-6.4%	Ba1	Moody's	988	1,198
JSB "VTB bank"	12.2%-13.8%	Baa1	Moody's	618	1,197
JSB "Gazprombank"	4.5%	Baa3	Moody's	-	5,740
LLC "KIT Finance Investment bank"	9.0%-13.0%	Caa2	Moody's	-	2,017
JSB "Sberbank"	10.0%	Baa1	Moody's	-	30
JSB "Otkrytie bank"	7.5%	-	-	-	5
Total bank deposits				**4,606**	**10,187**

Carrying amount of bank deposits approximates its' fair value.

As at 31 December 2010 bank deposits include deposits denominated in foreign currency in the amount of RR 88 million (as at 31 December 2009 - RR 5 million).

Note 14. Accounts receivable and prepayments

	31 December 2010	31 December 2009
Trade receivables (Net of allowance for doubtful debtors of RR 2,900 million as at 31 December 2010 and RR 4,862 million as at 31 December 2009)	10,605	8,434
Other receivables (Net of allowance for doubtful debtors of RR 695 million as at 31 December 2010 and RR 992 million as at 31 December 2009)	759	869
Total financial assets	**11,364**	**9,303**
Advances to suppliers and prepayments (Net of allowance for doubtful debtors of RR 1,874 million as at 31 December 2010 and 2,162 million as at 31 December 2009)	1,646	2,434
VAT recoverable	9,199	9,332
Tax prepayments	8,454	6,902
VAT related to advances received	2,009	1,277
Total	**32,672**	**29,248**

Trade and other receivables are not interest-bearing and are largely due in 30 to 90 days. Given the short period of the trade and other receivables repayment, the fair value of such receivables approximates their book value.

Tax prepayments will be settled against future tax liabilities.

Management has determined the provision for doubtful debtors based on specific customer identification, customer payment trends, subsequent receipts and settlements and analyses of expected future cash flows. The effects of discounting are reflected in the doubtful debtor allowance and expense. The management of the Group believes that Group entities will be able to realise the net receivable amount through direct collections and other non-cash settlements, and that therefore the recorded value approximates their fair value.

The movement of the provision for doubtful debts is shown below:

Year ended 31 December 2010	Trade receivables	Other receivables	Advances to suppliers and prepayments	Long-term accounts receivable	Total
As at 1 January	**4,862**	**992**	**2,162**	**24**	**8,040**
Provision reversal	(2,163)	(463)	(247)	(5)	(2,878)
Debt written-off	(5)	(5)	(173)	-	(183)
Provision accrual	206	171	132	205	714
As at 31 December	**2,900**	**695**	**1,874**	**224**	**5,693**

(in millions of Russian Roubles unless otherwise stated)

Note 14. Accounts receivable and prepayment (continued)

Year ended 31 December 2009	Trade receivables	Other receivables	Advances to suppliers and prepayments	Long-term accounts receivable	Total
As at 1 January	**1,455**	**703**	**427**	**31**	**2,616**
Provision reversal	(108)	(134)	(9)	(7)	(258)
Debt written-off	(2)	(101)	-	-	(103)
Provision accrual	3,517	524	1,744	-	5,785
As at 31 December	**4,862**	**992**	**2,162**	**24**	**8,040**

As at 31 December 2010 the overdue receivables for which the provision had not been recorded amounted to RR 4,043 million (at 31 December 2009 - RR 2,775 million). The ageing analysis is shown below:

	31 December 2010	31 December 2009
Less than 3 months	2,432	1,551
3 to 6 months	1,270	595
6 to 12 months	14	334
1 year to 5 years	327	295
Total	**4,043**	**2,775**

The analysis of overdue accounts receivables for which the provision had been recorded as at 31 December 2010 is shown below, gross of allowance for doubtful accounts:

	31 December 2010	31 December 2009
Less than 3 months	189	1,042
3 to 6 months	705	644
6 to 12 months	233	18
1 year to 5 years	2,200	3,598
Total	**3,327**	**5,302**

Note 15. Inventories

	31 December 2010	31 December 2009
Repair materials	3,501	2,230
Spare parts	1,669	794
Other inventories	432	247
Total	**5,602**	**3,271**

The cost of inventories is shown net of an obsolescence provision for RR 38 million as at 31 December 2010 (as at 31 December 2009 - RR 39 million). At 31 December 2010 and 31 December 2009 the Group had no inventories pledged as security under loan and other agreements.

(in millions of Russian Roubles unless otherwise stated)

Note 16. Non-current assets held-for-sale

	31 December 2010	31 December 2009
JSC "WGC-1"	27,559	-
JSC "Volzhskaya TGC"	16,268	-
JSC "Bashkirenergo"	15,551	-
JSC "RusHydro"	7,738	-
JSC "Mosenergo"	5,782	-
JSC "WGC-6"	5,600	-
JSC "TGC-6"	5,438	-
JSC "WGC-4"	4,140	-
JSC "TGC-11"	3,401	-
JSC "WGC-2"	1,222	-
JSC "TGC-1"	1,117	-
JSC "WGC-3"	969	-
JSC "UES "GruzRosEnergo"	561	-
JSC "RAO ES Vostoka"	555	-
JSC "TGC-9"	429	-
JSC "Kuzbassenergo"	385	-
JSC "Sangtudinskaya GES-1"	320	-
JSC "TGC-13"	307	-
JSC "TGC-11 Holding"	163	-
JSC "TGC-14"	-	47
Total	**97,505**	**47**
Loss on re-measurement	(6,896)	-
Total non-current assets held-for-sale	**90,609**	**47**

Non-current assets held-for-sale were included into Transmission segment (Note 32).

As at 31 December 2010 all available-for-sale investments, except for shares of JSC "IDGC Holding" and JSC "Inter RAO UES", in the total amount of RR 44,278 million and most of investments in associates, such as JSC "WGC-1", JSC "TGC-6", JSC "TGC-11", JSC "Volzhskaya TGC" and JSC "UES "GruzRosEnergo" in the total amount of RR 53,227 million were reclassified as held for sale under IFRS 5 "Non-current assets held-for sale and discontinued operations" as the management of the Company has committed to a plan to transfer these assets during 2011 year to JSC "Inter RAO UES" in exchange for ordinary shares of "Inter RAO UES (Note 8, 9). In 2011 all above-mentioned investments, except for JSC "UES "GruzRosEnergo", JSC "Sangtudinskaya GES-1" and JSC "TGC-11 Holding", were transferred (Note 33).

Cumulative income recognized in other comprehensive income relating to non-current assets held-for-sale:

	31 December 2010
Revaluation reserve for property, plant and equipment of associates (Note 17)	10,749
Foreign currency translation reserve (Note 17)	34
Revaluation reserve for available-for-sale investments (Note 17)	29,702
Total	**40,485**

In 2011 non-current assets held-for-sale will be exchanged for 1,883,764,021 thousand of ordinary shares of JSC "Inter RAO UES" with the market value of RR 90,609 million at 31 December 2010 (Note 33). Loss on re-measurement under IFRS 5 was recognized in Statement of Comprehensive Income in the amount of RR 6,896 million, with corresponding deferred tax in amount of RR 1,379 million.

(in millions of Russian Roubles unless otherwise stated)

Note 17. Equity

Share capital

	Number of shares issued and fully paid			
	31 December 2010	**31 December 2009**	**31 December 2010**	**31 December 2009**
Ordinary shares	1,233,561,333,552	1,153,514,196,362	616,781	576,757

As at 31 December 2010 the authorised share capital comprised 1,346,805,824 thousand ordinary shares with a nominal value of RR 0.5 per share.

Additional issue of shares. In January 2010 FGC UES completed and registered the additional share issue. The amount of RR 40,178 million received for shares issue as of 31 December 2009 was included as accounts payble to shareholders of FGC UES. As a result of this issue, the share capital was increased to RR 616,781 million and additional share premium recognised in the amount of RR 154 million.

In 2010 FGC UES started an additional share issue. In September the Company started offering of its additional ordinary registered shares. The amount of RR 11,193 million received for shares issued was included as at 31 December 2010 in the Consolidated Statement of Financial Position as accounts payable to the shareholders of FGC UES. This share issue was completed and registered in February 2011 (Note 33).

Treasury shares. Treasury shares as at 31 December 2010 and 31 December 2009 represent 13,727,165 thousand of ordinary shares in amount of RR 6,864 million.

Treasury shares were received by the Group during the reorganisation process in the form of a legal merger with RAO UES in 2008. The Company's shares are held by its subsidiary, LLC "Index Energetiki".

Treasury shares received during 2008 are accounted for at their nominal value of RR 0.5 per share.

Reserves. Reserves include the Revaluation reserve for property, plant and equipment and available-for-sale investments, the Merger reserve and the Foreign currency translation reserve.

Based on the application of predecessor accounting (Note 2), the difference between the value of the share capital issued, the IFRS carrying values of the contributed assets and the non-controlling interest has been recorded as a merger reserve within equity in amount of RR 56,891 million.

Following the liquidation of JSC "RAO UES of Russia" no additional movements of the merger reserve occured and the nature of this reserve does not significantly differ from other Group's retained earnings/accumulated losses once the formation of the merger reserve is finalized. Consequently during the year ended 31 December 2010 the accumulated merger reserve was reclassified to the retained earnings in amount of RR 56,891 million.

The translation reserve, relating to the exchange differences arising on translation of the net assets of foreign associate, as at 31 December 2010 was credit of RR 34 million (31 December 2009: credit of RR 56 million) and is included in other reserves.

(in millions of Russian Roubles unless otherwise stated)

Note 17. Equity (continued)

Reserves for the year ended 31 December 2010 (net of tax):

	Revaluation reserve for:					
	property, plant and equipment (Note 6, 8)	available-for-sale investments (Note 9)	Amounts recognised in other comprehensive income and accumulated in equity relating to non-current assets held for sale	Merger reserve	Foreign currency translation reserve	Total reserves
As at 1 January 2010	**325,590**	**21,919**	**-**	**(56,891)**	**56**	**290,674**
Gain on change of fair value of available-for-sale investments (Note 9)	-	15,049	-	-	-	**15,049**
Realised revaluation reserve for available-for-sale investments	-	(9)	-	-	-	**(9)**
Foreign currency translation difference (Note 8)	-	-	-	-	(22)	**(22)**
Amounts recognised in other comprehensive income and accumulated in equity relating to non-current assets held-for-sale (Note 8,9,16)	(10,749)	(29,702)	40,485	-	(34)	-
Transfer of merger reserve to retained earnings	-	-	-	56,891	-	**56,891**
Change in revaluation reserve for property, plant and equipment	(1,316)	-	-	-	-	**(1,316)**
As at 31 December 2010	**313,525**	**7,257**	**40,485**	**-**	**-**	**361,267**

(in millions of Russian Roubles unless otherwise stated)

Note 17. Equity (continued)

Reserves for the year ended 31 December 2009 (net of tax):

	Revaluation reserve for: property, plant and equipment (Note 6)	Revaluation reserve for: available-for-sale investments (Note 9)	Merger reserve	Foreign currency translation reserve	Total reserves
As at 1 January 2009	**75,416**	**-**	**(56,891)**	**47**	**18,572**
Change in revaluation reserve for property, plant and equipment	239,425	-	-	-	**239,425**
Change in revaluation reserve for property, plant and equipment of associates (Note 8)	10,749	-	-	-	**10,749**
Foreign currency translation difference (Note 8)	-	-	-	9	**9**
Gain on change of fair value of available-for-sale investments	-	23,171	-	-	**23,171**
Realised revaluation reserve for available-for-sale investments	-	(1,252)	-	-	**(1,252)**
As at 31 December 2009	**325,590**	**21,919**	**(56,891)**	**56**	**290,674**

Dividends. The annual statutory accounts of the parent company, FGC UES, form the basis for the annual profit distribution and other appropriations. The specific Russian legislation identifies the basis of distribution as the net profit. For the year ended 31 December 2010, the statutory net profit of the parent company, FGC UES, as reported in the published statutory financial statements for the year ended 31 December 2010, was RR 58,088 million (for the year ended 31 December 2009 the net loss was RR 59,866 million). At the Annual General Meeting in June 2010 the decision was approved not to declare dividends for the year ended 31 December 2009.

Note 18. Profit tax

Profit tax expense comprises the following:

	The year ended 31 December 2010	The year ended 31 December 2009
Current profit tax charge	(9,240)	(5,158)
Deferred profit tax credit	3,488	19,137
Total profit tax (charge) / credit	**(5,752)**	**13,979**

During year ended 31 December 2010 and 2009 most entities of the Group were subject to tax rates of 20 percent on taxable profit.

In accordance with Russian tax legislation, tax losses in different Group companies may not be offset against taxable profits of other Group companies. Accordingly, tax may be accrued even where there is a net consolidated tax loss.

From 1 January 2009 the income tax rate for Russian companies was reduced from 24 to 20 percent. This rate of 20 percent has been used for the calculation of the deferred tax assets and liabilities as at 31 December 2010 and 31 December 2009. Net profit before profit tax for financial reporting purposes is reconciled to profit tax expenses as follows:

(in millions of Russian Roubles unless otherwise stated)

Note 18. Profit tax (continued)

	The year ended 31 December 2010	The year ended 31 December 2009
Profit / (loss) before profit tax	**24,135**	**(77,953)**
Theoretical profit tax (charge) / credit at statutory tax rate of 20 percent	(4,827)	15,591
Tax effect of items which are not deductible or assessable for taxation purposes	15	127
Non-recognised deferred tax asset	(940)	(1,739)
Total profit tax	**(5,752)**	**13,979**

Deferred profit 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 profit tax purposes. Deferred profit tax assets and liabilities are measured at 20 percent at 31 December 2010 and 31 December 2009, the rate expected to be applicable when the asset or liability will reverse.

Deferred profit tax assets and liabilities for the year ended 31 December 2010:

		Movements for the year		
	31 December 2010	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2009
Deferred profit tax liabilities				
Property, plant and equipment	69,439	(926)	-	70,365
Investments in associates	70	(2,395)	(9,048)	11,513
Available-for-sale investments	506	-	(2,757)	3,263
Accounts receivable and prepayments	241	235	-	6
Non-current assets held-for-sale	15,565	-	15,565	-
Other deferred tax liabilities	32	1	-	31
Total deferred profit tax liabilities	**85,853**	**(3,085)**	**3,760**	**85,178**
Deferred profit tax assets				
Property, plant and equipment	(1,550)	(389)	-	(1,161)
Long-term promissory notes	(1,572)	(452)	-	(1,120)
Accounts receivable and prepayments	(828)	124	-	(952)
Retirement benefit obligation	(390)	(69)	-	(321)
Accounts payable and accruals	(235)	(221)	-	(14)
Other deferred tax assets	(325)	(38)	-	(287)
Tax losses	(1,633)	(298)	-	(1,335)
Unrecognised deferred tax assets	4,337	940	-	3,397
Total deferred profit tax assets	**(2,196)**	**(403)**	**-**	**(1,793)**
Deferred profit tax liabilities, net	**83,657**	**(3,488)**	**3,760**	**83,385**

Current portion of net deferred tax liabilities equals the amount in RR 14,122 million and represent the amount of deferred tax liabilities settled during the year ended 31 December 2010 (as at 31 December 2009 – RR 2,221 million).

Unrecognised deferred tax assets include tax losses carried forward in amount of RR 1,633 million and deferred profit tax assets on temporary differences arising in respective loss-making subsidiaries. These deferred tax assets are not recognised because it is not probable that sufficient taxable profits will be available against which the deferred tax assets can be utilised

The Group has not recognised deferred tax assets as at 31 December 2010 in respect of tax losses carried forward of RR 8,165 million (as at 31 December 2009 - RR 6,677 million) at companies in the table below.

(in millions of Russian Roubles unless otherwise stated)

Note 18. Profit tax (continued)

	31 December 2010	31 December 2009
JSC "Nurenergo"	5,098	4,614
JSC "Mobile gas-turbine electricity plants"	2,300	1,533
JSC "The principle electricity transmission service company of Unified National Electrical Network"	259	244
JSC "Specialized electricity transmission service company of Unified National Electrical Network"	170	-
Others	338	286
Total tax losses carried forward	**8,165**	**6,677**

The tax losses expire 10 years after their origination. These tax losses expire mostly during 2012-2020, nil expire during the year 2011, RR 1,743 million with terms from 2 to 5 years (during 2012-2015) and RR 6,422 million with term over 5 years (during 2016-2020).

Deferred profit tax assets and liabilities for the year ended 31 December 2009:

		Movements for the period		
	31 December 2009	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2008
Deferred profit tax liabilities				
Property, plant and equipment	70,365	(18,897)	60,345	28,917
Investments in associates	11,513	45	2,678	8,790
Available-for-sale investments	3,263	(353)	3,116	500
Account receivable and prepayment	6	6	-	-
Other deferred tax liabilities	31	(51)	-	82
Total deferred profit tax liabilities	**85,178**	**(19,250)**	**66,139**	**38,289**
Deferred profit tax assets				
Property, plant and equipment	(1,161)	(345)	-	(816)
Available-for-sale investments	-	-	1,890	(1,890)
Long-term promissory notes	(1,120)	(274)	-	(846)
Accounts receivable and prepayments	(952)	(86)	-	(866)
Retirement benefit obligation	(321)	(159)	-	(162)
Accounts payable and accruals	(14)	31	-	(45)
Other deferred tax assets	(287)	35	-	(322)
Tax losses	(1,335)	(827)	-	(508)
Unrecognised deferred tax assets	3,397	1,738	(1,890)	3,549
Total deferred profit tax assets	**(1,793)**	**113**	**-**	**(1,906)**
Deferred profit tax liabilities, net	**83,385**	**(19,137)**	**66,139**	**36,383**

(in millions of Russian Roubles unless otherwise stated)

Note 19. Non-current debt

	Currency	Effective interest rate	Due	31 December 2010	31 December 2009
Certified interest-bearing non-convertible bearer bonds, Series 10	RR	7.75%	15.09.2020	10,200	-
Certified interest-bearing non-convertible bearer bonds, Series 06	RR	7.15%	15.09.2020	10,184	-
Certified interest-bearing non-convertible bearer bonds, Series 08	RR	7.15%	15.09.2020	10,184	-
Certified interest-bearing non-convertible bearer bonds, Series 11	RR	7.99%	16.10.2020	10,138	-
Certified interest-bearing non-convertible bearer bonds, Series 04	RR	7.30%	06.10.2011	6,000	6,000
Certified interest-bearing non-convertible bearer bonds, Series 09	RR	7.99%	16.10.2020	5,069	-
Certified interest-bearing non-convertible bearer bonds, Series 07	RR	7.50%	16.10.2020	5,065	-
Certified interest-bearing non-convertible bearer bonds, Series 02	RR	8.25%	22.06.2010	-	7,000
Total non-current debt				56,840	13,000
Less: current portion of non-current bonds				(6,840)	(7,000)
Non-current debt				**50,000**	**6,000**

In September and October 2010 the Group issued certified interest-bearing non-convertible bearer bonds of series 06-11 with an interest rate fixed for 1st - 6th coupons for series 06 and 08, for 1st - 10th coupons for series 07 and 10 and for 1st - 14th coupons for series 09 and 11. The interest rate for other coupons will be determined before the end of the previous coupon period. The bondholders have the option to redeem the bonds for cash instead of accepting the revised terms. The interest is payable every 6 months during the terms of the bonds.

At 31 December 2010 the estimated fair value of total non-current debts (including the current portion) was RR 56,048 million (as at 31 December 2009 - RR 12,874 million), which is estimated using the market prices for quoted FGC UES bonds as at 31 December 2010.

As at 31 December 2010 the Group has long-term undrawn committed financing facilities of RR 15,000 million (as at 31 December 2009 - nil): in May 2010 the Company and JSB "Gazprombank" concluded an agreement to open a 3-year credit line for RR 15,000 million, which may be used for the general purposes of the Group.

Note 20. Retirement benefit obligations

	The year ended 31 December 2010	The year ended 31 December 2009
Net liability in the Statement of Financial Position as at 1 January	**3,439**	**2,933**
Net periodical cost	1,152	821
Benefits paid	(273)	(315)
Net liability in the Statement of Financial Position as at 31 December	**4,318**	**3,439**

The Group's post-employment benefits policy includes the employee pension scheme and various post-employment, retirement and jubilee payments. The post-employment and retirement benefit system is a defined benefit program as part of which every participating employee receives benefits calculated in accordance with certain formula or rules. The program's core element is the corporate pension scheme implemented by the Group in cooperation with the Non-State Pension Fund of Electric Power Industry (NPFE).

The Group also pays various long-term post-employment benefits, including lump sum benefits in case of death of employees or former employees receiving pensions, lump sum benefits upon retirement and in connection with jubilees.

(in millions of Russian Roubles unless otherwise stated)

Note 20. Retirement benefit obligations (continued)

Additionally, financial aid in the form of defined benefits is provided to former employees who have state, industry or corporate awards. Such financial aid is provided both to employees entitled and not entitled to non-state pensions.

The most recent actuarial valuation was performed as at 31 December 2010.

The tables below provide information about benefit obligations and actuarial assumptions as at 31 December 2010 and 31 December 2009.

The amounts recognised in the Statement of Financial Position are determined as follows:

	31 December 2010	31 December 2009
Total present value of defined benefit obligations	5,148	4,544
Net actuarial gains not recognised in the Statement of financial position	(142)	(396)
Unrecognised past service cost	(688)	(709)
Liability recognised in the Statement of Financial Position	**4,318**	**3,439**

The amounts recognised in profit or loss are as follows:

	The year ended 31 December 2010	The year ended 31 December 2009
Interest cost	412	382
Current service cost	338	283
Net Actuarial Loss Recognized in the period	60	1
Recognised past service cost	460	155
Curtailments	(118)	-
Net expense recognised in the Statement of Comprehensive Income	**1,152**	**821**

Changes in the present value of the Group's retirement benefit obligation are as follows:

	The year ended 31 December 2010	The year ended 31 December 2009
Defined benefit obligations at 1 January	**4,544**	**4,262**
Benefits paid by the plan	(273)	(315)
Current service costs	338	283
Interest on obligation	412	382
Actuarial gains	(182)	(68)
Past service cost	460	-
Curtailments	(151)	-
Present value of defined benefit obligations at 31 December	**5,148**	**4,544**

Principal actuarial assumptions (expressed as weighted averages) are as follows:

(i) Financial assumptions

	31 December 2010	31 December 2009
Discount rate	7.8%	9.0%
Inflation rate	5.7%	6.5%
Future salary increases	6.7%	7.5%
Future pension increase	5.7%	6.5%

(ii) Demographic assumptions

Withdrawal rates assumption is as follows: expected staff turnover rates depends on past service - around 10% for employees with 2 years of service going down to 5% for employees with 10 or more years of service

Retirement ages assumption is as follows: average retirement ages are 60.5 years for men and 56 years for women. Similar retirement age assumption was used at 31 December 2009.

(in millions of Russian Roubles unless otherwise stated)

Note 20. Retirement benefit obligations (continued)

Mortality table: Russian population mortality table 1998.

The expected contributions under voluntary pension programs in 2011 are expected in the amount of RR 368 million.

Experience adjustments on benefit obligation are as follows:

	31 December 2010	31 December 2009	31 December 2008	31 December 2007
Total present value of defined benefit obligations	5,148	4,544	4,262	3,841
Deficit in plan	(5,148)	(4,544)	(4,262)	(3,841)
Experience adjustment on defined benefit obligations	(197)	323	808	376

Note 21. Current debt and current portion of non-current debt

	Effective interest rate	31 December 2010	31 December 2009
JSC "IDGC Holding"	14.1%	505	505
JSC "RusHydro"	17.0%	40	40
Current portion of non-current bonds	7.3%-8.2%	6,840	7,000
Total		**7,385**	**7,545**

In June 2010 the Group fulfilled its obligations under the second bond issue.

As at 31 December 2010 the Group has short-term undrawn committed financing facilities of RR 30,000 million (as at 31 December 2009 - nil) which may be used for the general purposes of the Group. In January 2010 the Company and JSC "Alfa-Bank" concluded an agreement to open a credit line for RR 15,000 million. In February 2010 the Company and JSB "Sberbank" concluded an agreement to open a credit line for RR 15,000 million.

Note 22. Accounts payable and accrued charges

	31 December 2010	31 December 2009
Trade payables	14,499	11,750
Accounts payable to construction companies	10,844	9,377
Total financial liabilities	**25,343**	**21,127**
Advances received	11,744	7,368
Accrued liabilities and other creditors	2,673	4,443
Total	**39,760**	**32,938**

Note 23. Other taxes payable

	31 December 2010	31 December 2009
Property tax	595	432
Value added tax	188	335
Employee taxes	47	35
Other taxes	401	334
Total	**1,231**	**1,136**

(in millions of Russian Roubles unless otherwise stated)

Note 24. Revenues

	The year ended 31 December 2010	The year ended 31 December 2009
Transmission fee	109,371	80,242
Electricity sales	3,070	3,348
Connection services	609	3,053
Grids repair and maintenance services	280	937
Total revenues	**113,330**	**87,580**

Other operating income primarily includes income from non-core activities.

	The year ended 31 December 2010	The year ended 31 December 2009
Design works	743	1,033
Insurance compensation	733	457
Research and development services	682	792
Communication services	502	550
Rental income	235	235
Other income	1,589	1,220
Total other operating income	**4,484**	**4,287**

Note 25. Operating expenses

	The year ended 31 December 2010	The year ended 31 December 2009
Depreciation of property, plant and equipment	30,185	16,740
Employee benefit expenses and payroll taxes	20,114	15,904
Purchased electricity	15,942	15,431
Repair and maintenance services from third parties	5,023	6,933
Materials for repair	2,868	2,096
Business trips and transportation expenses	1,734	1,251
Rent	1,348	1,435
Security services	1,234	917
Other materials	1,055	823
Information system maintenance	1,048	882
Insurance	946	1,153
Taxes, other than on income	933	664
Loss on disposal of property, plant and equipment	910	1,413
Amortisation of intangible assets	869	930
Electricity transit via foreign countries	784	422
Research and development	755	447
Consulting, legal and auditing services	729	1,293
Communication service	627	489
Fuel	576	490
(Reversal) / accrual of allowance for doubtful debtors	(2,164)	5,527
Other	2,357	2,976
Total	**87,873**	**78,216**

FGC UES purchases electricity to compensate electricity losses which occur during transmission.

Employee benefit expenses and payroll taxes include expenses on voluntary pension programs and long-term compensation payments.

(in millions of Russian Roubles unless otherwise stated)

Note 25. Operating expenses (continued)

	The year ended 31 December 2010	The year ended 31 December 2009
Wages and salaries	16,049	12,803
Payroll taxes	2,913	2,280
Pension costs - defined benefit plans (Note 20)	1,152	821
Total	**20,114**	**15,904**

Rent expense principally represent short-term operating lease, including rent of land (Note 6) and office facilities.

Note 26. Finance income

	The year ended 31 December 2010	The year ended 31 December 2009
Interest income	5,546	9,358
Dividends	255	245
Foreign exchange difference	6	397
Total finance income	**5,807**	**10,000**

Note 27. Finance costs

	The year ended 31 December 2010	The year ended 31 December 2009
Interest expense	1,906	1,928
Other	239	353
Total finance cost	**2,145**	**2,281**
Less capitalised interest expenses on borrowings related to qualifying assets (Note 6)	(1,526)	(797)
Total finance cost recognised in profit or loss	**619**	**1,484**

Note 28. Earnings / (loss) per ordinary share for profit attributable to the shareholders of JSC "FGC UES"

	The year ended 31 December 2010	The year ended 31 December 2009
Weighted average number of ordinary shares (millions of shares)	1,228,079	1,153,514
Profit / (loss) attributable to the shareholders of FGC UES (millions of RR)	19,009	(63,316)
Weighted average earning / (loss) per share – basic and diluted (in RR)	**0.015**	**(0.055)**

The weighted average number of shares was adjusted to reflect the effect of transactions under common control for shares registered after end of the reporting period.

The Group has no dilutive potential ordinary shares; therefore, the diluted earnings per share equal the basic earnings per share.

Note 29. Contingencies, commitments and operating risks

Political environment. The operations and earnings of the Group continue, from time to time and in varying degrees, to be affected by the political, legislative, fiscal and regulatory developments, including those related to environmental protection, in Russian Federation.

Insurance. The Group held limited insurance policies in relation to its assets, operations, public liability or other insurable risks. Accordingly, the Group is exposed to those risks for which it does not have insurance.

Legal proceedings. In the normal course of business the Group entities may be a party to certain legal proceedings. In the opinion of management, currently there are no existing legal proceedings or claims outstanding or final dispositions which will have a material adverse effect on the financial position of the Group.

Note 29. Contingencies, commitments and operating risks (continued)

As at 31 December 2010 the Group's subsidiary, JSC "Nurenergo" was engaged in a number of litigations involving claims amounting in total to RR 3,217 million, for collection of amounts payable for electricity purchased by JSC "Nurenergo" in previous years. The amount is recorded within Accounts payable. No additional provision has been made as the Group's management believes that these claims are unlikely to result in any further liabilities.

Tax contingency. Russian tax, currency and customs legislation is subject to varying interpretation, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

As at 31 December 2010 management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained, including the uncertainty of deductibility of certain types of costs for taxation purposes. Where management believes it is probable that a position cannot be sustained, an appropriate amount has been accrued for in these Financial Statements. The Group estimates that possible tax claims in respect of certain open tax positions of the Group companies primarily related to recoverability of VAT and revenue recognition for taxation purposes could amount to as much as RR 5,616 million if the tax positions would be successfully challenged (as at 31 December 2009: RR 3,367 million).

In addition, tax and other legislation do not address all the specific aspects of the Group's reorganisation related to reforming of the electric utilities industry. As such there may be tax and legal challenges to the various interpretations, transactions and resolutions that were a part of the reorganisation and reform process.

Environmental matters. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. Group entities periodically evaluate their 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, other than any amounts which have been accrued in the accompanying financial statements.

Capital commitments related to construction of property, plant and equipment. Future capital expenditures for which contracts have been signed amount to RR 389,228 million as at 31 December 2010 (as at 31 December 2009 - RR 208,568 million) including VAT.

Note 30. Financial instruments and financial risks

Financial risk factors. The Group's ordinary financial and business activities expose it to a variety of financial risks, including but not limited to the following: market risk (foreign exchange risk, interest rate risks related to changes in the fair value of the interest rate and the cash flow interest rate, and price risk), credit risk, and liquidity risk. Such risks give rise to the fluctuations of profit, reserves and equity and cash flows from one period to another. The Group's financial management policy aims to minimize or eliminate possible negative consequences of the risks for the financial results of the Group. The Group could use derivative financial instruments from time to time for such purposes as part of its risk management strategy.

(in millions of Russian Roubles unless otherwise stated)

Note 30. Financial instruments and financial risks (continued)

Financial instruments by categories:

31 December 2010	Loans and receivables	Investments available for sale	Other financial liabilities	Total
Financial assets				
Investments available for sale (Note 9)	-	9,531	-	9,531
Long-term promissory notes (Note 10)	11,046	-	-	11,046
Other non-current assets (Note 11)	1,707	-	-	1,707
Short-term promissory notes (Note 10)	43,156	-	-	43,156
Cash and cash equivalents (Note 12)	13,573	-	-	13,573
Bank deposits (Note 13)	4,606	-	-	4,606
Accounts receivable (Note 14)	11,364	-	-	11,364
Non-current assets held-for-sale (Note 16)	-	44,278	-	44,278
Total financial assets	**85,452**	**53,809**	-	**139,261**
Financial liabilities				
Non-current debt (Note 19)	-	-	50,000	50,000
Current debt and current portion of non-current debt (Note 21)	-	-	6,545	6,545
Trade payables (Note 22)	-	-	14,499	14,499
Account payables to construction companies (Note 22)	-	-	10,844	10,844
Total financial liabilities	-	-	**81,888**	**81,888**

31 December 2009	Loans and receivables	Investments available for sale	Other financial liabilities	Total
Financial assets				
Investments available for sale (Note 9)	-	35,229	-	35,229
Long-term promissory notes (Note 10)	8,952	-	-	8,952
Other non-current assets (Note 11)	438	-	-	438
Short-term promissory notes (Note 10)	48,681	-	-	48,681
Cash and cash equivalents (Note 12)	33,699	-	-	33,699
Bank deposits (Note 13)	10,187	-	-	10,187
Accounts receivable (Note 14)	9,303	-	-	9,303
Total financial assets	**111,260**	**35,229**	-	**146,489**
Financial liabilities				
Non-current debt (Note 19)	-	-	6,000	6,000
Current debt and current portion of non-current debt (Note 21)	-	-	7,545	7,545
Trade payables (Note 22)	-	-	11,750	11,750
Account payables to construction companies (Note 22)	-	-	9,377	9,377
Total financial liabilities	-	-	**34,672**	**34,672**

(a) Market risk

(i) Foreign exchange risk. The Group operates within the Russian Federation. The major part of the Group's purchases is denominated in Russian Roubles. Therefore, the Group's exposure to foreign exchange risk is insignificant.

(ii) Interest rate risk. The Group's operating profits and cash flows from operating activity are not largely dependent on the changes in market interest rates. As at 31 December 2010 the interest rates on the borrowing are fixed.

The Group's interest-bearing assets consist of certificates of deposit amounting to RR 4,798 million (as at 31 December 2009 – RR 30,499 million) placed at fixed rate and promissory notes amounting to RR 51,200 million (as at 31 December 2009 – RR 57,633 million).

(in millions of Russian Roubles unless otherwise stated)

Note 30. Financial instruments and financial risks (continued)

For the purpose of interest risk reduction the Group makes credit market monitoring to identify favourable credit conditions.

(iii) Price risk. Equity price risk arises from available-for-sale investments received during the share conversion process. Management of the Group monitors its investment portfolio based on market indices. Material investments within the portfolio are managed on an individual basis and all buy and sell decisions are taken by the management of the Group. The primary goal of the Group's investment strategy is to maximise investment returns in order to meet partially the Group's investment program needs. Transactions in equity products are monitored and authorised by the Group treasury. The total amount of investments available-for-sale exposed to the market risk equals RR 53,809 million. At 31 December 2010, if equity prices at that date had been 10% higher (lower) with all other variables held constant, the Group's revaluation reserve in equity would increase (decrease) by RR 5,381 million and profit before tax would not be affected. At 31 December 2009, if equity prices at that date had been 10% higher (lower) with all other variables held constant, the Group's revaluation reserve in equity would increase (decrease) by RR 3,467 million and profit before tax would not be affected.

(b) Credit risk.

The amounts exposed to credit risk are as follows:

31 December 2010	Long-term promissory notes (Note 10)	Other non-current assets (Note 11)	Short-term promissory notes (Note 10)	Cash and cash equivalents (Note 12)	Bank deposits (Note 13)	Accounts receivable (Note 14)
Not overdue, not impaired	2,580	675	42,198	13,573	4,606	8,353
Not overdue, but impaired:	8,466	-	-	-	-	-
- gross amount	*11,568*	*49*	-	-	-	*442*
- less impairment provision	*(3,102)*	*(49)*	-	-	-	*(442)*
Overdue, but not impaired	-	1,032	958	-	-	3,011
Overdue and impaired:	-	-	-	-	-	-
- gross amount		*175*	*47*	-	-	*3,172*
- less impairment provision		*(175)*	*(47)*	-	-	*(3,172)*
Total amount	**11,046**	**1,707**	**43,156**	**13,573**	**4,606**	**11,364**

31 December 2009	Long-term promissory notes (Note 10)	Other non-current assets (Note 11)	Short-term promissory notes (Note 10)	Cash and cash equivalents (Note 12)	Bank deposits (Note 13)	Accounts receivable (Note 14)
Not overdue, not impaired	1,280	438	48,681	33,699	10,187	6,527
Not overdue, but impaired:	7,672	-	-	-	-	-
- gross amount	*11,568*	-	*47*	-	-	*552*
- less impairment provision	*(3,896)*	-	*(47)*	-	-	*(552)*
Overdue, but not impaired	-	-	-	-	-	2,776
Overdue and impaired:	-	-	-	-	-	-
- gross amount	-	-	-	-	-	*5,320*
- less impairment provision	-	-	-	-	-	*(5,320)*
Total amount	**8,952**	**438**	**48,681**	**33,699**	**10,187**	**9,303**

As at 31 December 2010 the amount of financial assets, which are exposed to credit risk, is RR 85,452 million (as at 31 December 2009: RR 111,260 million). Although collection of receivables could be influenced by economic factors, management of the Group believes that there is no significant risk of loss to the Group beyond the provision for impairment of receivables already recorded.

The Group's trade debtors are quite homogenous as regards their credit quality and concentration of credit risk. They are primarily comprised of large, reputable customers, most of which are controlled by the State. Historical data, including payment histories during the recent credit crisis, would suggest that the risk of default from such customers is very low.

(in millions of Russian Roubles unless otherwise stated)

Note 30. Financial instruments and financial risks (continued)

Credit risk 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 cash has been deposited in the financial institutions with no more than minimal exposure to the default risk at the time of account opening. Although some of the banks and companies have no international credit rating, management believes that they are reliable counterparties with a stable position on the Russian market.

The main credit risks of the Group are concentrated within the balances of promissory notes. The detailed information on promissory notes is presented in Note 10.

(c) Liquidity risk. Liquidity risk is managed at the Group level and includes maintaining the appropriate volume of monetary funds, conservative approach to excess liquidity management, and access to financial resources by securing credit facilities and limiting the concentrations of cash in banks. The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
At 31 December 2010					
Non-current and current debt and interest payable	10,457	3,779	11,336	67,948	93,520
Trade payables (Note 22)	14,499	-	-	-	14,499
Account payables to construction companies (Note 22)	10,844	-	-	-	10,844
Total as at 31 December 2010	**35,800**	**3,779**	**11,336**	**67,948**	**118,863**
At 31 December 2009					
Non-current and current debt and interest payable	8,313	6,379	-	-	14,692
Trade payables (Note 221)	11,750	-	-	-	11,750
Account payables to construction companies (Note 22)	9,377	-	-	-	9,377
Total as at 31 December 2009	**29,440**	**6,379**	**-**	**-**	**35,819**

(d) Fair value. Management believes that the fair value of financial assets and liabilities is not significantly different from their carrying amounts. The carrying value less provision for doubtful 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 disclosure in the financial statements is estimated by discounting future contractual cash flows at the current market interest rate that is available for Group for similar financial instruments.

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	100,140	34,674
Level 3	-	555
Total	**100,140**	**35,229**

The financial instruments of the Group carried at fair value represent available-for-sale investments (Note 9) and non-current assets held-for-sale (Note 16).

Note 31. Capital risk management

The Group's management of the capital of its entities aims to comply with the capital requirements established by the legislation of the Russian Federation for joint stock companies, in particular:

- share capital can not be lower than RR 100 thousand;
- in case the share capital of an entity is greater that statutory net assets of the entity, such entity must reduce its share capital to the value not exceeding its statutory net assets;
- in case the minimum allowed share capital exceeds the entity's statutory net assets, such entity is subject for liquidation.

At 31 December 2010 several companies of the Group namely JSC "Nurenergo", JSC "The Kuban Trunk Grids" and JSC "The Tomsk Trunk Grids" were not in compliance with all requirements mentioned above. Management of the Group currently takes measures to correspond with all legislation requirements within the short period.

The Group's capital management objectives are to ensure that its operations be continued at a profit for the shareholders and with benefits for other stakeholders, and to maintain the optimal capital structure with a view to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group can adjust the dividends paid to the shareholders or their contributions to the authorized capital by issuing new shares or by selling assets to reduce debts.

The Group monitors capital ratios, including the gearing ratio, calculated on the basis of figures of financial statements prepared under the Russian Standards on Accounting (RSA). The Group should ensure that its gearing ratio, being the total debt divided by the total equity, does not exceed 0.50. At 31 December 2010 the Company's gearing ratio calculated under RSA was less than 0.09 (at 31 December 2009: 0.02).

Note 32. Segment information

Under IFRS 8 operating segments are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision-maker (further "CODM") in deciding how to allocate resources and in assessing performance. The Board of Directors of the Company has been determined as the CODM.

The Group has a single primary activity i.e. the provision of electricity transmission services within the Russian Federation which is represented as Transmission Segment comprising JSC FGC UES, its' maintenance (service) subsidiaries, LLC Index Energetiki, JSC "The Kuban Trunk Grids" and JSC "The Tomsk Trunk Grids".

FGC UES itself maintains the high voltage electricity transmission network.

Maintenance (service) subsidiaries – JSC "The principle electricity transmission service company of Unified National Electrical Network" and JSC "Specialized electricity transmission service company of Unified National Electrical Network" - are engaged in maintenance services (repair and restoration) for the Unified National Electric Network.

Assets and liabilities of LLC Index Energetiki acquired as the result of RAO UES liquidation are held only for the purpose of implementation of FGC UES investment program through sale in the appropriate market situation. As this division of financial assets and liabilities between FGC UES and LLC Index Energetiki is only of legal nature and the management of the Group analyses information on financial assets of these two entities simultaneously, the operations and balances relating to LLC Index Energetiki are included within the Transmission Segment.

The Board of Directors of the Company does not evaluate financial information of other components of the Group to allocate resources or assess performance and does not determine these components as segments. The key indicator of the transmission segment performance is return on equity ratio (ROE). It is calculated based on statutory financial statements prepared according to RSA as net profit divided by net assets. Accordingly, the measure of transmission segment profit or loss analysed by CODM is net profit of segment based on the statutory financial statements prepared according to RSA. The Other information provided to CODM is also based on statutory financial statements prepared according to RSA.

(in millions of Russian Roubles unless otherwise stated)

Note 32. Segment information (continued)

	Transmission segment – based on statutory financial statements prepared according to RSA	
	The year ended 31 December 2010	The year ended 31 December 2009
Revenue from external customers	112,191	86,555
Intercompany revenue	230	302
Total revenue	112,421	86,857
Depreciation and amortization	32,279	23,089
Interest income	6,011	7,512
Interest expenses	350	1,812
Current profit tax	9,298	5,021
Profit / (loss) for the period	66,428	(73,128)
Capital expenditure	117,901	87,708
	At 31 December 2010	**At 31 December 2009**
Total reportable segment assets	925,118	705,904
Total reportable segment liabilities	161,535	135,007

	The year ended 31 December 2010	The year ended 31 December 2009
Total revenues from segment (RSA)	112,421	86,857
Reclassification between revenue and other income	(1,932)	(2,323)
Non-segmental revenue	3,071	3,348
Elimination of intercompany revenue	(230)	(302)
Total revenue (IFRS)	**113,330**	**87,580**

(in millions of Russian Roubles unless otherwise stated)

Note 32. Segment information (continued)

	The year ended 31 December 2010	The year ended 31 December 2009
Profit / (loss) for the period (RSA)	66,428	(73,128)
Adjustment of bad debts provision under IFRS	6,065	(17,593)
Adjustment of property, plant and equipment to IFRS cost	2,823	6,348
Impairment of property, plant and equipment not recognized under RSA	(216)	(2,099)
Reversal of impairment provision for property, plant and equipment	1,358	5,243
Recovery of investments reserves under RSA	(39,885)	78,825
Loss on re-measurement of assets held-for-sale	(6,896)	-
Reversal of impairment of promissory notes under RSA	(7,379)	-
Adjustment of Treasury shares	(659)	22,762
(Reversal) / write-off of expenses recognized under RSA	(644)	522
Discounting of promissory notes	(1,841)	(557)
Capitalized interest	248	797
Unrealised profit adjustment	(558)	(165)
Deferred tax adjustments	7,150	14,777
Share of result of associates	(833)	1,893
Loss on dilution of share in associates	(2,790)	-
Adjustment of gain on sale of investments in associates	(344)	-
Pension liabilities adjustment	(541)	(555)
Revaluation loss on property, plant and equipment	-	(99,879)
Adjustment on disposal of available-for-sale investments	-	8,153
Impairment of available-for-sale investments and associates	-	(2,018)
Impairment of promissory notes	(228)	(353)
Write-off of construction-in-progress	(21)	(104)
Other adjustments	339	363
Non-segmental other operating loss	(3,193)	(7,206)
Profit / (loss) for the period (IFRS)	**18,383**	**(63,974)**

(in millions of Russian Roubles unless otherwise stated)

Note 32. Segment information (continued)

	31 December 2010	31 December 2009
Total reportable segment assets (RSA)	**925,118**	**705,904**
Adjustment of property, plant and equipment to IFRS cost	336,944	130,385
Reversal of RSA revaluation of property, plant and equipment	(114,216)	(28,066)
Impairment of advances for construction-in-progress	(350)	(1,928)
Adjustment of VAT recoverable according to IFRS	(8,592)	(3,084)
Write-off of construction-in-progress	(423)	(402)
Reversal of RSA impairment of investments in subsidiaries	5,580	5,580
Reversal of RSA impairment of investments in associates	41,680	62,453
Adjustment of Investments in associates under equity method of accounting	(40,699)	(36,713)
Impairment of associates	(3,240)	(3,240)
Reversal of impairment of promissory notes and other short-term investments under RSA	4,167	15,165
Deferred tax adjustment	(4,975)	(5,311)
Treasury shares adjustment according to accounting policy	(5,038)	(4,379)
Discounting of promissory notes	(3,103)	(4,652)
Write-off and impairment of accounts receivable	8,242	2,176
Write-off of intangible assets	(1,305)	(1,271)
Interest capitalized	1,045	797
Revaluation of property, plant and equipment	-	204,003
Re-measurement of assets held-for-sale	(6,896)	-
Other adjustments	357	272
Non-segmental assets	15,729	19,344
Unrealised profit adjustment	(1,201)	(643)
Elimination of investments in subsidiaries	(23,462)	(23,560)
Elimination of intercompany balances	(53,714)	(57,684)
Total assets (IFRS)	**1,071,648**	**975,146**

	31 December 2010	31 December 2009
Total reportable segment liabilities (RSA)	**161,535**	**135,007**
Pension adjustment	4,318	3,439
Adjustment of VAT recoverable according to IFRS	(8,592)	(3,084)
Other adjustments	977	(64)
Non-segmental liabilities	15,685	16,710
Deferred tax adjustments	77,335	80,297
Elimination of intercompany balances	(53,714)	(57,684)
Total liabilities (IFRS)	**197,544**	**174,621**

Note 32. Segment information (continued)

The main differences between financial information prepared in accordance with IFRS and financial information reported to the chief operating decision-maker related to profit and losses, assets and liabilities results from different accounting methods under IFRS and RSA. Financial information on segments reported to CODM under RSA does not include main adjustments made in accordance with IFRS.

Non-segmental revenue, non-segmental other operating loss, non-segmental assets and non-segmental liabilities represent corresponding revenues, profit (loss), assets and liabilities of components (subsidiaries) that are not determined as segments by CODM.

Information on revenues for separate services and products of the Group is presented in Note 24.The Group performs most of its activities in the Russian Federation and do not have any significant revenues from foreign customers or any non-current assets located in foreign countries.

The major customers of the Group are entities controlled by the Government of Russian Federation. The amounts of revenues from such entities are disclosed in Note 5. The Group has no other major customers with turnover over 10 percent of the Group revenues.

Note 33. Events after the reporting period

Additional share issue. In February 2011 FGC UES completed and registered the additional share issue. As the result of this share issue 22,387 million shares were placed and the Company received cash in the amount of RR 11,193 million. As a result of the exercise of the state's pre-emptive rights during the share issue, the interest of the state in the Company increased to 79.48 per cent.

Transaction with JSC "InterRAO UES". In March 2011 assets classified as Held-for-sale as of 31 December 2010, except for investments in JSC "UES"GruzRosEnergo", JSC "Sangtudinskaya GES-1" and JSC "TGC-11 Holding", were transferred to JSC "Inter RAO UES" in exchange for 1,883,764,021 thousand of ordinary shares of "Inter RAO UES". The financial result of the transaction will be recognized in financial statements for the period beginning on 1 January 2011.

Bonds issue. In April 2011 the Company's Board of Directors approved the offering document for the placement of the corporate bonds in Russian market. The Group plans to place bonds of series 12, 13, 14, 15, 16, 17, 18, 19 and 20 with a total nominal value of RR 125,000 million.

Share options. In February 2011 the Board of Directors approved share option program effective within the next five years. The total quantity of ordinary shares to be granted to directors and employees will not exceed 2% of the total quantity of ordinary shares of the Company. Exercise price of shares is the weighted average price of Company's ordinary shares based on MICEX quotations during 90 days preceding the date of the agreement with the program's participant.