

**RAO ENERGY SYSTEM OF EAST GROUP**

**CONSOLIDATED FINANCIAL STATEMENTS  
PREPARED IN ACCORDANCE WITH  
INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)  
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2010**



## ***Independent Auditor's Report***

To the Shareholders and Board of Directors of Joint Stock Company "RAO Energy System of East":

- 1 We have audited the accompanying consolidated financial statements of JSC "RAO Energy System of East" and its subsidiaries (the "Group") which comprise the consolidated statement of financial position as of 31 December 2010 and the 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 Consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.
- 4 An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.
- 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.

*ZAO PricewaterhouseCoopers Audit*

21 June 2011

Moscow, Russian Federation

**RAO Energy System of East Group**  
**Consolidated Statement of Financial Position as at 31 December 2010**

(In thousands of Russian Rubles unless noted otherwise)

	Note	31 December 2010	31 December 2009
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	7	57,027,371	59,509,344
Goodwill	4, 29	547	1,019,788
Other intangible assets	8	-	206,116
Investments in associates	9	38,171	38,442
Available for sale investment	10	1,605,206	4,833,231
Deferred income tax asset	27	38,215	554,794
Trade and other receivables	13	504,970	418,102
Other non-current assets	11	87,610	147,041
<b>Total non-current assets</b>		<b>59,302,090</b>	<b>66,726,858</b>
<b>Current assets</b>			
Inventories	12	14,375,359	12,733,369
Trade and other receivables	13	14,856,082	27,450,097
Current income tax prepayments		606,867	658,268
Other current assets	11	8,022,659	2,922,260
Cash and cash equivalents	14	4,358,561	9,317,204
<b>Total current assets</b>		<b>42,219,528</b>	<b>53,081,198</b>
<b>Total assets</b>		<b>101,521,618</b>	<b>119,808,056</b>
<b>EQUITY</b>			
Share capital	15	21,558,452	21,558,452
Accumulated deficit and other reserves		(4,543,836)	(8,025,054)
<b>Equity attributable to the Company's owners</b>		<b>17,014,616</b>	<b>13,533,398</b>
<b>Non-controlling interest</b>		<b>8,181,125</b>	<b>11,609,279</b>
<b>Total equity</b>		<b>25,195,741</b>	<b>25,142,677</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	16	20,287,162	10,129,587
Trade and other payables	21	25,494	96,448
Employee benefits	17	8,834,867	8,332,600
Deferred income tax liability	27	1,718,886	3,758,218
<b>Total non-current liabilities</b>		<b>30,866,409</b>	<b>22,316,853</b>
<b>Current liabilities</b>			
Borrowings	16	23,539,063	36,233,988
Trade and other payables	21	16,907,457	31,705,083
Provisions for liabilities and charges	20	575,670	529,360
Current income tax payable		720,818	312,006
Other taxes payable	19	3,716,460	3,568,089
<b>Total current liabilities</b>		<b>45,459,468</b>	<b>72,348,526</b>
<b>Total liabilities</b>		<b>76,325,877</b>	<b>94,665,379</b>
<b>Total liabilities and equity</b>		<b>101,521,618</b>	<b>119,808,056</b>

Chairman of Management Board

Chief Accountant



I.V. Blagodyr

I.V. Davydova

21 June 2011

The accompanying notes are an integral part of these consolidated financial statements.

**RAO Energy System of East Group**  
**Consolidated Statement of Comprehensive Income for the year ended 31 December 2010**  
(In thousands of Russian Rubles unless noted otherwise)

	Note	2010	2009
Revenue	22	114,642,921	95,539,904
Government grants	18	8,326,190	10,029,765
Operating expenses	23	(116,902,275)	(102,756,103)
Impairment charge related to property, plant and equipment, net	7	(4,282,047)	(4,282,144)
<b>Gross profit/(loss)</b>		<b>1,784,789</b>	<b>(1,468,578)</b>
Other operating income	24	141,163	1,595,560
<b>Operating profit</b>		<b>1,925,952</b>	<b>126,982</b>
Finance income	25	3,472,290	720,273
Finance costs	26	(5,823,444)	(5,845,654)
Losses on available-for-sale investments	10	(94,808)	(20,957)
Share of result of associates	9	(271)	14,791
<b>Loss before income tax</b>		<b>(520,281)</b>	<b>(5,004,565)</b>
Income tax (expense)/benefit	27	(386,923)	182,396
<b>Loss for the year from continuing operations</b>		<b>(907,204)</b>	<b>(4,822,169)</b>
<b>Profit for the year from discontinued operations</b>	29	<b>6,355,433</b>	<b>1,595,381</b>
<b>PROFIT/(LOSS) FOR THE YEAR</b>		<b>5,448,229</b>	<b>(3,226,788)</b>
<b>Other comprehensive income:</b>			
Available-for-sale investments:			
- Gains/(Losses) arising during the year	10	(1,979,394)	2,560,852
- Income tax recorded directly in other comprehensive income	27	395,879	(512,170)
<b>Other comprehensive income/(loss) for the year</b>		<b>(1,583,515)</b>	<b>2,048,682</b>
<b>TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR</b>		<b>3,864,714</b>	<b>(1,178,106)</b>
<b>Profit/(loss) is attributable to:</b>			
- Owners of the Company		4,289,540	(3,692,543)
- Non-controlling interest		1,158,689	465,755
<b>Profit/(loss) for the year</b>		<b>5,448,229</b>	<b>(3,226,788)</b>
<b>Total comprehensive income/(loss) is attributable to:</b>			
- Owners of the Company		3,491,069	(2,636,933)
- Non-controlling interest		373,645	1,458,827
<b>Total comprehensive income/(loss) for the year</b>		<b>3,864,714</b>	<b>(1,178,106)</b>
Loss per ordinary and preference shares from continuing operations attributable to the owners of the Company, basic and diluted (in RR per share)	28	(0.0179)	(0.0962)
Profit per ordinary and preference shares from discontinuing operations attributable to the owners of the Company, basic and diluted (in RR per share)	28	0.1173	0.0106

Chairman of Management Board

Chief Accountant

I.V. Blagodyr

I.V. Davydova

21 June 2011

The accompanying notes are an integral part of these consolidated financial statements.

**RAO Energy System of East Group**  
**Consolidated Statements of Changes in Equity for the year ended 31 December 2010**  
(in thousands of Russian Rubles unless noted otherwise)

	Note	Share capital	Retained earnings/ (Accumulated deficit)	Revaluation reserve	Equity Attributable to owners of the Company	Non-controlling interest	Total equity
<b>As at 1 January 2009</b>		<b>21,558,452</b>	<b>(5,092,875)</b>	-	<b>16,465,577</b>	<b>10,649,527</b>	<b>27,115,104</b>
Profit/(loss) for the year		-	(3,692,543)	-	(3,692,543)	465,755	(3,226,788)
<i>Other comprehensive income</i>							
Fair value gains on available-for-sale investments	10	-	-	1,319,513	1,319,513	1,241,339	2,560,852
Income tax recorded in other comprehensive income	27	-	-	(263,903)	(263,903)	(248,267)	(512,170)
Total other comprehensive income		-	-	1,055,610	1,055,610	993,072	2,048,682
Total comprehensive income/(loss)		-	(3,692,543)	1,055,610	(2,636,933)	1,458,827	(1,178,106)
Effect of changes in non-controlling interest		-	(295,246)	-	(295,246)	4,048	(291,198)
Dividends declared	15	-	-	-	-	(503,123)	(503,123)
<b>As at 31 December 2009</b>		<b>21,558,452</b>	<b>(9,080,664)</b>	<b>1,055,610</b>	<b>13,533,398</b>	<b>11,609,279</b>	<b>25,142,677</b>
Profit for the year		-	4,289,540	-	4,289,540	1,158,689	5,448,229
<i>Other comprehensive income</i>							
Fair value losses on available-for-sale investments	10	-	-	(998,089)	(998,089)	(981,305)	(1,979,394)
Income tax recorded in other comprehensive income	27	-	-	199,618	199,618	196,261	395,879
Total other comprehensive income/(loss)		-	-	(798,471)	(798,471)	(785,044)	(1,583,515)
Total comprehensive income/(loss)		-	4,289,540	(798,471)	3,491,069	373,645	3,864,714
Effect of changes in non-controlling interest	15	-	(9,851)	-	(9,851)	(3,795,724)	(3,805,575)
Dividends declared	15	-	-	-	-	(6,075)	(6,075)
<b>As at 31 December 2010</b>		<b>21,558,452</b>	<b>(4,800,975)</b>	<b>257,139</b>	<b>17,014,616</b>	<b>8,181,125</b>	<b>25,195,741</b>

Chairman of Management Board

I.V. Blagodyr

Chief Accountant

I.V. Davydova

21 June 2011

The accompanying notes are an integral part of these consolidated financial statements.

**RAO Energy System of East Group**  
**Consolidated Statement of Cash Flows for the year ended 31 December 2010**  
(In thousands of Russian Rubles unless noted otherwise)

	Note	2010	2009
<b>Cash flows from operating activities</b>			
Loss before income tax		(520,281)	(5,004,565)
Adjustments for:			
Depreciation and amortisation	23	3,948,705	3,847,183
Impairment losses on property, plant and equipment, net	7	4,282,047	4,282,144
Allowance for impairment of trade and other receivables	23	2,291,799	2,937,014
Reversal of inventory obsolescence provision		(46,300)	(108,181)
Gains/(losses) on disposal of property, plant and equipment	24	59,501	(335,923)
Gains on sale of subsidiaries		-	(194,819)
Losses on available-for-sale investments	10	94,808	20,957
Finance income	25	(3,472,290)	(720,273)
Finance costs	26	5,823,444	5,845,654
Share of (profit)/losses of equity accounted investees	9	271	(14,791)
Other (profit)/loss, net		266,094	(195,370)
<b>Operating cash flows before working capital changes</b>		<b>12,727,798</b>	<b>10,359,030</b>
Increase in inventories		(1,625,664)	(324,763)
Increase in trade and other receivables		(2,600,374)	(5,678,871)
Increase in trade and other payables		3,425,951	6,897,814
Increase in other taxes payable		783,885	902,753
Increase in pension benefit obligations		659,758	667,556
<b>Changes in working capital</b>		<b>13,371,354</b>	<b>12,823,519</b>
Income taxes paid		(1,027,032)	(17,006)
Interest paid		(4,844,944)	(6,019,796)
<b>Net cash generated by operating activities - continuing operations</b>		<b>7,499,378</b>	<b>6,786,717</b>
<b>Net cash generated by operating activities - discontinued operations</b>	29	<b>655,959</b>	<b>791,229</b>
<b>Cash flows from investing activities</b>			
Acquisition of property, plant and equipment		(11,131,122)	(8,441,221)
Proceeds from disposal of investments		4,151,619	71,972
Interest received		757,704	506,412
Dividends received		100	99
Proceeds from sale of property, plant and equipment		322,348	166,848
Acquisition of available-for-sale investments		(300,000)	(333,388)
Acquisition of subsidiaries, net of cash acquired	4	(28,162)	-
Disposal of subsidiaries	4, 29	1,847,823	(3,020,028)
Issue of loans and deposits placed		(8,254,978)	(2,603,753)
Proceeds from issued loans and deposits	11	3,244,796	310,109
<b>Net cash used in investing activities - continuing operations</b>		<b>(9,389,872)</b>	<b>(13,342,950)</b>
<b>Net cash used in investing activities - discontinued operations</b>	29	<b>(1,334,890)</b>	<b>(1,290,014)</b>

The accompanying notes are an integral part of these consolidated financial statements.

**RAO Energy System of East Group**  
**Consolidated Statement of Cash Flows for the year ended 31 December 2010**  
(In thousands of Russian Rubles unless noted otherwise)

	Note	2010	2009
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		66,776,529	70,796,956
Repayment of borrowings		(67,813,513)	(66,137,561)
Payment of finance lease liabilities		(802,879)	(578,438)
Dividends paid to non-controlling interest holders		(150,215)	(99,042)
<b>Net cash generated by/(used) in financing activities - continuing operations</b>		<b>(1,990,078)</b>	<b>3,981,915</b>
<b>Net cash generated by/(used) in financing activities - discontinued operations</b>	29	<b>(399,140)</b>	<b>1,336,336</b>
<b>Net decrease of cash and cash equivalents</b>		<b>(4,958,643)</b>	<b>(1,736,767)</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>9,317,204</b>	<b>11,053,971</b>
<b>Cash and cash equivalents at the end of the year</b>	14	<b>4,358,561</b>	<b>9,317,204</b>

Chairman of Management Board

Chief Accountant

I.V. Blagodyr

I.V. Davydova

21 June 2011

The accompanying notes are an integral part of these consolidated financial statements.

**Note 1. RAO Energy System of East Group and its Operations**

The Joint Stock Company "RAO Energy System of East" (hereinafter referred to as "the Company") was established on 1 July 2008 as a result of the reorganization of Russian Open Joint Stock Company for Energy and Electrification Unified Energy System of Russia (hereinafter referred to as "RAO UES") through a spin-off in accordance with the decision approved by the Extraordinary General Meeting of Shareholders of RAO UES on 26 October 2007. As a result of the reorganization, the Company became a shareholder of a number of energy companies in the Far East region of Russia and a number of energy retail companies and non-core companies that were transferred to the Company according to the separation balance sheet. The consolidated financial statements present the financial performance of the Company and its subsidiaries (together referred to as the "Group" or "RAO Energy System of East Group") as if its reorganization had been completed as of 1 January 2008. The Group's principal subsidiaries are presented in Note 4.

The Company was incorporated and is domiciled in the Russian Federation. The Company was set up in accordance with Russian regulations.

The Russian Federation represented by the Federal Agency for State Property Management owns 52.68% of the Group and 47.32% is owned by non-controlling shareholders. Related party transactions are detailed in Note 6.

The shares of the Company are traded on the MICEX Stock Exchange and the Russian Trading System.

The Group's principal business activities are:

- electricity and heat generation;
- electricity and heat distribution;
- electricity and heat wholesale.
- electricity retail.

The Company's registered office is located at 28, Shevchenko str., Blagoveshchensk, the Amur region, Russia, 675000.

The Group operates in the Far East region. The Far East Federal regions comprises Republic of Sakha (Yakutiya), Kamchatka region, Primorye territory, Khabarovsk territory, Amur region, Magadan region, Sakhalin region, Evreiskaya autonomous district and Chukotka autonomous district.

***Relations with the State and current regulation.*** Many consumers of electricity and heat are controlled by or affiliated with the Russian Federation. Moreover, the Russian Federation controls a number of fuel suppliers and suppliers of other materials of the Group (Note 6).

The Government affects the Group's operations through:

- participation of its representatives in the Company's Board of Directors;
- tariff regulation within wholesale electricity and capacity as well as retail electricity markets;
- agreement procedures for the Company's investment program, volume and sources of their financing, control over its implementation;
- existing antimonopoly regulation.

The Russian Federation directly influences the activities of the Group by regulating the wholesale purchases of electricity via the Federal Service of Tariff (hereinafter, "FST") and the retail sale of electricity, capacity and heat via Regional Energy Commission (hereinafter, "REC"). The activities of all generating companies are coordinated by OJSC "System Operator of the United Energy System" (hereinafter, "SO UES") to maintain the effective operation of the electricity market.



**Note 1. RAO Energy System of East Group and its Operations (Continued)**

Tariffs on electricity and heat for the Group are set on the basis of regulatory documents covering the generation of electricity and heat and regulations applied to natural monopolies. The Government of the Russian Federation during the privatization of 1992 laid down conditions obligating RAO UES to supply Russian consumers with electricity and heat.

**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 thousand, 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.

**Note 2. Basis of Preparation (Continued)**

- 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 601,839 thousand. 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.
- 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.

**Note 2. Basis of Preparation (Continued)**

- 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:
- 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.

**Note 2. Basis of Preparation (Continued)**

- 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 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

**Note 2. Basis of Preparation (Continued)**

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.

## **Note 2. Basis of Preparation (Continued)**

New standards issued in May 2011 that are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted.

- IFRS 10 "Consolidated financial statements" replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation – special purpose entities". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. As a consequence of above changes IAS 27 is renamed "Separate financial statements". It continues to be a standard dealing solely with separate financial statements. The existing guidance for separate financial statements is unchanged.
- IFRS 11 "Joint arrangements" replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities—Non-Monetary Contributions by Ventures". Changes in the definitions have reduced the "types" of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures.
- IFRS 12 "Disclosure of interest in other entities" applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity; it replaces the disclosure requirements currently found in IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet this objective, there is a new requirement to disclose significant judgments and assumptions in determining whether an entity controls, jointly controls or significantly influences its interests in other entities.
- IFRS 13 "Fair value measurement" aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs.

## **Critical Accounting Estimates and Assumptions**

Management has made a number of judgments, estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with IFRS. Actual results may differ from those estimates.

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

Judgments that have the most significant effect on the amounts recognized in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next reporting period include the ones discussed below.

**Impairment of non-financial assets.** At each reporting date management assesses whether there is any indication of impairment of non-financial assets. If any such indication exists, 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 in profit or loss for the year to the extent it exceeds the previous revaluation surplus in equity. 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.

See effect of these critical accounting estimates and assumptions in Note 7.

**Impairment of financial assets, carried at amortised cost.** The Group's impairment provision is based on the Group's assessment of the collectability of individually significant specific accounts receivable. The remaining balances are assessed collectively in groups that share similar credit risk characteristics. In establishing the required provision, management considers historical losses adjusted to take into account current market conditions and our customers' financial condition, the amount of receivables in dispute, and the current receivables aging and current payment patterns.

## **Note 2. Basis of Preparation (Continued)**

If there is deterioration in major customer creditworthiness or actual defaults are higher, the actual results may differ from these estimates.

The Group's allowance for impairment of accounts receivable is further discussed in Note 13.

**Provisions for liabilities and charges.** The Group accrues provision for legal proceedings when its assessments indicate that it is probable that a liability has been incurred and an amount can be reasonably estimated. The Group's estimates for provisions for liabilities and charges are based on currently available facts and the Group's estimates of the ultimate outcome or resolution of the liability in the future.

See effect of these critical accounting estimates and assumptions in Note 20.

**Useful lives of property, plant and equipment.** The estimation of the useful lives of an item of property, plant and equipment is a matter of management judgment based upon experience with similar assets. In determining the useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear and tear and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments for future depreciation rates, which can affect the reported income. See effect of these critical accounting estimates and assumptions in Note 7.

**Impairment of available-for-sale equity investments.** The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below their cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Group evaluates, among other factors, the volatility in share price. In addition, impairment may be appropriate when there is evidence of changes in technology or deterioration in the financial health of the investee, industry and sector performance, or operational or financing cash flows.

The decision on impairment is made on a case-by-case basis to determine whether a decline in the fair value of an available-for-sale financial asset below its cost is significant or prolonged.

**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 for in these IFRS financial statements. See effect of these critical accounting estimates and assumptions in Note 30.

**Recognition of deferred tax assets.** At each reporting date management assesses recoverability of deferred tax assets arising from operating losses and asset impairments in the context of the current economic environment, particularly when current and expected future profits have been adversely affected by market conditions. Management considers first the future reversal of existing deferred tax liabilities and then considers future taxable profits when evaluating deferred tax assets. The assessment is made on a jurisdiction-by-jurisdiction basis (Note 27).

**Going concern.** Management prepared these financial statements on a going concern basis. In making this judgement management considered the Group's financial position, current intentions, profitability of operations and access to financial resources, and analysed the impact of the recent financial crisis on future operations of the Group (Note 31).

**Financial assets carried at amortised cost.** The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty.

**Liabilities carried at amortised cost.** Fair values of other liabilities were determined using valuation techniques. The estimated fair value of fixed interest rate instruments with stated maturity was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

**Recognition of revenue and expenses on free bilateral contracts.** Under free bilateral contracts electricity and capacity supply trading is based on unregulated prices negotiated between customers and suppliers. The industry regulations oblige the seller under such contract to sell the equivalent volume on wholesale market and purchase it back from this market, the buyer similarly has to additionally purchase

## **Note 2. Basis of Preparation (Continued)**

on wholesale market and sell back (additional turnover). Management of the Group has exercised critical judgment in respect of transactions under free bilateral contracts to reflect their economic substance, thus additional turnover in the amount of RR 443,970 thousand for the year ended 31 December 2010 (for the year ended 31 December 2009: RR 3,428,289 thousand) is shown net for presentation purposes of discontinued operations performance result.

## **Note 3. Summary of Significant Accounting Policies**

**Principles of consolidation.** The consolidated Financial Statements comprise the financial statements of the Company and the financial statements of those entities whose operations are controlled by the Company. Control is presumed to exist when the Company controls, directly or indirectly through subsidiaries, more than 50 percent of voting rights. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity.

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control is transferred to the Group and are deconsolidated from the date that control effectively ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries, other than those acquired from parties under common control. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures non-controlling interest on a transaction by transaction basis at the non-controlling interest's proportionate share of net assets of the acquiree.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs related to the acquisition and incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt as part of the business combination are deducted from the carrying amount of the debt and all other transaction costs associated with the acquisition are expensed.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Company. Non-controlling interest forms a separate component of the Group's equity.

**Transfers of subsidiaries from parties under common control.** Transfers 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. **Purchases and sales of non-controlling interests.** The Group applies the economic entity model to account for transactions with owners of non-controlling interest. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity. The Group recognises the difference between sales consideration and carrying amount of non-controlling interest sold as a capital transaction in the statement of changes in equity.



**Note 3. Summary of Significant Accounting Policies (Continued)**

**Investments in associates.** Associates are entities over which the Company has significant influence (directly or indirectly), but not control, 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, based upon the percentage of ownership held by the Group and are initially recognised at cost. The Group's share of profits or losses of associates is recorded in profit or loss for the year as share of result of associates.

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.

**Financial assets**

**Classification of financial assets.** The Group classifies financial assets in the following measurement categories: loans and receivables, available-for-sale financial assets. The Group does not have any financial assets held-to-maturity and financial assets at fair value through profit or loss. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are unquoted non-derivative financial assets that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the reporting date. These are classified as non-current assets. The Group's loans and receivables comprise "trade and other receivables" and cash and cash equivalents in the statement of financial position (Notes 13 and 14).

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 or equity prices.

Dividends on available-for-sale equity instruments are recognised in profit or loss for the year as finance income 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 recognised in other comprehensive income until the investment is derecognised or impaired at which time the cumulative gain or loss is reclassified from other comprehensive income to finance income in profit or loss for the year.

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

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 reclassified from other comprehensive income to finance costs in profit or loss for the year. Impairment losses on equity instruments are not reversed through profit or loss.

**Recognition and measurement of financial instruments.** Financial assets 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.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument. 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

**Note 3. Summary of Significant Accounting Policies (Continued)**

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.

**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 RR at the 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 translation of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss for the year.

As at 31 December 2010, the official rate of exchange, as determined by the Central Bank of the Russian Federation, between RR and US Dollar (hereinafter referred to as "USD") was RR 30.48: USD 1.00 (31 December 2009: RR 31.24: USD 1.00), between RR and EURO was 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 deemed cost as allowed by exemption of IFRS, less accumulated depreciation and provision for impairment, where required.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised in profit or loss for the year within other operating income or costs.

Land and construction in progress are not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives.

The useful lives of property, plant and equipment are subject to annual assessment by management and if expectations differ from previous estimates, the changes of useful lives are accounted for as a change in an accounting estimate prospectively.

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

<b>Type of facility</b>	<b>Useful lives in years</b>
Buildings	10 to 100
Constructions other than distribution and heating networks	10 to 100
Distribution networks	7 to 45
Heating networks	7 to 25
Machinery and equipment for power generation	10 to 40
Other	5 to 50

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

Up to 31 December 2008, borrowing costs incurred for the financing of construction of property, plant and equipment are expensed but not capitalised within the cost of property, plant and equipment. Starting from 1 January 2009 the Group capitalises borrowing costs related to new qualifying assets for which construction commenced on or after 1 January 2009.

Social assets are not capitalised as they are not expected to result in future economic benefits to the Group. Costs associated with fulfilling the Group's social responsibilities are expensed as incurred. **Impairment of property, plant and equipment.** Impairment of property, plant and equipment is calculated as the difference between the carrying values of the net assets of cash-generating units, including where appropriate, investments, and their recoverable amounts. The recoverable amount is defined as the higher of an asset's fair value less costs to sell and its estimated value in use at the date the impairment review is undertaken. Fair value less costs to sell represents the amount that can be generated through the sale of assets. Value in use represents the present value of expected future cash flows discounted on a pre-tax basis, using the estimated cost of capital of the cash-generating unit.

**Note 3. Summary of Significant Accounting Policies (Continued)**

Impairment reviews for property, plant and equipment are carried out when there is an indication that impairment may have occurred, or where it is otherwise required to ensure that property, plant and equipment are not carried above their estimated recoverable amounts (Note 7).

**Goodwill.** Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews appropriateness of their measurement.

The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or groups of units represent the lowest level at which the Group monitors goodwill and are not larger than an operating segment.

**Intangible assets.** The Group's intangible assets other than goodwill have definite useful lives and primarily include specific computer software.

Amortisation of intangible assets is recognised in profit or loss for the year on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated useful lives of specific software are 3 to 10 years.

**Current and deferred income tax.** Income tax has been provided for in the financial statements in accordance with 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 profit or loss for the year except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes other than on income are recorded within 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 liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes. 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.

The Group controls reversal of temporary differences relating to taxes chargeable on dividends from subsidiaries or on gains at their disposal. The Group does not recognise deferred tax liabilities on such temporary differences except to the extent that Management expects the temporary differences to reverse in the foreseeable future.

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

**Note 3. Summary of Significant Accounting Policies (Continued)**

**Inventories.** Inventories are recorded 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 the cost of completion and selling expenses.

**Accounts receivable and prepayments.** Accounts receivable are recorded inclusive of value added taxes. Accounts receivable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 360 days overdue) are considered indicators that the trade receivable is impaired. Management assess the receivables using the above indicators, and make a decision about the amount of impairment at the end of each reporting period. The amount of the allowance is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers at the date of origination of receivables.

**Cash and cash equivalents.** Cash and cash equivalents include cash in hand, deposits held at call with banks, and other current highly liquid investments with original maturities of four months or less. Cash and cash equivalents are carried at amortised cost using the effective interest method. Restricted balances are excluded from cash and cash equivalents for the purposes of the cash flow statement. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period are included in other non-current assets.

**Discontinued operations.** A discontinued operation is a component of the Group that either has been disposed of, or that is classified as held for sale, and: (a) represents a separate major line of business or geographical area of operations; (b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or (c) is a subsidiary acquired exclusively with a view to resale. Earnings and cash flows of discontinued operations, if any, are disclosed separately from continuing operations with comparatives being re-presented.

**Share capital.** Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. Preference shares are not redeemable and are considered to be participating shares.

**Dividends.** Dividends are recorded as a liability and deducted from equity in the period in which they are declared and approved. Any dividends declared after the reporting period and before the financial statements are authorised for issue are disclosed in the subsequent events.

**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.

**Borrowings and loans.** Borrowings and loans are recognised initially at its fair value. 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, borrowings and loans are stated at amortised cost using the effective yield method; any difference between the fair value of the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss for the year as an interest expense over the period of the obligation.

**Capitalisation of borrowing costs.** 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. Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale .

**Note 3. Summary of Significant Accounting Policies (Continued)**

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.

**Trade and other payables.** Trade payables are accrued when the counterparty performs its obligations under the contract and are carried at amortised cost using the effective interest method.

**Provisions for liabilities and charges.** Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

**Post employment and other long-term benefits.** In the normal course of business the Group contributes to the Russian Federation defined contribution state pension scheme on behalf of its employees. Mandatory contributions to the governmental pension scheme are expensed when incurred and included in employee benefit expenses and payroll taxes within profit or loss for the year.

The Group also operates a defined benefit plan that covers the majority of its employees. Defined benefit plan defines the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognised in the statement of financial position in respect of defined benefit pension plans operated by the Group is the present value of the defined benefit obligation at the end of the reporting period 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 rates of government bonds that are denominated in the currency in which the benefits will be paid associated with the operation of the plans, and that have terms to maturity approximating the terms of the related pension liabilities.

The Group recognises past service cost as an expense on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits are already vested immediately following the introduction of, or changes to, a defined benefit plan, the Group recognises past service cost immediately. Past service cost arises when the Group introduces a defined benefit plan or changes the benefits payable under an existing defined benefit plan. Such changes are in return for employee service over the period until the benefits concerned are vested. Therefore, past service cost is recognised over that period, regardless of the fact that the cost refers to employee service in previous periods. Past service cost is measured as the change in the liability resulting from the amendment.

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

**Environmental liabilities.** Liabilities for environmental remediation are recorded where there is a present obligation, the payment is probable and reliable estimates exist.

**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 borrowings. 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.

**Note 3. Summary of Significant Accounting Policies (Continued)**

**Operating leases.** Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss for the year on a straight-line basis over the lease term. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

**Revenue recognition.** Revenue is recognised when the recovery of the consideration is probable and the amount of revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable, net of discounts and other sale taxes and duties.

- **Electricity and heat.** Revenue is recognised on the delivery of electricity and heat during the period. Tariffs for electricity and heat are approved by the Federal Service on Tariffs and the Regional Energy Commission.
- **Goods sold and services.** Revenue from services rendered and the sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer and work was performed.
- **Government grants.** Government grants that compensate the Group for low electricity tariffs are recognised in the statement of comprehensive income in the same periods in which the respective revenue is earned. Government grants are presented in the statement of comprehensive income separately as "Government grants".

**Earnings per share.** The earnings per share are determined by dividing the profit or loss attributable to shareholders of the Company by the weighted average number of participating shares outstanding during the reporting period.

**Offsetting.** Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

**Segment reporting.** Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

**Note 4. Principal Subsidiaries**

The following are the principal subsidiaries which have been consolidated into these consolidated financial statements as at 31 December 2010 and 31 December 2009.

Name	31 December 2010		31 December 2009	
	Ownership %	Voting %	Ownership %	Voting %
OJSC "DEK"	51.03	51.03	51.03	51.03
OJSC "DGK"	51.03	51.03	51.03	51.03
OJSC "DRSK"	51.03	51.03	51.03	51.03
<b>Isolated energy systems:</b>				
OJSC "Kamchatskenergo"	98.68	99.11	98.68	99.11
OJSC "Magadanenergo"**	49.00	64.39	49.00	64.39
OJSC "Yakutskenergo"***	47.39	47.39	47.39	55.32
OJSC "Sakhalinenergo"***	55.54	55.54	48.99	48.99
<b>Retail companies:</b>				
OJSC "Altayenergobyt"	-	-	100.00	100.00
OJSC "Tambovskaya energosbytovaya kompaniya"	-	-	49.01	56.01
OJSC "Saratovenergo"***	-	-	48.36	49.00
OJSC "Mosenergobyt"	-	-	50.90	50.90
OJSC "Peterburgskaya sbytovaya kompaniya**	-	-	49.00	57.40

\* Difference between the ownership interest and voting interest represents the effect of preference shares.

\*\* Control was based on the ability to govern the operating policies of the company through the majority of votes of the Board of Directors.

**Change in Group structure**

*During year ended 31 December 2010*

On 12 August 2010 the Group purchased 99.98% interest in CJSC non-banking credit organization "Interbank Settlement Centre" for a consideration in amount of RR 28,167 thousand. The new subsidiary provides banking services to entities of different ownership forms. The purchase of subsidiary is in line with the general strategy of the Group. The effective date of obtaining control over the Company is August 2010. The goodwill arose as a result of the purchase in amount of RR 547 thousand. The goodwill is primarily attributable to the profitability of the acquired business, the significant synergies and combined cost savings expected to arise.

The acquired subsidiary contributed revenue of RR 19,587 thousand and profit of RR 1,208 thousand to the Group for the period from the date of acquisition to 31 December 2010. If the purchase of CJSC non-banking credit organization "Interbank Settlement Centre" had occurred as at 1 January 2010, the Group's revenue would have increased by RR 41,072 thousand, and an additional income would have been recognized of RR 2,524 thousand.

On 2 December 2010, the Group's entity OJSC "Kamchatskenergo" purchased 51% interest in LLC "House 21<sup>st</sup> century". The main activity of the company is rendering of services in housing management. The consideration fully paid in cash amounted to RR 5 thousand. The new subsidiary was included in the consolidated financial statements only in respect of its assets and liabilities.

The acquired subsidiary did not contribute any revenue and profit to the Group for the period from the date of acquisition to 31 December 2010.

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**Note 4. Principal Subsidiaries (Continued)**

On 27 May 2010, the Group sold its interests in OJSC "Altayenergosbyt", OJSC "Mosenergosbyt, OJSC "Peterburgskaya sbytovaya kompaniya", OJSC "Saratovenergo", OJSC "Tambovskaya energosbytovaya kompaniya", and OJSC "Obyedinennaya energosbytovaya kompaniya". The acquirer was OJSC "RusHydro". The consideration was fully paid in cash and amounted to RR 7,831,500 thousand. The disposal of the retail companies was carried out in accordance with the decision of the Board of Directors (Minutes №40 as of 2 April 2010). The companies resold electricity and capacity in Moscow, Leningrad, Tambov, Saratov regions, and Altai territory. The amount of net assets of the retail companies at the date of disposal equalled to RR 6,292,333 thousand.

On 24 August 2010 OJSC "Novikovskaya diselnaya electroctantsiya" (subsidiary of OJSC "Sakhalinenergo") sold previously owned 51% interest in LLC "Souzenergotrans". The consideration was fully paid in cash and amounted to RR 1,020 thousand. The amount of net assets of the company at the date of disposal equalled to RR zero thousand.

*During year ended 31 December 2009*

On 22 December 2009, OJSC "Kamchatskenergo" sold 100% interest in OJSC "Pauzhetskaya GeoES" to OJSC "Geoterm". The consideration was fully paid in cash and amounted to RR 68,000 thousand. OJSC "Pauzhetskaya GeoES" sells electricity produced by its Pauzhetskaya geothermal power station and diesel power station located in Ozernovskiy village in Ust-Bolsheretskiy region of Kamchatka. The amount of net assets at the date of disposal equalled to RR (81,207) thousand.

In 2009 the Group lost control over OJSC "Proizvodstvenno-Remontnoe predpriyatie –seti" (maintenance of electricity networks). The control was lost due to start of bankruptcy administration procedure.

On 13 February 2009, the Board of Directors approved additional issue of shares of OJSC "DVUEK" (the main activity of which is financial and operational management). The issue of shares reduced the interest of the Group in the Company from 100% to 0.0025%. On 2 July 2009, the Russian Federation was registered as owner of the issued shares (the total issue purchased by the Russian Federation equalled to RR 6,097,600 thousand). The date of registration of ownership of shares is considered as the date of the loss of control over the subsidiary by the Group.

Net assets of OJSC "DVEUC" as at date of disposal included RR 3,130,958 thousand of cash and cash equivalents in banks.

**Note 5. Segment Information**

In accordance with IFRS 8 Operating Segments in these consolidated financial statements the Group presents an analysis of its performance in the context of the operating segments.

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM) and for which discrete financial information is available. The CODM is the person or group of persons who allocates resources and assesses the performance for the entity. The functions of CODM are performed by the Board of Directors of the Group.

**Change in the segment structure**

In May, 2010 the Group disposed off the retail companies: OJSC "Altayenergosbyt", OJSC "Mosenergosbyt, OJSC "Peterburgskaya sbytovaya kompaniya", OJSC "Saratovenergo", OJSC "Tambovskaya energosbytovaya kompaniya" (in the consolidated financial statements for the year ended December 31, 2009 represented Segment 1), and OJSC "Obyedinennaya energosbytovaya kompaniya" (in the consolidated financial statements for the year ended December 31, 2009 represented in all other segments).

By virtue of the fact that as a result of the disposal of the subsidiaries stated above the internal organization of the Group changed, the structure of the reporting segments was changed and the comparative information for 2009 was restated.



## **Note 5. Segment Information (Continued)**

### **Description of products and services from which each reportable segment derives its revenue**

The Group is organised on the basis of five main operating segments:

- Segment 1 - OJSC DEK Group's segment (including OJSC DGK and OJSC DRSK) consists of companies that generate electricity and heat and provide transportation, distribution, construction and repair services in the Far East region.
- Segment 2 - OJSC "Kamchatskenergo" segment represents the subsidiaries that generate electricity and heat and provide transportation and distribution in the Kamchatka region.
- Segment 3 - OJSC "Magadanenergo" segment represents the subsidiaries that generate electricity and heat and provide transportation and distribution services in the Magadan region and Chukotka autonomous district.
- Segment 4 - OJSC "Sakhalinenergo" segment represents the subsidiaries that generate electricity and heat and provide transportation and distribution in the Sakhalin region.
- Segment 5 - OJSC "Yakutskenergo" segment represents the subsidiaries that generate electricity and heat and provide transportation and distribution services in the Republic of Sakha (Yakutiya).

The Group also includes entities supporting the Group's operations which cannot be allocated to any of the main segments. The entities render financial, managerial, repair and maintenance and other (such as educational, recreation, etc.) services to the Group and external parties.

### **Factors that management used to identify the reportable segments**

The Group's segments comprise a group of five sub-holdings which were created mainly in accordance with different geographical areas. The CODM monitors the operating results of its subsidiaries/ business units separately for the purpose of making decisions about resource allocation and performance assessment.

### **Measurement of operating segment profit or loss, assets and liabilities**

Segment performance is evaluated based on gross profit or loss and is measured under Russian accounting standards which differ significantly from the gross profit or loss in the IFRS consolidated financial statements. The differences between the measurements of the reportable segments' profit or losses, assets and liabilities and Group's profit and losses, assets and liabilities are:

- income tax is not allocated to the segments;
- liabilities for the Group's post-employment obligations are not recognized;
- provisions for accounts receivable are recognized based on management judgment and availability of information rather than based on the incurred loss model prescribed in IAS 39;
- investments in subsidiaries are not consolidated, investment in associates are not accounted for using the equity method;
- other intercompany assets and liabilities balances are not eliminated.

Transactions between the operating segments are made on normal commercial terms and conditions. Sales between segments are carried out at arm's length. The revenue from external parties reported to the CODM is measured in a manner consistent with that in the statement of comprehensive income.

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**Note 5. Segment Information (Continued)**

**Information about reportable segment profit or loss, assets and liabilities**

Segment information for the reportable segments for the year ended 31 December 2010 is set out below:

	Segment 1	Segment 2	Segment 3	Segment 4	Segment 5	All other segments	Eliminations	Reconciliation	Total
<b>2010</b>									
External revenues	73,169,561	6,877,562	7,489,449	6,425,997	18,515,379	2,055,879	-	109,094	114,642,921
Revenues from other segments	4,380,420	79,070	422,664	3,646	972,967	31,285	(5,890,052)	-	-
Government grants	-	-	-	-	-	-	-	8,326,190	8,326,190
<b>Total revenues</b>	<b>77,549,981</b>	<b>6,956,632</b>	<b>7,912,113</b>	<b>6,429,643</b>	<b>19,488,346</b>	<b>2,087,164</b>	<b>(5,890,052)</b>	<b>8,435,284</b>	<b>122,969,111</b>
Other operating expenses	(72,042,572)	(9,413,915)	(9,204,688)	(7,025,956)	(19,964,930)	(2,164,186)	5,890,052	(2,976,080)	(116,902,275)
<i>Incl. depreciation &amp; amortization</i>	<i>(4,264,378)</i>	<i>(263,020)</i>	<i>(384,402)</i>	<i>(351,328)</i>	<i>(1,895,077)</i>	<i>(55,666)</i>	-	3,265,166	(3,948,705)
Impairment losses on property, plant and equipment	-	-	-	-	-	-	-	(4,282,047)	(4,282,047)
<b>Segment result</b>	<b>5,507,409</b>	<b>(2,457,283)</b>	<b>(1,292,575)</b>	<b>(596,313)</b>	<b>(476,584)</b>	<b>(77,022)</b>	<b>-</b>	<b>1,177,157</b>	<b>1,784,789</b>

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**Note 5. Segment Information (Continued)**

	Segment 1	Segment 2	Segment 3	Segment 4	Segment 5	All other segments	Eliminations	Reconciliation	Total
<b>2010</b>									
Share of profit/(loss) of equity accounted investees	-	-	1,305	-	-	1,308	-	(2,883)	(271)
<b>Segment assets</b>	<b>91,567,121</b>	<b>10,759,683</b>	<b>9,743,613</b>	<b>6,907,807</b>	<b>30,812,013</b>	<b>3,057,836</b>	<b>(1,963,496)</b>	<b>(49,362,959)</b>	<b>101,521,618</b>
Investments in equity accounted investees	-	-	864	-	-	814	-	36,493	38,171
Capital expenditure	8,155,691	1,201,899	441,545	594,300	1,500,929	425,864	-	(694,094)	11,626,133
<b>Segment liabilities</b>	<b>45,870,990</b>	<b>4,428,794</b>	<b>2,500,832</b>	<b>3,659,241</b>	<b>13,629,473</b>	<b>1,382,496</b>	<b>(1,594,734)</b>	<b>6,448,784</b>	<b>76,325,876</b>

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**Note 5. Segment Information (Continued)**

Segment information for the reportable segments for the year ended 31 December 2009 is set out below:

	Segment 1	Segment 2	Segment 3	Segment 4	Segment 5	All other segments	Eliminations	Reconciliation	Total
<b>2009</b>									
External revenues	60,972,386	5,844,674	7,157,029	5,881,762	13,830,575	1,898,952	-	(45,473)	95,539,905
Revenues from other segments	2,027,276	560	141,176	514	717,955	82,717	(2,970,198)	-	-
Government grants	-	-	-	-	-	-	-	10,029,765	10,029,765
<b>Total revenues</b>	<b>62,999,662</b>	<b>5,845,234</b>	<b>7,298,205</b>	<b>5,882,276</b>	<b>14,548,530</b>	<b>1,981,669</b>	<b>(2,970,198)</b>	<b>9,884,292</b>	<b>105,569,670</b>
Other operating expenses	(60,136,482)	(8,327,793)	(8,209,871)	(6,607,039)	(15,954,706)	(1,970,413)	2,970,198	(4,519,997)	(102,756,103)
<i>Incl. depreciation &amp; amortization</i>	(4,001,319)	(223,177)	(373,695)	(306,781)	(1,731,992)	(176,921)	-	2,966,701	(3,847,184)
Impairment losses on property, plant and equipment	-	-	-	-	-	-	-	(4,282,144)	(4,282,144)
<b>Segment result</b>	<b>2,863,180</b>	<b>(2,482,559)</b>	<b>(911,666)</b>	<b>(724,763)</b>	<b>(1,406,176)</b>	<b>11,256</b>	<b>-</b>	<b>1,182,153</b>	<b>(1,468,579)</b>

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**Note 5. Segment Information (Continued)**

	Segment 1	Segment 2	Segment 3	Segment 4	Segment 5	All other segments	Eliminations	Reconciliation	Total
<b>2009</b>									
Share of profit/(loss) of equity accounted investees	-	163,	1,478,	-	-	-	-	13,151,	14,792,
<b>Segment assets</b>	<b>92,371,656</b>	<b>10,295,275</b>	<b>9,348,795</b>	<b>6,453,011</b>	<b>29,825,096</b>	<b>2,093,102</b>	<b>(1,369,130)</b>	<b>(29,191,013)</b>	<b>119,808,056</b>
Investments in equity accounted investees	-	-	864	-	-	-	-	37,578	38,442
Capital expenditure	6,154,644	478,070	386,287	372,504	2,037,073	966,112	-	1,408,436	11,803,126
<b>Segment liabilities</b>	<b>43,982,744</b>	<b>4,291,437</b>	<b>2,179,941</b>	<b>3,007,936</b>	<b>14,071,125</b>	<b>688,290</b>	<b>(898,959)</b>	<b>27,342,865</b>	<b>94,665,379</b>

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**Reconciliation of reportable segment revenues, profit or loss, assets and liabilities**

	31 December 2010	31 December 2009
<b>Total reportable segment assets</b>	<b>152,848,073</b>	<b>150,386,935</b>
Elimination of inter-segment assets	(1,963,496)	(1,369,130)
<i>Reconciliations:</i>		
Net difference in the value of fixed assets and construction in progress	(55,367,192)	(53,476,984)
Deferred tax adjustment	(561,333)	(586,825)
Allowance for impairment of trade and other receivables	(4,561,001)	(5,005,921)
Impairment losses on available-for-sale financial assets	4,049	(20,957)
Assets of holding company (after elimination of intergroup balances)	13,721,289	6,841,867
Assets of disposal group	-	25,340,116
Adjustment for timing differences in recognition of expenses	(1,242,548)	(950,245)
Other reclassifications and adjustments*	(1,356,223)	(1,350,800)
<b>Total consolidated assets</b>	<b>101,521,618</b>	<b>119,808,056</b>
<b>Total reportable segment liabilities</b>	<b>71,471,826</b>	<b>68,221,473</b>
Elimination of inter-segment liabilities	(1,594,734)	(898,959)
<i>Reconciliations:</i>		
Pension benefit obligations	8,834,867	8,175,109
Unused vacations provision	2,681,512	2,046,474
Deferred tax adjustment	(539,393)	1,434,834
Elimination of intergroup balances with holding company	(5,761,815)	(6,036,750)
Liabilities of disposal group	-	21,544,847
Other reclassifications and adjustments**	1,233,614	178,351
<b>Total consolidated liabilities</b>	<b>76,325,876</b>	<b>94,665,379</b>
	<b>2010</b>	<b>2009</b>
<b>Total reportable segment result</b>	<b>607,632</b>	<b>(2,650,728)</b>
<i>Reconciliations:</i>		
Impairment losses on property, plant and equipment	(4,282,047)	(4,282,144)
Reconciliation adjustment related to Government grants	8,326,190	10,029,765
Reconciliation adjustment related to Revenue	109,094	(45,473)
Accrual of allowance for impairment of trade and other receivables	(515,001)	(2,937,014)
Pension benefit obligations	(898,375)	(1,003,164)
Net difference in depreciation	3,265,166	2,956,872
Reconciliation adjustment related to Other income and expenses***	(4,715,415)	(4,717,909)
Provisions for legal claims and restoration expenses	(569,215)	(413,104)
Adjustment for timing differences in recognition of expenses	(284,917)	(177,463)
Other reconciliation adjustments related to operating expenses	741,678	1,771,783
<b>Gross Profit</b>	<b>1,784,789</b>	<b>(1,468,579)</b>
Other operating income	141,163	1,595,560
Finance income	3,472,290	720,273
Finance costs	(5,823,444)	(5,845,654)
Impairment losses on available-for-sale investments	(94,808)	(20,957)
Share of result of associates	(271)	14,792
<b>Profit /(Loss) before income tax</b>	<b>(520,281)</b>	<b>(5,004,565)</b>

**Note 5. Segment Information (Continued)**

\* Other reclassifications and adjustments to assets mainly include adjustments to inventory, trade and other receivables;

\*\* Other reclassifications and adjustments to liabilities mainly include adjustments to trade and other payables and accrual of provisions for liabilities and charges;

\*\*\* In RAR accounting certain expenses reflected as other income and expenses, while in IFRS they are part of operating expenses.

**Note 6. Balances and Transactions with Related Parties**

Parties are generally considered to be related if the parties are under common control or if one party has the ability to control the other party or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

**State controlled entities**

In the normal course of business the Group enters into transactions with entities controlled by the State. Prices for electricity and heat energy are based on tariffs set by FST and RECs. Loans are provided at market rates. Taxes are accrued and paid under the Russian tax legislation. The transmission and distribution of electricity are subject to tariff regulations.

At 31 December 2010 and at 31 December 2009 the outstanding balances with state controlled entities were as follows:

	31 December 2010	31 December 2009
Borrowings	20,182,814	27,341,310
Trade and other receivables	5,896,921	10,558,546
Provision for impairment at 31 December	(2,449,973)	(2,188,766)
Trade and other payables	4,349,288	3,598,503
Cash and cash equivalents	1,359,197	2,900,750
Interest payable	110,263	88,464

The income and expense items with state controlled entities for the years ended 31 December 2010 and 31 December 2009 were as follows:

	2010	2009
Electricity sales	65,574,418	73,064,561
Sales of heat	6,363,876	7,378,379
Other revenue	7,048,613	2,752,700
Government grants	8,326,190	10,029,765
Interest expenses	(2,446,804)	(3,016,871)
Purchases of electricity	(60,252,057)	(88,185,577)
Electricity transportation services	(56,049,508)	(84,836,301)
Rental expenses	(737,798)	(672,520)
Purchase and transportation of fuel	(8,804,719)	(5,111,864)
Other expenses	(7,303,532)	(4,931,824)

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**Note 6. Balances and Transactions with Related Parties (Continued)**

**Transactions with associates**

At 31 December 2010 and at 31 December 2009 the outstanding balances with associates were as follows:

	<b>31 December 2010</b>	<b>31 December 2009</b>
Trade and other receivables	88,292	76,992
Provision for impairment	-	-

The income and expense items with associates:

	<b>2010</b>	<b>2009</b>
Sales of heat	1,048	1,472
Electricity sales	584,269	543,262
Other revenue	74	64
Other expenses	(5,975)	(5,309)

**Transactions with Key management of the Group**

Compensation paid to the members of Board of Directors and key management of the Company and its subsidiaries (hereinafter referred to as "Key management of the Group") for their services in management positions consists of contractual salary and performance bonus depending on work results for the period (short-term employee benefits). The total amount of remuneration (including Unified Social Tax) of the key management is incorporated in personnel expenses in operating expenses.

The key management personnel include general directors, deputies of general directors, branch directors, finance directors and chief accountants of the Company and the subsidiaries.

Total remuneration to key management of the Group was RR 1,199,671 thousand for the year ended 31 December 2010 and RR 1,491,021 thousand the year ended 31 December 2009.

The outstanding balances represent short-term employee benefits of RR 68,754 thousand as at 31 December 2010 and RR 49,309 thousand as at 31 December 2009 respectively.



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**Note 7. Property, Plant and Equipment**

Movements in the carrying amount of property, plant and equipment were as follows:

Cost	Land and buildings	Constructions other than distribution and heating networks	Distribution networks	Heating networks	Machinery and equipment for power generation	Construction in progress	Other	Total
<b>Opening balance as at 31 December 2009</b>	<b>19,692,448</b>	<b>9,823,780</b>	<b>17,069,817</b>	<b>5,191,046</b>	<b>13,144,311</b>	<b>4,599,914</b>	<b>16,656,868</b>	<b>86,178,184</b>
Additions	95,554	18,912	56,687	2,389	348,355	10,095,985	1,001,748	11,619,630
Acquisitions through business combinations	6,118	-	-	-	-	385	-	6,503
Transfers	885,768	1,416,319	594,511	791,081	2,434,688	(6,534,101)	411,734	-
Disposals	(24,372)	(648)	(72,865)	(205)	(28,113)	(100,291)	(318,352)	(544,846)
Disposals of cost through disposal of subsidiaries	(3,082,611)	(15,912)	-	-	(12,563)	(662,745)	(2,415,704)	(6,189,535)
<b>Closing balance as at 31 December 2010</b>	<b>17,572,905</b>	<b>11,242,451</b>	<b>17,648,150</b>	<b>5,984,311</b>	<b>15,886,678</b>	<b>7,399,147</b>	<b>15,336,294</b>	<b>91,069,936</b>
<b>Accumulated depreciation (including impairment)</b>								
<b>Opening balance as at 31 December 2009</b>	<b>(5,824,018)</b>	<b>(4,453,448)</b>	<b>(3,125,662)</b>	<b>(1,952,581)</b>	<b>(4,457,719)</b>	<b>(828,369)</b>	<b>(6,027,043)</b>	<b>(26,668,840)</b>
Depreciation charge	(528,841)	(357,370)	(1,099,601)	(318,338)	(927,386)	-	(1,352,530)	(4,584,066)
Acquisitions through business combinations	(3,231)	-	-	-	-	-	-	(3,231)
Disposals of accrued depreciation	5,649	245	24,134	73	11,011	-	208,901	250,013
Transfers	(13,355)	(249,154)	(23,051)	3,401	(124,949)	294,284	112,824	-
Disposals of accrued depreciation through disposal of subsidiaries	208,478	3,636	-	-	4,591	-	1,028,901	1,245,606
Impairment charge to profit or loss	(2,485,875)	(612,380)	(2,194,145)	(323,718)	(1,819,282)	(1,425,812)	(1,538,396)	(10,399,608)
Reversal of impairment through profit or loss	1,880,593	1,416,278	48,521	543,759	1,316,418	119,912	792,090	6,117,561
<b>Closing balance as at 31 December 2010</b>	<b>(6,760,610)</b>	<b>(4,252,193)</b>	<b>(6,369,804)</b>	<b>(2,047,404)</b>	<b>(5,997,316)</b>	<b>(1,839,985)</b>	<b>(6,775,253)</b>	<b>(34,042,565)</b>
<b>Carrying amount as at 31 December 2009</b>	<b>13,868,430</b>	<b>5,370,332</b>	<b>13,944,155</b>	<b>3,238,465</b>	<b>8,686,592</b>	<b>3,771,545</b>	<b>10,629,825</b>	<b>59,509,344</b>
<b>Carrying amount as at 31 December 2010</b>	<b>10,812,295</b>	<b>6,990,258</b>	<b>11,278,346</b>	<b>3,936,907</b>	<b>9,889,362</b>	<b>5,559,162</b>	<b>8,561,041</b>	<b>57,027,371</b>

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**Note 7. Property, Plant and Equipment (Continued)**

Cost	Land and buildings	Constructions other than distribution and heating networks	Distribution networks	Heating networks	Machinery and equipment for power generation	Construction in progress	Other	Total
<b>Opening balance as at 31 December 2008</b>	<b>18,938,463</b>	<b>8,778,872</b>	<b>15,671,630</b>	<b>4,766,596</b>	<b>8,348,071</b>	<b>7,285,809</b>	<b>13,952,463</b>	<b>77,741,904</b>
Additions	129,431	51,371	497,111	28,954	2,187,125	7,505,880	1,280,121	11,679,993
Acquisitions through business combinations	-	-	-	-	-	-	123,133	123,133
Transfers	726,102	1,007,724	913,181	395,499	4,518,675	(9,166,155)	1,604,974	-
Disposals	(35,195)	(13,084)	(11,497)	(3)	(33,284)	(508,272)	(216,628)	(817,963)
Disposals of cost through disposal of subsidiaries	(66,353)	(1,103)	(608)	-	(1,876,276)	(517,348)	(87,195)	(2,548,883)
<b>Closing balance as at 31 December 2009</b>	<b>19,692,448</b>	<b>9,823,780</b>	<b>17,069,817</b>	<b>5,191,046</b>	<b>13,144,311</b>	<b>4,599,914</b>	<b>16,656,868</b>	<b>86,178,184</b>
<b>Accumulated depreciation (including impairment)</b>								
<b>Opening balance as at 31 December 2008</b>	<b>(4,032,055)</b>	<b>(3,364,095)</b>	<b>(1,510,086)</b>	<b>(1,928,467)</b>	<b>(2,083,968)</b>	<b>(1,516,750)</b>	<b>(3,732,058)</b>	<b>(18,167,479)</b>
Depreciation charge	(529,807)	(273,457)	(1,066,518)	(261,577)	(679,028)	-	(1,560,308)	(4,370,695)
Acquisitions through business combinations	-	-	-	-	-	-	(21,254)	(21,254)
Disposals of accrued depreciation	8,046	2,837	1,965	1	7,002	-	76,423	96,274
Transfers	(159,509)	(170,433)	(197,094)	(2,662)	(215,806)	883,919	(138,415)	-
Disposals of accrued depreciation through disposal of subsidiaries	10,333	679	349	-	31,859	-	33,238	76,458
Impairment charge to profit or loss	(1,644,326)	(1,004,829)	(743,212)	(419,784)	(1,946,699)	(463,007)	(1,716,537)	(7,938,394)
Reversal of impairment through profit or loss	523,300	355,850	388,934	659,908	428,921	267,469	1,031,868	3,656,250
<b>Closing balance as at 31 December 2009</b>	<b>(5,824,018)</b>	<b>(4,453,448)</b>	<b>(3,125,662)</b>	<b>(1,952,581)</b>	<b>(4,457,719)</b>	<b>(828,369)</b>	<b>(6,027,043)</b>	<b>(26,668,840)</b>
<b>Carrying amount as at 31 December 2008</b>	<b>14,906,408</b>	<b>5,414,777</b>	<b>14,161,544</b>	<b>2,838,129</b>	<b>6,264,103</b>	<b>5,769,059</b>	<b>10,220,405</b>	<b>59,574,425</b>
<b>Carrying amount as at 31 December 2009</b>	<b>13,868,430</b>	<b>5,370,332</b>	<b>13,944,155</b>	<b>3,238,465</b>	<b>8,686,592</b>	<b>3,771,545</b>	<b>10,629,825</b>	<b>59,509,344</b>

**Note 7. Property, Plant and Equipment (Continued)**

Assets under construction represent 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 519,639 thousand (31 December 2009: RR 264,671 thousand).

Additions to assets under construction include capitalized borrowing cost of RR 120,646 thousand (2009: RR 18,532 thousand). The capitalization rate was 12% (2009:15%). Up to 31 December 2008, borrowing costs incurred to finance the construction of property, plant and equipment were expensed.

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

Assets held under finance lease are included in property plant and equipment with a carrying value of RR 541,483 thousand (RR 702,751 thousand as at 31 December 2009).

**Impairment as of 31 December 2009 and 31 December 2010**

Management of the Company analyzed the current economic situation and decided that indicators of impairment existed at the end of the reporting period due to the volatility of the markets, continuing increase in prices on fuel and non-flexible tariff regulation. The amount of impairment was estimated in accordance with IAS 36 "Impairment of assets":

- all assets of subsidiaries were allocated to cash-generating units on the basis of regional tariff setting principal;
- the recoverable amount of assets was estimated as value in use calculated in accordance with discounted cash flow method.

In the impairment test of assets as of 31 December 2010 discount rates were calculated which equalled to 14.45% for isolated companies, 13.46-15.45% for non-core branches and 12.32% and 11.54% for OJSC "DGK" and OJSC "DRSK" respectively

On 31 December 2010, the Group recognised an additional impairment loss in the amount of RR 10,399,608 thousand for some cash-generating units (on December 31, 2009 – RR 7,938,394 thousand), and the reversal of the previously recognized impairment loss in the amount of RR 6,117,561 thousand (on 31 December 2009 RR 3,656,250 thousand).

The net impairment losses/reversals recognised in the consolidated statement of comprehensive income, as a separate line item within operating profit/(loss), in respect of property, plant and equipment are as follows:

**Amount of impairment charge/(reversal) occurred during the years ended**

Company/Cash generating unit	Reporting segment	31 December 2010	31 December 2009
OJSC "DGK"	Segment 1	(4,383,183)	4,861,818
OJSC "DRSK"	Segment 1	3,518,834	1,149,373
OJSC "HRSK"	Segment 1	584,562	-
OJSC "HPRK"	Segment 1	238,103	-
OJSC "ZhKU"	Segment 1	135,232	-
OJSC "Agroenergo"	Segment 1	429,684	-
OJSC "Kamchatskenergo"	Segment 2	1,615,524	(241,013)
OJSC "UESK"	Segment 2	73,977	-
OJSC "Magadanenergo"	Segment 3	346,989	537,569
OJSC "Chukotenergo"	Segment 3	515,329	(99,998)
OJSC "Sakhalinenergo"	Segment 4	284,301	(69,083)
OJSC "Yakutskenergo"	Segment 5	(5,000)	(2,146,638)
OJSC "Sakhaenergo"	Segment 5	302,989	290,116
OJSC "Peredvizhnaya energetika"	All other segments	624,706	-
<b>Total</b>		<b>4,282,047</b>	<b>4,282,144</b>

**Note 7. Property, Plant and Equipment (Continued)**

For the purpose of cash flow discounting for the both dates the following key assumptions were used:

*Industry assumptions*

- the forecast of fuel prices growth rates was prepared by the management of the Group for the period until 2013 based on «Scenario conditions of Russian Federation's economy functioning», key parameters of a forecast of a social-economic development of the Russian Federation for 2011 and 2012-2013 (Ministry of Economic Development of RF, June 2010 version). Due to the fact that the Government's forecast is limited by 2013, for subsequent periods a forecast prepared by the management and based on 2005-2009 actual data, Group's expert estimates and Group's fuel strategy is used;
- in a financial model, 2011 tariffs for electricity and heat are taken according to business plans data. In future, as far as electricity tariffs are concerned, a growth rate equal to a growth rate of operating expenses is used. Increase in tariffs for heat is being forecasted similarly to electricity tariffs.

*Special assumptions for OJSC "DGK" and Isolated companies*

- useful supply of electricity in 2011 was assumed according to business plans data. In future, a growth rate of a useful supply was assumed being equal to a growth rate of electricity consumption in the region, where each generating unit operates. Forecast of electricity consumption in the regions, where generating units are located, was prepared by the management, whereas for 2011-2016 data from a forecast of the Ministry of Energy were used. Consolidated forecast of electricity consumption for 2016-2020 was prepared by the management based on actual electricity consumption analysis using data from energy selling companies operating in the Far Eastern Federal District, on a forecast of growth rate of electricity consumption by population and by existing customers, and also on information about major electricity consuming projects planned for realisation in 2011-2020;
- the current system of tariff regulation "Cost+" will be preserved in the projected long-term period;
- a margin of Isolated companies was assumed as forecasted by the management of the Group;
- capital expenditures of OJSC "DGK" and Isolated companies for 2011-2014 were assumed as stated in a business plan, and then they were smoothed linearly to an industry average level per kWatt of installed capacity;
- an increase of an impairment charge for Isolated companies (Segments 2-5) relates to a trend of decreasing government grants, which actually happened in the period between 2008 and 2010. This trend has a negative impact on profitability assumed by the management in latest business plans;

*Special assumptions for OJSC "DRSK"*

- during forecasting of a required gross revenue a transition from "Cost+" system to "Regulatory Asset Base (RAB)" is considered to take place in 2011 for majority of OJSC "DRSK" cash generating units;
- 2011-2013 capital expenditures were assumed per business plan data. Subsequently, an annual weighted average for 2011-2013 is used as adjusted for accumulated inflation;
- an increase of an impairment for OJSC "DRSK" mainly relates to additional construction at Primorie territory, which increased performance reliability of energy transportation assets, but did not bring for a CGU any additional capacity value.

**Note 7. Property, Plant and Equipment (Continued)**

The following table as at 31 December 2010 presents sensitivities of profit and loss to reasonably possible changes in the post-tax discount rate, inflation rate and level of electricity and capacity tariffs applied at the date of the statement of financial position relative to the impairment assumptions made by the Group, with all other variables held constant:

Expected impact	Change forecast scenario factor					
	WACC		Inflation		Electricity and capacity tariffs	
	-0,5%	+0,5%	-0,5%	+0,5%	-0,5%	+0,5%
Impact on profit or (loss)	2,757,614	(2,673,805)	1,732,933	(1,952,828)	(2,103,706)	1,970,674

**Security**

No property, plant and equipment as at 31 December 2010 were pledged to secure bank loans (RR 634,219 thousand as at 31 December 2009) (Note 16).

**Note 8. Other Intangible Assets**

	2010	2009
<b>Cost</b>		
Balance at 1 January	244,118	104,374
Acquisitions through business combinations	-	6,073
Additions	32,721	133,671
Disposals	(276,839)	-
Balance at 31 December	-	244,118
<b>Amortisation</b>		
Balance at 1 January	(38,002)	(10,798)
Amortisation charge	(16,931)	(27,204)
Disposals	54,933	-
Balance at 31 December	-	(38,002)
<b>Carrying amount</b>		
At 1 January	206,116	93,576
At 31 December	-	206,116

The Group's intangible assets consisted of specific software. Specific software included specialized custom-made software designed to control and meter the distribution of electricity, mainly used by the retail companies. The disposal of intangible assets in 2010 was due to the disposal of the retail companies (Note 29).

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**Note 9. Investments in Associates**

The table below summarises the movements in the carrying amount of the Group's investments in associates.

	2010	2009
<b>Carrying amount as at 1 January</b>	<b>38,442</b>	<b>55,899</b>
Share of profit/(loss) of associates	(271)	14,791
Disposal of associates	-	(32,248)
<b>Carrying amount at 31 December</b>	<b>38,171</b>	<b>38,442</b>

During the years ended 31 December 2010 and 31 December 2009 the Group did not receive dividends from associates.

As at and for the year ended 31 December 2010 the Group's interests in its principal associates and their summarised financial information, including total assets, liabilities, revenues and profit or loss, were as follows:

Name	Total assets	Total liabilities	Revenue	Profit/(loss)	Voting, %	Ownership, %
OJSC «Magadan electroset»	257,087	(217,999)	890,212	(3,226)	29.56%	22.50%
OJSC «ENIN»	207,789	(115,338)	240,504	1,496	30.42%	30.42%
<b>Total</b>	<b>464,876</b>	<b>(333,337)</b>	<b>1,130,716</b>	<b>(1,730)</b>		

As at and for the year ended 31 December 2009 the Group's interests in its principal associates and their summarised financial information, including total assets, liabilities, revenues and profit or loss, were as follows:

Name	Total assets	Total liabilities	Revenue	Profit / (loss)	Voting, %	Ownership, %
OJSC «Magadan electroset»	227,991	(185,680)	813,474	12,378	29.56%	29.56%
OJSC «ENIN»	117,809	(24,179)	471,145	22,470	30.42%	30.42%
<b>Total</b>	<b>345,800</b>	<b>(209,859)</b>	<b>1,284,619</b>	<b>34,848</b>		

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**Note 10. Available-for-Sale Investments**

The Group recognised available-for-sale investments at fair value. The changes in fair value, reflect changes in shares quotations, determined on MICEX Stock Exchange as at 31 December 2010 and 31 December 2009.

	1 January 2010	Additions	Disposal	Income/ (loss) recognised in profit or loss	The fair value gain recognised/ (recycled) in other comprehensive income	31 December 2010
OJSC "FGC UES"	4,074,882	-	(1,385,920)	(29,700)	(2,047,089)	612,173
OJSC "RusHydro"	138,347	-	-	(5,848)	67,695	200,194
OJSC "Sahalinskaya energeticheskaya company"	300,000	300,000	-	-	-	600,000
OJSC "Exsperimentalnaya TES"	67,632	-	-	-	-	67,632
LLC "IT Energy Service"	99,180	-	-	(58,138)	-	41,042
Other available-for-sale investments	153,190	81	(67,984)	(1,122)	-	84,165
<b>Total</b>	<b>4,833,231</b>	<b>300,081</b>	<b>(1,453,904)</b>	<b>(94,808)</b>	<b>(1,979,394)</b>	<b>1,605,206</b>

	1 January 2009	Additions	Disposal	Income/ (loss) recognised in profit or loss	The fair value gain recognised in other comprehensive income	31 December 2009
OJSC "FGC UES"	1,579,017	-	-	-	2,495,865	4,074,882
OJSC "RusHydro"	73,360	-	-	-	64,987	138,347
OJSC "Sahalinskaya energeticheskaya company"	-	300,000	-	-	-	300,000
OJSC "Exsperimentalnaya TES"	67,632	-	-	-	-	67,632
LLC "IT Energy Service"	99,180	-	-	-	-	99,180
Other available-for-sale investments	171,882	43,313	(41,048)	(20,957)	-	153,190
<b>Total</b>	<b>1,991,071</b>	<b>343,313</b>	<b>(41,048)</b>	<b>(20,957)</b>	<b>2,560,852</b>	<b>4,833,231</b>

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**Note 11. Other Non-Current/Current Assets**

	1 January 2010	Additions	Disposal	Income/ (loss) recognised in profit or loss	Other current assets reclassified from non- current	31 December 2010
Non - current bank deposits and promissory notes	60,651	1,000	(20,651)	-	-	41,000
Other non - current assets	86,390	45,442	(10,231)	-	(74,991)	46,610
Current bank deposits and promissory notes	1,150,010	8,187,685	(1,715,488)	-	-	7,622,207
Other current assets	1,772,250	40,157	(1,498,426)	11,480	74,991	400,452
<b>Total other assets</b>	<b>3,069,301</b>	<b>8,274,284</b>	<b>(3,244,796)</b>	<b>11,480</b>	<b>-</b>	<b>8,110,269</b>

	1 January 2009	Additions	Disposal	Income/ (loss) recognised in profit or loss	Other current assets reclassified from non- current	31 December 2009
Non - current bank deposits and promissory notes	-	60,651	-	-	-	60,651
Other non - current assets	314,399	16,502	(3,010)	-	(241,501)	86,390
Current bank deposits and promissory notes	73,645	1,150,010	(73,645)	-	-	1,150,010
Other current assets	391,398	1,375,118	(259,576)	23,809	241,501	1,772,250
<b>Total other assets</b>	<b>779,442</b>	<b>2,602,281</b>	<b>336,231</b>	<b>23,809</b>	<b>-</b>	<b>3,069,301</b>

Other assets also include loans issued to other companies.

	Rating	Rating agency	Effective interest rate, %	Due	31 December 2010	31 December 2009
<b>Long term bank deposits</b>						
OJSC Sberbank	Baa1	Moody's	8.1	2012	31,000	30,000
OJSC Sberbank	Baa1	Moody's	5.3	2013	10,000	10,000
OJSC Russian Agricultural Bank	Baa1	Moody's	5.7	2011	-	20,651
<b>Total long-term bank deposits</b>					<b>41,000</b>	<b>60,651</b>
<b>Current bank deposits</b>						
OJSC NOMOS-BANK	Ba3	Moody's	6.7-10.9	2011	2,683,461	-
OJSC Promsvyazbank	Ba2	Moody's	7.62-8.49	2011	1,993,649	450,010
OJSC "Bank Saint Petersburg"	Ba3	Moody's	6.0-7.75	2011	1,285,078	-
OJSC MDM Bank	B+	Standard & Poor's	7.8-10.0	2011	730,000	300,000
OJSC NOTA-Bank	A	Expert RA	13.00	2011	404,416	400,000
OJSC Transcreditbank	Ba1	Moody's	7.07	2011	260,000	-
OJSC First Republic Bank	Baa3	Moody's	11.50	2011	201,953	-
OJSC Russian Agricultural Bank	Baa1	Moody's	8.6	2011	63,650	-
<b>Total current bank deposits</b>					<b>7,622,207</b>	<b>1,150,010</b>
<b>Total non - current/current bank deposits</b>					<b>7,663,207</b>	<b>1,210,661</b>



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**Note 12. Inventories**

	31 December 2010	31 December 2009
Fuel	9,060,273	8,006,143
Materials and supplies	3,226,815	3,248,373
Spare parts	958,997	760,619
Work in progress	576,857	365,121
Finished goods and goods for resale	438,812	266,280
Other materials	177,796	197,324
<b>Total inventories, gross</b>	<b>14,439,550</b>	<b>12,843,860</b>
Provision for inventory obsolescence	(64,191)	(110,491)
<b>Total inventories</b>	<b>14,375,359</b>	<b>12,733,369</b>

There are no inventories have been pledged as collateral for borrowings as at 31 December 2010 (3,058,973 RR thousand as at 31 December 2009) (Note 16).

**Note 13. Trade and Other Receivables**

Non-current accounts receivables:

	31 December 2010	31 December 2009
Trade receivables	469,406	796,667
Allowance for impairment of trade receivables	(322,740)	(659,307)
Other receivables	358,324	282,090
Allowance for impairment of other receivables	(20)	(1,348)
<b>Total non-current trade and other receivables</b>	<b>504,970</b>	<b>418,102</b>

Current accounts receivables:

	31 December 2010	31 December 2009
Trade receivables	14,866,810	27,450,161
Allowance for impairment of trade receivables	(6,065,604)	(8,625,280)
Advances issued to suppliers	2,354,945	3,268,759
Allowance for impairment of advances issued to suppliers	(265,243)	(83,630)
Other receivables	3,153,614	3,644,342
Allowance for impairment of other receivables	(554,458)	(972,033)
Taxes receivable / recoverable	1,366,018	2,767,778
<b>Total current trade and other receivables</b>	<b>14,856,082</b>	<b>27,450,097</b>

The carrying values of trade and other receivables associated with discontinued operations are included in Note 29.

Movement of allowance for impairment of current/non-current receivables is disclosed in Note 31.

**RAO Energy System of East Group**  
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**Note 14. Cash and Cash Equivalents**

	31 December 2010	31 December 2009
Cash on hand	16,278	11,219
Cash at bank	2,255,610	4,920,215
Deposits with original maturity of less than four months	2,086,673	4,385,770
<b>Total cash and cash equivalents</b>	<b>4,358,561</b>	<b>9,317,204</b>

Cash and cash equivalents held as at 31 December 2010 and 31 December 2009 comprised short-term bank deposits with original maturities of four months or less. The credit quality of cash and cash equivalents balances summarised below. Ratings are actual as at 31 December 2010

	Rating agency	Rating	31 December 2010	31 December 2009
<b>Bank balances</b>				
Central Bank of Russian Federation		unrated	352,476	-
OJSC Gazprombank		Moody's Baa3	429,081	95,152
OJSC Sberbank		Moody's Baa1	364,947	1,189,167
OJSC AKB Rosbank	Standard & Poor's	BB+	242,500	150,659
OJSC Alfa-bank	Standard & Poor's	BB-	207,082	1,017,081
OJS SCBP Primsotsbank	Fitch Ratings	B	91,777	47,330
OSJC Rosselkhozbank	Moody's	Baa1	64,277	-
OJSC Bank VTB	Moody's	Baa 1	48,728	182,800
CJSC Regiobank	Expert RA	A	48,459	50,133
OSJC Kamchatsk Agroprombank		unrated	40,201	-
OSJC Bank Moskvyy	Moody's	Baa2	38,337	-
OSJC Primorie		unrated	33,142	-
OSJC Transkreditbank	Moody's	Ba1	31,949	-
OJSC Sobinbank	Moody's	Baa2	22,486	43,188
OJSC Asian - Pacific Bank	Moody's	Baa2	6,165	115,066
OJSC Kolyma-bank		unrated	187	185,595
OJSC Baltinvestbank	Moody's	Baa2	10	150,021
OJSC Bank Tavrichesky		unrated	-	581,388
OJSC Bank Narodnyi Kredit		unrated	-	219,524
CJSC Interbank Clearing Center		unrated	-	118,291
OJSC SEB Bank		unrated	-	109,671
OJSC AVANGARD Joint Stock Bank	Moody's	B2	-	48,960
Other		-	200,208	616,189
<b>Cash in transit</b>			<b>33,598</b>	<b>-</b>
			<b>2,255,610</b>	<b>4,920,215</b>

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**Note 14. Cash and Cash Equivalents (Continued)**

Call deposits	Rating agency	Rating	31 December 2010	31 December 2009
OJSC NOMOS-BANK	Moody's	Ba3	1,713,329	-
OJSC Alfa-bank	Standard & Poor's	BB-	209,344	285,000
Central Bank of Russian Federation	unrated	-	130,000	-
OJSC Sberbank	Moody's	Baa1	10,000	1,279,050
OJSC AVANGARD	Moody's	B2	7,500	-
OJSC Asian - Pacific Bank	Moody's	Baa2	7 500	-
OJSC SKB-Bank	unrated	-	7 500	-
OJS SCBP PrimSotsbank	Fitch Ratings	B	1,500	-
OJSC MDM Bank	Standard & Poor's	B+	-	710,000
OJSC Intrustbank	unrated	-	-	460,000
OJSC First Republic Bank	Moody's	Baa3	-	366,700
OJSC Promsvyazbank	Moody's	Ba2	-	200,020
OJSC Gazprombank	Moody's	Baa3	-	100,000
OJSC Bank Narodnyi Kredit	unrated	-	-	450,000
OJSC GUTA-BANK	Moody's	Ba1	-	400,000
OJSC Bank VTB	Moody's	Baa1	-	13,000
Other	-	-	-	122,000
<b>Total call deposits</b>			<b>2,086,673</b>	<b>4,385,770</b>

**Note 15. Share Capital**

	Number of outstanding shares and fully paid (in thousands)	Ordinary shares	Preference shares	Total share capital
As at 31 December 2009	43,116,903	20,520,877	1,037,575	21,558,452
As at 31 December 2010	43,116,903	20,520,877	1,037,575	21,558,452

Company was established on 1 July 2008 and as at 31 December 2010 all Company's shares were fully paid (Note 1).

Nominal value per each share equal 0.5 RR for ordinary share and 0.5 RR for preference shares.

**a) Ordinary shares and preference shares**

The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at meetings of the Group.

Preference shares have no right of conversion or redemption, but are entitled to a minimum annual dividend of 10 percent of net statutory profit.

In total the preference dividend may not be less than the ordinary dividend and is not cumulative. Preference shares carry no voting rights except when dividends on preference shares have not been declared fully at the Annual Shareholders' meeting, in which case the preference shares acquire voting rights.

**b) Dividends**

In accordance with Russian legislation the Company's distributable reserves are limited to the balance of accumulated retained earnings as recorded in the Company's statutory financial statements prepared in accordance with Russian Accounting Principles. For the year ended 31 December 2009 the Company had retained loss of RR 20,169,924 thousand.

Dividends in the amount of RR 6,075 thousand relating to the year ended 31 December 2010 (for the year ended 31 December 2009: RR 503,123 thousand) were declared by the subsidiaries in favour of minority holders.

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**Note 15. Share Capital (Continued)**

**c) Effect of changes in non-controlling interest**

During the year ended 31 December 2010 the Group has sold its interests in OJSC "Altayenergosbyt", OJSC "Mosenergosbyt, OJSC "Peterburgskaya sbytovaya kompaniya", OJSC "Saratovenergo", OJSC "Tambovskaya energosbytovaya kompaniya", OJSC "Obyedinennaya energosbytovaya kompaniya" (Note 4, 29), and OJSC "Novikovskaya diselnaya electrostantsiya" (Note 4) (subsidiary of OJSC "Sakhalinenergo") as a result non-controlling interest reduced by RR 3,795,724 thousand. The remaining amount consists of changes in ownership interest in OJSC "Sakhalinenergo" (Note 4).

**Note 16. Borrowings**

**Current borrowings**

	Currency	Effective interest rate,%	31 December 2010	31 December 2009
OJSC Rosbank	RR	7-20	6,732,617	6,206,214
OJSC Transcreditbank	RR	5.85-20	4,038,750	2,555,000
OJSC Sberbank	RR	6.85-19.5	2,273,332	2,003,322
OJSC AKB Bank of Moscow	RR	7.44-18	1,566,701	7,750,000
AB Bank Rossiya	RR	7.5	1,333,611	3,174,000
CJSC Raiffeisenbank	RR	7.45-9.71	1,300,000	855,000
OJSC Gasprombank	RR	7.48-13	1,218,000	3,205,000
OJSC AKB Regionbank	RR	10.5-17	232,020	178,382
OJSC Dalnevostochnuy bank	RR	7.2-16	175,000	570,000
OJSC Vozrozhdenie Bank	RR	9-14	7,000	500,000
OJSC BankVTB	RR	-	-	3,580,000
Ministry of finance Republic of Sakha (Yakutia)	RR	-	-	1,044,034
OJSC Alfa Bank	RR	-	-	600,000
OJSC NOMOS-BANK	RR	-	-	355,000
OJSC AKB Primorje	RR	-	-	169,800
OJSC Kamchatprofitbank	RR	-	-	112,000
OJSC Russian Agricultural Bank	RR	-	-	220,000
Other	RR	12-20	100,232	437,979
Current portion of loans and borrowings	RR		3,923,746	2,484,800
Unsecured bonds issued (OJSC "Yakutskenergo")	RR		120,000	-
Promissory notes issued	RR		10,246	55,262
Current finance lease liabilities	RR		507,808	178,195
<b>Total</b>			<b>23,539,063</b>	<b>36,233,988</b>

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**Note 16. Borrowings (Continued)**

**Non-current borrowings**

	Currency	Effective interest rate, %	Year of maturity	31 December 2010	31 December 2009
OJSC Sberbank	RR	7.25-16	2011-2015	8,860,200	2,134,038
OJSC Gasprombank	RR	7.75-10	2011-2013	4,640,068	2,000,000
OJSC Rosbank	RR	7.2-12.75	2011-2012	1,723,604	735,000
OJSC AKB Bank of Moscow	RR	7.44-10.27	2011-2012	943,244	1,971,188
OJSC Sobinbank	RR	10.5-16	2011	929,960	-
Ministry of Finance of the Russian Federation	RR	2.62	2012	688,791	-
OJSC Sviaz-Bank	RR	7.85-16	2011-2012	490,000	155,000
OJSC Transcreditbank	RR	15.5-19	2011-2012	475,000	3,508,850
CJSC Globeksbank	RR	12-19.5	2011	335,000	-
OSJC Rosselkhozbank	RR	15-16	2011-2018	135,552	-
OJSC Dalnevostochnuy bank	RR	7.80	2013	100,000	-
OJSC BankVTB	RR	12.94	2011	-	260,000
Respublikanskaya innovacionnaya company Ltd	RR	11.00	2011	-	230,000
Other	RR	15-16	2011-2018	50,000	235,772
Current portion of loans and borrowings	RR	-	-	(3,923,746)	(2,484,800)
Unsecured bonds issued (OJSC "Yakutskenergo")	RR	8.59-17	2012	3,960,000	1,199,999
Non-current finance lease liabilities	RR	-	-	879,489	184,540
<b>Total</b>				<b>20,287,162</b>	<b>10,129,587</b>

No property, plant and inventories have been pledged as collateral for borrowings as at 31 December 2010 (as at 31 December 2009: RR 3,693,192 thousand). Refer to Notes 7, and 12.

Some of the Group's credit contracts are subject to covenant clauses, whereby the Group is required to meet certain key performance indicators. The Group did not fulfil the requirements regarding to gearing (OJSC Rosbank) and overdue receivables/sales (OJSC AKB Bank of Moscow) ratios in following contracts:

Bank	Credit Contracts	31 December 2010
OJSC AKB Bank of Moscow	6\15\016-10 from 09.04.2010	150,000
OJSC AKB Bank of Moscow	6\15\017-10 from 09.04.2010	200,000
OJSC AKB Bank of Moscow	6\15\018-10 from 09.04.2010	168,000
OJSC Rosbank	DHB\RK\023\10	800,000
<b>Total</b>		<b>1,318,000</b>

Due to this breach of the covenant clauses, the banks are contractually entitled to request early repayment of the outstanding amount of RR 1,318,000 thousand. The outstanding balance was reclassified as a current liability. Subsequent to the year end management received a covenant waivers from the banks confirming absence of intention to request early repayment of loans.

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**Note 16. Borrowings (Continued)**

The Group does not apply hedge accounting and has not entered into any hedging arrangements in respect of its foreign currency obligations or interest rate exposures.

Minimum lease payments under finance leases and their present values are as follows:

	Due in 1 year	Due between 1 and 5 years	Due after 5 years	Total
<b>Minimum lease payments at 31 December 2010</b>	<b>696,740</b>	<b>1,046,895</b>	-	<b>1,743,635</b>
Less future finance charges	(188,932)	(167,406)	-	(356,338)
<b>Present value of minimum lease payments at 31 December 2010</b>	<b>507,808</b>	<b>879,489</b>	-	<b>1,387,297</b>
<b>Minimum lease payments at 31 December 2009</b>	<b>1,040,802</b>	<b>432,549</b>	-	<b>1,473,351</b>
Less future finance charges	(862,606)	(248,009)	-	(1,110,615)
<b>Present value of minimum lease payments at 31 December 2009</b>	<b>178,196</b>	<b>184,540</b>	-	<b>362,736</b>

Leased assets with carrying amount disclosed in Note 7 are effectively pledged for finance lease liabilities as the rights to the leased asset revert to the lessor in the event of default.

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

**Note 17. Pension Benefit Obligations**

The Group operates defined benefit and defined contribution pension plans. In respect of some of these plans the Group has a contract with a pension fund "Non-state pension fund of electrical energy industry" ("NPFE"), which is a separate legal entity; the other plans are operated by the Group without engaging pension funds.

The defined benefit pension plan through NPFE provides for a monthly pension benefit paid upon retirement. Annual contributions are made by the Group to the solidarity account in the non-state pension fund. The amount of the contribution is defined by the Group's budget and is considered to be enough at least to finance current pension benefits.

Additionally to the NPFE pension plan, the Group provides financial support, of a defined benefit nature, to its old-age pensioners, who have completed certain service for the Group, and other post-employment benefit such as lump-sum payments upon retirement, lump-sum material aid, etc.

**Amounts recognised in the consolidated statement of financial position:**

	31 December 2010	31 December 2009
Present value of defined benefit obligations (DBO)	9,032,799	7,590,881
Fair value of plan assets	(246,483)	(218,634)
Present value of unfunded obligations	8,786,316	7,372,247
Unrecognised actuarial gains	68,972	984,177
Unrecognised past service cost	(20,421)	(23,824)
<b>Net liability in statement of financial position</b>	<b>8,834,867</b>	<b>8,332,600</b>

**Note 17. Pension Benefit Obligations (Continued)**

**Amounts recognised within operating expenses in the consolidated statement of comprehensive income:**

	2010	2009
Current service cost	401,138	396,884
Interest cost	695,128	647,396
Expected return on plan assets	(23,628)	(23,263)
Net actuarial gains recognised in year	(7,848)	(21,258)
Amortisation of past service cost	3,403	3,405
Settlement and curtailment (gain)/loss	(169,818)	-
<b>Net expense recognised in profit or loss for the year (DB-only)</b>	<b>898,375</b>	<b>1,003,164</b>

**Movements in the net liability recognised in the consolidated statement of financial position are as follows:**

	2010	2009
Net liability at start of year	8,332,600	7,640,945
Net expense recognised in profit or loss for the year	898,375	1,003,164
Contributions	(396,108)	(311,509)
<b>Net liability at end of year</b>	<b>8,834,867</b>	<b>8,332,600</b>

The Group expects to contribute RR 350,000 thousand to the defined benefit plans during the year beginning 1 January 2011.

**Movements in fair value of plan assets:**

	2010	2009
Account value at year start	218,634	254,384
Expected return on plan assets	23,628	23,263
Gain/(loss) on plan assets	(23,628)	(23,263)
Contributions by employer	396,108	311,509
Payments	(363,131)	(347,259)
Curtailment/settlement	(5,128)	-
<b>Account value at year end</b>	<b>246,483</b>	<b>218,634</b>

**Historical data for present value of the defined benefit obligation, plan assets and experience adjustments**

	2010	2009	2008
Present value of defined benefit obligations (DBO)	9,032,799	7,590,881	6,970,037
Fair value of plan assets	(246,483)	(218,634)	(254,384)
(Surplus)/ deficit in plan	8,786,316	7,372,247	6,715,653
Gains/(losses) arising of experience adjustments on plan liabilities	181,457	(242,774)	117,000
Gains/(losses) arising of experience adjustments on plan assets	(23,628)	(23,263)	(16,900)

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**Note 17. Pension Benefit Obligations (Continued)**

**Principal actuarial assumptions at 31 December (expressed as weighted averages):**

	2010	2009
Discount rate	8.00%	9.00%
Expected return on plan assets	8.62%	10.16%
Future salary increases	9.72%	9.72%
Future pension increases	5.50%	5.50%
Staff turnover	5.00%	7.00%
Employees' average remaining working life (years)	8	8
Mortality	Rosstat's Russian population table for 1998	Rosstat's Russian population table for 1998

**Note 18. Government Grants**

In accordance with government decrees some regions of the Russian Federation are entitled government subsidies. These government subsidies represent compensation for the low electricity tariffs at which electricity is sold in these regions. During the period the Group received government subsidies in the amount of RR 8,326,190 thousand (in 2009 in the amount of RR 10,029,765 thousand) in the following subsidised territories: Khabarovskiy region, Primorskiy region and other Far East regions.

**Note 19. Other Taxes Payable**

	31 December 2010	31 December 2009
Value added tax	2,357,041	2,026,920
Social fund contribution	513,149	490,065
Property tax	316,700	343,578
Penalties	145,416	280,500
Personal income tax	274,036	308,295
Other taxes payable	110,118	118,731
<b>Other taxes payable</b>	<b>3,716,460</b>	<b>3,568,089</b>

**Note 20. Provisions for Liabilities and Charges**

Movements in provisions for liabilities and charges are as follows:

	2010	2009
<b>Carrying amount at 1 January</b>	529,360	727,519
Provisions raised during the year	569,215	636,315
Release of provisions during the year	(522,905)	(834,474)
<b>Carrying amount at 31 December</b>	<b>575,670</b>	<b>529,360</b>

The carrying amount of the provisions for liabilities and charges as of 31 December 2010 includes the amount of RR 321,422 thousand that is an estimate of the Group of probable outcome of the litigation of OJSC Yakutskenergo with the LLC SK Glavenergostroy in relation to payables on ongoing construction contracts.

The carrying amount of the provisions for liabilities and charges as of 31 December 2009 includes the amount of RR 446,422 thousand that is an estimate of the Group of probable outcome of the litigation of OJSC "Mosenergosbyt" with the Inspection of the Federal Tax Service #36 of Moscow city in relation to resolutions of this state body.



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**Note 20. Provisions for Liabilities and Charges (Continued)**

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 30.

All of the above provisions have been classified as current liabilities because the Group does not have an unconditional right to defer settlement beyond one year.

**Note 21. Trade and Other Payables**

Non-current accounts payables:

	31 December 2010	31 December 2009
Trade payables	443	78,580
Interest payable	-	2,432
Other payables and accrued expenses	25,051	15,436
<b>Total non-current payables</b>	<b>25,494</b>	<b>96,448</b>

Current accounts payables:

	31 December 2010	31 December 2009
Trade payables	8,037,267	14,843,617
Advances received	3,709,984	11,171,422
Payable to employees	4,060,592	3,824,016
Dividends payable	18,100	162,240
Interest payable	172,926	134,737
Other payables and accrued expenses	908,588	1,569,051
<b>Total current payables</b>	<b>16,907,457</b>	<b>31,705,083</b>

The carrying values of trade and other payables associated with discontinued operations are included in Note 29.

Payables to suppliers of property plant and equipment of RR 1,179,160 thousand (31 December 2009: RR 889,371 thousand) included in current accounts payables.

**Note 22. Analysis of Revenue by Category**

	2010	2009
Sale of electricity	76 305 502	65,644,218
Sale of heat	21 940 835	21,599,460
Other	16 396 584	8,296,226
<b>Total revenue</b>	<b>114 642 921</b>	<b>95,539,904</b>

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**Note 23. Operating Expenses**

	2010	2009
Fuel cost	36,102,022	30,241,521
Personnel expenses	29,244,641	25,759,466
Electricity distribution	13,899,770	10,677,956
Purchased electricity for resale	8,894,077	8,501,552
Depreciation and amortisation	3,948,705	3,847,183
Repairs and maintenance	3,525,233	4,570,299
Accrual of allowance for impairment of trade and other receivables	2,291,799	2,937,014
Water usage expenses	1,426,327	1,323,552
Property tax	1,228,248	1,084,330
Transportation	1,132,955	572,698
Operating lease expenses	1,030,954	911,897
Consulting, legal, audit services including professional training	811,933	478,502
Security services	747,704	674,057
Agency services	285,185	35,486
Other tax	217,903	236,722
Bank commission	151,510	684,813
Other	11,963,309	10,219,055
<b>Total operating expenses</b>	<b>116,902,275</b>	<b>102,756,103</b>

**Note 24. Other Operating Income/ Expenses net**

	2010	2009
Gain on disposal of subsidiaries	-	194,820
Write-off of accounts payable	257,488	77,669
Fines and penalties	180,098	347,072
Surplus on stock-take	210,377	333,793
Gain on disposal of property, plant and equipment	(59,501)	335,923
Release of provisions accrued	(559,666)	108,181
Dividends		99
Other	112,367	198,003
<b>Total other operating income</b>	<b>141,163</b>	<b>1,595,560</b>

**Note 25. Finance Income**

	2010	2009
Interest income	757,704	513,581
Net foreign exchange gains	16,870	165,403
Net gain less loss on disposal of available-for-sale financial assets	2,697,715	41,289
<b>Total finance income</b>	<b>3,472,290</b>	<b>720,273</b>

Finance income from disposal of available-for-sale financial assets in amount of RR 2,687,559 thousand for the year ended 31 December 2010 related to income from sales of OJSC "FGC UES" shares held by the Group. Total fair value gains/losses include reclassification of fair value gain related to OJSC "FGC UES" shares previously reflected in other comprehensive income to profit or loss in amount of RR 2,047,089 thousand for the year ended 31 December 2010.

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**Note 26. Finance Costs**

	2010	2009
Interest expense	5,837,177	5,830,237
Discount recognized on non-current financial assets	(13,733)	15,417
<b>Total finance costs</b>	<b>5,823,444</b>	<b>5,845,654</b>

**Note 27. Income Taxes**

Income tax expense recorded in profit or loss comprises the following:

	2010	2009
Current income tax charge from continuing operations	(979,600)	(476,933)
Deferred income tax release from continuing operations	592,677	659,329
<b>Total income tax release/(charge) from continuing operations</b>	<b>(386,923)</b>	<b>182,396</b>
Current income tax charge from discontinued operations	(2,552,886)	(492,378)
Deferred income tax charge from discontinued operations	(34,467)	(154,366)
<b>Total income tax charge from discontinued operations</b>	<b>(2,587,353)</b>	<b>(646,744)</b>

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

**Reconciliation of effective tax rate:**

	2010	2009
<b>Profit/(loss) before tax from continuing operations</b>	<b>(520,281)</b>	<b>(5,004,565)</b>
<b>Profit/(loss) before tax from discontinued operations</b>	<b>8,942,786</b>	<b>2,242,125</b>
Theoretical tax charge (20%)	(1,684,501)	552,488
Tax effect of items which are not deductible or assessable for taxation purposes	(1,399,609)	(1,907,788)
Unrecognized deferred income tax assets movements	(125,093)	760,145
Other income tax effect	234,927	130,807
<b>Total income tax charge</b>	<b>(2,974,276)</b>	<b>(464,348)</b>
Less tax charge from discontinued operations	(2,587,353)	(646,744)
<b>Total income tax charge from continuing operations</b>	<b>(386,923)</b>	<b>182,396</b>

Tax effect of items which are not deductible or assessable for taxation purposes for the year ended 31 December 2010 relates to the following items: effect on the difference between the carrying amount of the disposed group's net assets and the tax base amounted to RR 347,300 thousand; effect on social and charity costs amounted to RR 278,690 thousand; effect on uncertain tax position amounted to RR 162,387 thousand; effect on allowances for bad debts which are limited for taxation purposes amounted to RR 103,050 thousand. Remaining amounts consist of other individually smaller items which are not deductible for taxation purpose.

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**Note 27. Income Taxes (Continued)**

**Deferred taxes analysed by type of temporary difference**

Differences between IFRS and statutory taxation regulations in Russia give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20% (2009-2008: 20%).

In the context of the Group's current structure, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss.

Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity.

The tax effect of the movements in the temporary differences for the year ended 31 December 2010 are:

	1 January 2010	(Charged)/ credited to profit or loss	Disposal of subsidiaries	Charged to other comprehensive income	31 December 2010
<b>Deferred income tax assets</b>					
Property, plant and equipment	678,948	(603,005)	9,113	-	85,056
Investments	49,875	(27,873)	(22,002)	-	-
Inventory	82,035	53,298	(71,212)	-	64,121
Trade and other receivables	139,438	2,561	(56,499)	-	85,500
Provisions and borrowings	239,196	237,950	40,688	-	517,834
Loss carry forward	93,691	(83,563)	-	-	10,128
Deferred tax offset	(728,389)	159,003	(155,038)	-	(724,424)
<b>Deferred income tax assets</b>	<b>554,794</b>	<b>(261,629)</b>	<b>(254,950)</b>	<b>-</b>	<b>38,215</b>
<b>Deferred income tax liabilities</b>					
Property, plant and equipment	(3,835,736)	1,297,282	560,519	-	(1,977,935)
Investments	(423,576)	(54,438)	4,922	395,879	(77,213)
Inventory	-	-	-	-	-
Trade and other receivables	(194,325)	45,500	99,843	-	(48,982)
Provisions and borrowings	(32,970)	(309,502)	3,292	-	(339,180)
Deferred tax offset	728,389	(159,003)	155,038	-	724,424
<b>Deferred income tax liabilities</b>	<b>(3,758,218)</b>	<b>819,839</b>	<b>823,614</b>	<b>395,879</b>	<b>(1,718,886)</b>
<b>Net deferred liability</b>	<b>(3,203,424)</b>	<b>558,210</b>	<b>568,664</b>	<b>395,879</b>	<b>(1,680,671)</b>

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**Note 27. Income Taxes (Continued)**

	1 January 2009	(Charged)/ credited to profit or loss	Disposal of subsidiaries	Charged to other comprehensive income	31 December 2009
<b>Deferred income tax assets</b>					
Property, plant and equipment	440,110	264,157	(25,319)	-	678,948
Investments	110,925	55,417	-	(116,467)	49,875
Inventory	48,292	32,284	1,459	-	82,035
Trade and other receivables	153,941	(18,470)	3,967	-	139,438
Provisions and borrowings	531,496	(294,381)	2,081	-	239,196
Loss carry forward	32,812	60,879	-	-	93,691
Deferred tax offset	(920,766)	192,377	-	-	(728,389)
<b>Deferred income tax assets</b>	<b>396,810</b>	<b>292,263</b>	<b>(17,812)</b>	<b>(116,467)</b>	<b>554,794</b>
<b>Deferred income tax liabilities</b>					
Property, plant and equipment	(4,279,115)	443,783	(404)	-	(3,835,736)
Investments	-	(27,873)	-	(395,703)	(423,576)
Inventory	(6,269)	6,269	-	-	-
Trade and other receivables	(197,052)	2,727	-	-	(194,325)
Provisions and borrowings	(12,389)	(19,829)	(752)	-	(32,970)
Deferred tax offset	920,766	(192,377)	-	-	728,389
<b>Deferred income tax liabilities</b>	<b>(3,574,059)</b>	<b>212,700</b>	<b>(1,156)</b>	<b>(395,703)</b>	<b>(3,758,218)</b>
<b>Net deferred liability</b>	<b>(3,177,249)</b>	<b>504,963</b>	<b>(18,968)</b>	<b>(512,170)</b>	<b>(3,203,424)</b>

Total amount of deductible temporary differences for which deferred income tax assets have not been recognized by the Group comprises RR 6,342,342 thousand (RR 5,782,147 thousand continuing operations and RR 560,195 thousand discontinued operations) and RR 6,216,819 thousand (RR 5,913,993 thousand continuing operations and RR 302,826 thousand discontinued operations) as at 31 December 2010 and 31 December 2009 respectively.

Current portion of net deferred tax liabilities in the amount of RR 388,162 thousand as at 31 December 2010 (31 December 2009: RR 227,295 thousand) represents the amount of deferred tax liabilities to be recovered during the year ended 31 December 2011.

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**Note 28. Profit Per Share**

Basic earnings/(loss) per share are calculated by dividing the profit or loss attributable to shareholders by the weighted average number of ordinary and preference shares in issue during the year, excluding treasury shares.

In March, 2011 the Board of Directors of OJSC "RAO Energy Systems of East" made a decision to increase share capital by issuing additional ordinary shares of the Company. In accordance with the decision 3,636,867,919 ordinary shares of par value RR 0.5 per share will be placed through public subscription. Refer to Note 32.

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

Profit or losses per share from continuing operations and from discontinued operations are calculated as follows:

	31 December 2010	31 December 2009
Weighted average number of ordinary shares (in thousands)	41,041,754	41,041,754
Weighted average number of preference shares (in thousands)	2,075,149	2,075,149
<b>Profit/(loss) attributable to ordinary and preference shareholders</b>	<b>4,289,540</b>	<b>(3,692,543)</b>
<b>Profit for the year from discontinued operations attributable to ordinary and preference shareholders</b>	<b>5,059,572</b>	<b>455,938</b>
<b>Profit/(loss) from continuing operations attributable to ordinary and preference shareholders</b>	<b>(770,032)</b>	<b>(4,148,481)</b>
Profit/(loss) per ordinary and preference shares from continuing operations attributable to the owners of the Company, basic and diluted (in RR per share)	(0.0179)	(0.0962)
Profit/(loss) per ordinary and preference shares from discontinuing operations attributable to the owners of the Company, basic and diluted (in RR per share)	0.1173	0.0106

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**Note 29. Discontinued operations**

On 27 May 2010 the Group classified OJSC "Altayenergosbyt", OJSC "Mosenergosbyt", OJSC "Peterburgskaya sbytovaya kompaniya", OJSC "Saratovenergo", OJSC "Tambovskaya energosbytovaya kompaniya", and OJSC "Obyedinennaya energosbytovaya kompaniya" as discontinued operations as all necessary conditions were met (Note 4).

The carrying value of assets and liabilities related to these disposals is shown below:

	27 May 2010	31 December 2009
Property, Plant and Equipment	4,943,387	4,706,081
Goodwill	1,019,789	1,019,789
Other non-current assets	536,538	470,374
Inventory	186,490	161,824
Accounts receivable	18,963,215	12,871,531
Cash and cash equivalents	5,984,697	5,390,786
Other current assets	1,002,004	-
Overpayment of income tax	694,573	416,586
Borrowings	(2,094,285)	(2,493,426)
Trade and other payables	(22,559,244)	(17,509,736)
Other taxes payable	(1,371,726)	(636,024)
Other liabilities	(1,013,106)	(905,661)
<b>Net assets</b>	<b>6,292,333</b>	<b>3,492,124</b>
Less: non-controlling interest	(3,786,517)	(2,955,863)
<b>Net assets attributable to the Group</b>	<b>2,505,816</b>	<b>536,261</b>
Gain on disposal	5,325,684	
<b>Total consideration</b>	<b>7,831,500</b>	
Less: cash and cash equivalents of the sold companies	(5,984,697)	
<b>Net cash receipts from the sale</b>	<b>1,846,803</b>	

Due to the disposal of OJSC "Peterburgskaya sbytovaya kompaniya" the holding in its wholly owned subsidiary LLC "Energiya Holding" was also disposed of on 27 May 2010. The purchase of the subsidiary in 2009 was accounted for at provisional amounts. The valuation of the assets and liabilities of LLC "Energiya Holding" was not finished due to the disposal of it during 2010. Accordingly, opening balances were not restated to reflect results of adjustments to provisional amounts, recorded as of 31 December 2009.

Analysis of the cash flows of discontinued operations is as follows:

	2010	2009
Operating cash flows	655,959	791,229
Investing cash flows	(1,334,890)	(1,290,014)
Financing cash flows	(399,140)	1,336,336
<b>Total cash flows from discontinued operations</b>	<b>(1,078,071)</b>	<b>837,551</b>

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**Note 29. Discontinued operations (continued)**

Analysis of the result of discontinued operations is as follows:

	2010	2009
Revenue	118,815,429	228,939,787
Less operating expenses:		
Purchased electricity for resale	(62,804,351)	(124,563,865)
Electricity distribution	(45,464,939)	(91,626,030)
Personnel expenses	(3,020,970)	(5,341,243)
Other operating expenses	(4,190,646)	(6,480,187)
<b>Gross profit</b>	<b>3,334,523</b>	<b>928,460</b>
Other operating income	268,336	1,146,358
<b>Operating profit</b>	<b>3,602,859</b>	<b>2,074,818</b>
Finance income	117,659	427,843
Finance costs	(116,236)	(260,535)
<b>Profit before tax of discontinued operations</b>	<b>3,604,282</b>	<b>2,242,126</b>
Income tax	(797,731)	(646,744)
<b>Profit for the year from discontinued operations</b>	<b>2,806,551</b>	<b>1,595,381</b>
<b>Profit/(loss) from discontinuing operations</b>	<b>5,338,505</b>	
Income tax expense from discontinuing operations	(1,789,623)	
<b>Total</b>	<b>6,355,433</b>	

**Note 30. Contingencies and Commitments**

**Legal proceedings.** From time to time and in the normal course of business, claims against the Group may be received. On the basis of its own estimates, management is of the opinion that no material losses will be incurred in respect of claims in excess of provisions that have been made in these consolidated financial statements.

**Tax legislation.** Russian tax legislation is subject to varying interpretations, 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 authorities.

The Russian tax authorities may be taking a more assertive and sophisticated approach in their interpretation of the legislation and tax examinations. This includes the following guidance from the Supreme Arbitration Court for anti-avoidance claims based on reviewing the substance and business purpose of transactions. Combined with a possible increase in tax collection efforts to respond to budget pressures, the above may lead to an increase in the level and frequency of scrutiny by the tax authorities. In particular, it is possible that transactions and activities that have not been challenged in the past may be challenged. 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.

Russian transfer pricing legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%.

Controllable transactions include transactions with interdependent parties, as determined under the Russian Tax Code, all cross-border transactions (irrespective whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter



**Note 30. Contingencies and Commitments (Continued)**

transactions. There is no formal guidance as to how these rules should be applied in practice. In the past, the arbitration court practice with this respect has been contradictory.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible with the evolution of the interpretation of the transfer pricing rules in the Russian Federation and the changes in the approach of the Russian tax authorities, that such transfer prices could be challenged. Given the brief nature of the current Russian transfer pricing rules, the impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the entity.

**Capital expenditure commitments.** At 31 December 2010 the Group has contractual capital expenditure commitments in respect of property, plant and equipment totalling RR 1,377,125 thousand (2009: RR 1,107,577 thousand).

**Operating lease commitments.** Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

	31 December 2010	31 December 2009
Not later than 1 year	566,347	467,394
Later than 1 year and not later than 5 years	1,587,029	1,279,990
Later than 5 years	8,572,377	4,757,088
<b>Total operating lease commitments</b>	<b>10,725,753</b>	<b>6,504,472</b>

**Environmental matters.** The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, 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.

**Compliance with covenants.** The Group is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default.

The Group was in partial compliance with covenants during years 2009 and 2010 and as at 31 December 2010 and 31 December 2009 (Note 16).

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**Note 31. Financial Instruments and Financial Risks**

<b>31 December 2010</b>	<b>Notes</b>	<b>Loans and receivables</b>	<b>Available-for-sale assets</b>	<b>Other financial liabilities</b>	<b>Total</b>
<b>Assets as per consolidated statement of financial position</b>					
Non-current trade and other receivables	13	504,970	-	-	504,970
Available-for-sale investments	10	-	1,605,206	-	1,605,206
Other non-current assets	11	87,610	-	-	87,610
Current trade and other receivable	13	11,400,362	-	-	11,400,362
Other current assets	11	8,022,658	-	-	8,022,658
Cash and cash equivalents	14	4,358,561	-	-	4,358,561
<b>Total financial assets</b>		<b>24,374,161</b>	<b>1,605,206</b>	<b>-</b>	<b>25,979,367</b>
<b>Liabilities as per consolidated statement of financial position</b>					
Non-current accounts payables	21	-	-	25,494	25,494
Current accounts trade and other payables	21	-	-	9,136,881	9,136,881
Non-current loans and borrowings	16	-	-	20,287,162	20,287,162
Current loans and borrowings	16	-	-	19,615,317	19,615,317
Current portion of non-current loans and borrowings	16	-	-	3,923,746	3,923,746
<b>Total financial liabilities</b>		<b>-</b>	<b>-</b>	<b>52,988,600</b>	<b>52,988,600</b>

<b>31 December 2009</b>	<b>Notes</b>	<b>Loans and receivables</b>	<b>Available-for-sale assets</b>	<b>Other financial liabilities</b>	<b>Total</b>
<b>Assets as per consolidated statement of financial position</b>					
Non-current trade and other receivables	13	418,102	-	-	418,102
Available-for-sale investments	10	-	4,833,231	-	4,833,231
Other non-current assets	11	147,041	-	-	147,041
Current trade and other receivable	13	21,497,190	-	-	21,497,190
Other current assets	11	2,922,260	-	-	2,922,260
Cash and cash equivalents	14	9,317,204	-	-	9,317,204
<b>Total financial assets</b>		<b>34,301,797</b>	<b>4,833,231</b>	<b>-</b>	<b>39,135,028</b>
<b>Liabilities as per consolidated statement of financial position</b>					
Non-current accounts payables	21	-	-	96,448	96,448
Current accounts trade and other payables		-	-	16,641,960	16,641,960
Non-current loans and borrowings	16	-	-	10,129,587	10,129,587
Current loans and borrowings	16	-	-	33,749,188	33,749,188
Current portion of non-current loans and borrowings	16	-	-	2,484,800	2,484,800
<b>Total financial liabilities</b>		<b>-</b>	<b>-</b>	<b>63,101,983</b>	<b>63,101,983</b>

**Note 31. Financial Instruments and Financial Risks (Continued)**

The risk management function within the Group is carried out in respect of financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

**Credit risk.** The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group's sales of products on credit terms and other transactions with counterparties giving rise to financial assets. Maximum exposure to credit risk is RR 25,979,367 thousand and RR 39,135,028 thousand as at 31 December 2010 and 31 December 2009 respectively.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to counterparties or groups of counterparties. Limits on the level of credit risk are approved regularly by management. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

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

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

	31 December 2010	Allowance as at 31 December 2010	31 December 2009	Allowance as at 31 December 2009
Not past due	8,348,235	577,520	14,925,927	1,553,355
Past due for less than 3 months	1,653,001	169,459	3,732,621	437,007
Past due for 3 to 6 months	849,318	290,347	2,162,322	571,035
Past due for 6 to 1 year	2,778,187	1,190,429	4,204,713	2,312,942
Past due for more than one year	5,219,412	4,715,067	7,147,677	5,383,629
<b>Total</b>	<b>18,848,153</b>	<b>6,942,822</b>	<b>32,173,260</b>	<b>10,257,968</b>

Financial assets neither not past due, nor impaired represented by a pool of different customers, mainly consumers of electricity and heat energy with no history of default and high probability of payments, which credit quality is assessed as high.

Significant part of allowance was created for individual not homogeneous customers based on history of past payments and management's assessment of its recoverability.

Movements in the impairment provision for trade and other receivables are as follows:

	2010	2009
<b>Provision for impairment at 1 January</b>	<b>(10,257,968)</b>	<b>(7,352,980)</b>
Recovery of provision for impairment due to disposal of subsidiaries	3,018,193	-
Provision for impairment during the year	(4,512,469)	(5,456,730)
Recovery of provision for impairment during the year	3,304,892	1,274,811
Amounts written off during the year as uncollectible	1,504,530	1,276,931
<b>Provision for impairment at 31 December</b>	<b>(6,942,822)</b>	<b>(10,257,968)</b>

**Note 31. Financial Instruments and Financial Risks (Continued)**

For movements in impairment of available for sale investments refer to Note 10.

Cash is placed in financial institutions, which are considered at time of deposit to have minimal risk of default.

Despite the fact that certain companies and banks do not have the international credit rating, they are considered as reliable counterparties that have stable positions in the financial market of the Russian Federation and meets to the commonly used criteria of credit status and solvency.

**Management of capital** The Group's capital risk management has as key objectives compliance with the Russian legislation requirements and policy of capital cost reduction.

The following capital requirements have been established for joint stock companies by the legislation of the Russian Federation:

- share capital cannot be lower than 1,000 minimum shares on the date of the company's registration;
- if the share capital of the entity is more than statutory net assets of the entity, such entity must decrease its share capital to the value not exceeding its net assets;
- if the minimum allowed share capital is more than statutory net assets of the entity, such entity is subject to liquidation.

As at 31 December 2010 the Company was in compliance with the above share capital requirements.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The amount of capital that the Group managed as at 31 December 2010 was RR 25,195,741 thousand, 31 December 2009: RR 25,142,677 thousand.

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

Sensitivities to market risks included below are based on a change in a factor while holding all other factors constant. In practice this is unlikely to occur and changes in some of the factors may be correlated – for example, changes in interest rate and changes in foreign currency rates.

**Currency risk.** The company operates in the Russian Federation. Transactions of the Group primarily are denominated in its functional currency, the Russian Rouble.

**Interest rate risk.** Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). The interest rates on all significant loans and borrowings are fixed. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

**Liquidity risk.** Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages liquidity risk operating the following factors:

- tariffs for electricity and heat are set on cost plus basis, which covered the majors of Group's entities expenses;
- the Group received continuing strong support from Government in the form of grants receive for compensation of low electricity tariff (Note 18);

**Note 31. Financial Instruments and Financial Risks (Continued)**

- the Group consider the possibility of restructuring of current borrowings and loans to postpone the payments and increase liquidity;
- significant part of current liabilities represented by advances received for future services and electricity supply, which also guarantee the demand on Group's entities products.

The table below shows liabilities at 31 December 2010 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, including gross finance lease obligations (before deducting future finance charges), gross loan commitments. Such undiscounted cash flows differ from the amount included in the statement of financial position because the statement of financial position amount is based on discounted cash flows.

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**Note 31. Financial Instruments and Financial Risks (Continued)**

For year ended 31 December 2010

	Carrying amount	Contractual cash flows	0-6 months	6-12 months	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Secured bank loans	2,856,566	3,248,006	1,535,031	1,067,027	507,400	40,689	36,889	60,970	-
Unsecured bank loans	35,492,116	38,662,898	8,412,015	16,280,541	12,075,391	1,130,655	55,263	709,031	-
Unsecured bond issues	4,080,000	4,837,350	223,350	79,800	1,286,700	3,247,500	-	-	-
Promissory notes	10,246	10,868	10,868	-	-	-	-	-	-
Finance lease liabilities	1,387,298	1,743,635	367,961	328,779	534,367	506,310	3,622	2,597	-
Trade and other payables	8,971,349	8,971,349	5,935,689	3,020,239	7,633	1,807	1,568	276	4,136
	<b>52,797,575</b>	<b>57,474,106</b>	<b>16,484,914</b>	<b>20,776,386</b>	<b>14,411,491</b>	<b>4,926,961</b>	<b>97,342</b>	<b>772,874</b>	<b>4,136</b>

For year ended 31 December 2009

	Carrying amount	Contractual cash flows	0-6 months	6-12 months	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Secured bank loans	8,434,274	10,244,865	3,523,869	4,879,674	1,410,621	419,513	4,757	6,431	-
Unsecured bank loans	36,311,303	46,911,278	23,399,122	18,147,452	4,568,594	253,470	232,050	210,630	99,960
Unsecured bond issues	1,199,999	1,811,998	102,000	102,000	204,000	1,403,999	-	-	-
Promissory notes	55,262	60,343	30,172	30,171	-	-	-	-	-
Finance lease liabilities	362,736	1,473,351	453,462	587,340	250,743	153,486	27,327	993	-
Trade and other payables	16,738,409	17,290,631	16,017,800	967,260	251,250	49,633	276	276	4,136
	<b>63,101,983</b>	<b>77,792,466</b>	<b>43,526,425</b>	<b>24,713,897</b>	<b>6,685,208</b>	<b>2,280,101</b>	<b>264,410</b>	<b>218,330</b>	<b>104,096</b>

**Note 31. Financial Instruments and Financial Risks (Continued)**

**Fair values versus carrying amounts**

The fair value of available-for-sale investments disclosed in Note 10. Management believes that the fair value of other financial assets and financial liabilities is not significantly differs from their carrying amounts.

Financial instruments carried at fair value with quotation at free and open market (available for sale investments) are related to Level 1 in fair value hierarchy.

The fair value of assets and liabilities carried at amortised cost equal to their caring value.

**Note 32. Events After the Reporting Period**

In February 2011 the Extraordinary General Meeting of shareholders amended the Charter of OJSC "RAO Energy System of East" in accordance with which the Company is entitled to issue additional 20,000,000,000 ordinary shares of par value RR 0.5 per share totaling RR 10,000,000,000 (authorized shares).The authorized shares grant the same volume of rights as the issued shares of the same category (type).

In March 2011 the Board of Directors of OJSC "RAO Energy System of East" made a decision (Minutes #55 dated 23 March 2011) to increase share capital by issuing additional ordinary shares of the Company. In accordance with the decision 3,636,867,919 ordinary shares of par value RR 0.5 per share will be placed through public subscription. Funds received as a result of the placement of shares will be channeled to finance the project of construction of thermal power plant in Sovetskaya Gavan and other key investment projects of the Company.

On 24 May 2011 Russian Federal Service for Financial Markets registered an additional issue of ordinary shares of OJSC "RAO Energy System of East" placed through public subscription in amount of RR 1,818,434 thousand.