

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF FEDERAL GRID COMPANY UES GROUP FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2010 AND 2009, PREPARED IN ACCORDANCE WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)**

**Summary of results**

For the years ended 31 December 2010 and 2009, our revenue amounted to RUB 113,330 million and RUB 87,580 million, respectively.

For the years ended 31 December 2010 and 2009, our net results amounted to profit of RUB 18,383 million and loss of RUB 63,974 million, respectively.

**Summary of Income Statement Data – IFRS**

	<u>year ended 31 December</u>	
	<u>2010</u>	<u>2009<sup>(1)</sup></u>
	<i>(in millions of roubles)</i>	
<b>Revenues .....</b>	<b>113,330</b>	<b>87,580</b>
Other operating income .....	4,484	4,287
Operating expenses .....	(87,873)	(78,216)
Gain on sale of investments in associates and available-for-sale investments .....	606	1,504
Loss on re-measurement of assets held-for-sale .....	(6,896)	-
Impairment of property, plant and equipment and intangible assets .....	(846)	2,957
Revaluation loss on property, plant and equipment .....	-	(104,456)
<b>Operating profit/(loss) .....</b>	<b>22,805</b>	<b>(86,344)</b>
Finance income .....	5,807	10,000
Finance costs .....	(619)	(1 484)
Impairment of available-for-sale investments and associates .....	(235)	(2,018)
Loss on dilution of share in associates .....	(2,790)	-
Share of result of associates .....	(833)	1,893
<b>Profit/(loss) before profit tax .....</b>	<b>24,135</b>	<b>(77,953)</b>
Profit tax .....	(5,752)	13, 979
<b>Profit/(loss) for the period .....</b>	<b>18,383</b>	<b>(63,974)</b>

(1) As presented in comparative information in the 2010 Audited Consolidated Financial Statements

**Summary of Balance Sheet Data – IFRS**

**year ended 31 December**

	<b>2010</b>	<b>2009<sup>(1)</sup></b>
	<i>(in millions of roubles)</i>	
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment .....	851,228	739,042
Intangible assets .....	6,189	6,392
Investments in associated companies .....	348	58,451
Available-for-sale investments .....	9,531	35,229
Long-term promissory notes .....	11,046	8,952
Other non-current assets .....	2,507	959
<b>Total non-current assets .....</b>	<b>880,849</b>	<b>849,025</b>
<b>Current assets</b>		
Cash and cash equivalents .....	13,573	33,699
Bank deposits .....	4,606	10,187
Short-term promissory notes .....	43,156	48,681
Accounts receivable and prepayments .....	32,672	29,295
Profit tax prepayments .....	581	988
Inventories .....	5,602	3,271
	<b>100,190</b>	<b>126,121</b>
Non-current assets held-for-sale .....	90,609	-
<b>Total current assets .....</b>	<b>190,799</b>	<b>126,121</b>
<b>TOTAL ASSETS</b>	<b>1,071,648</b>	<b>975,146</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Share capital: Ordinary shares .....	616,781	576,757
Treasury shares .....	(6,864)	(6,864)
Share premium .....	10,501	10,347
Reserves .....	361,267	290,674
Retained earnings .....	(108,525)	(71,959)
<b>Equity attributable to the shareholders of</b>		
<b>Federal Grid .....</b>	<b>873,160</b>	<b>798,955</b>
Non-controlling interest .....	944	1,570
<b>Total equity .....</b>	<b>874,104</b>	<b>800,525</b>
<b>Non-current liabilities</b>		
Deferred profit tax liabilities .....	83,657	83,385
Non-current debt .....	50,000	6,000
Retirement benefit obligations .....	4,318	3,439
<b>Total non-current liabilities .....</b>	<b>137,975</b>	<b>92,824</b>
<b>Current liabilities</b>		
Accounts payable to the shareholders of Federal Grid .....	11,193	40,178

	<u>year ended 31 December</u>	
	<u>2010</u>	<u>2009<sup>(1)</sup></u>
Current debt and current portion of non-current debt.....	7,385	7,545
Accounts payable and accrued charges ....	39,760	32,938
Other taxes payable .....	1,231	1,136
<b>Total current liabilities.....</b>	<b>59,569</b>	<b>81,797</b>
<b>Total liabilities.....</b>	<b>197,544</b>	<b>174,621</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>1,071,648</b>	<b>975,146</b>

(1) As presented in comparative information in the 2010 Audited Consolidated Financial Statements

#### Summary of Cash Flow Data – IFRS

	<u>year ended 31 December</u>	
	<u>2010</u>	<u>2009<sup>(1)</sup></u>
	<i>(in millions of roubles)</i>	
Net cash generated by operating activities.....	53,449	32,455
Net cash used in investing activities..	(127,043)	(32,473)
Net cash (used in) / generated by financing activities.....	53,468	18,032
<b>Net increase/(decrease) in cash and cash equivalents.....</b>	<b>(20,126)</b>	<b>18,014</b>

(1) As presented in comparative information in the 2010 Audited Consolidated Financial Statements

## Non-IFRS Financial Information

	<b>year ended 31 December</b>	
	<b>2010</b>	<b>2009</b>
	<i>(in millions of roubles, except margins and ratios in %)</i>	
EBITDA.....	50,001	(68,799)
EBITDA margin <sup>(1)</sup> .....	44.1%	(78.6)%
Adjusted EBITDA .....	67,717	42,619
Adjusted EBITDA margin <sup>(1)</sup> .....	59.8%	48.7%
Adjusted operating profit <sup>(2)</sup> .....	29,941	13,651
Adjusted operating profit margin <sup>(1)</sup> .....	26.4%	15.6%
Adjusted profit for the period <sup>(3)</sup> .....	27,910	17,160
Return on assets <sup>(4)</sup> .....	2.7%	2.1%
Return on equity <sup>(5)</sup> .....	3.2%	2.4%

(1) Margins are calculated as EBITDA, Adjusted EBITDA and Adjusted operating profit divided by total revenue for the period.

(2) Adjusted operating profit is calculated as operating profit or loss adjusted for gain on sale of available-for-sale investments, loss on re-measurement of assets held-for-sale, non-specific impairment of provision of property, plant and equipment, and revaluation loss on property, plant and equipment.

(3) Adjusted profit is calculated as profit or loss for the period adjusted for gain on sale of available-for-sale investments, loss on re-measurement of assets held-for-sale, non-specific impairment of provision of property, plant and equipment, and revaluation loss on property, plant and equipment, impairment of available-for-sale investments and associates and loss on dilution of share in associates.

(4) Return on assets is calculated as adjusted profit for the period divided by average total assets for the period.

(5) Return on equity is calculated as adjusted profit for the period (as presented in the table below) divided by the average total equity for the respective period. For the purpose of this ratio the amount received from shareholders of Federal Grid for the additional shares issue before the registration of issue (recorded as accounts payable to the shareholders of Federal Grid) was treated as an element of equity.

The measures presented above are not measures of financial performance that are required by, or presented in accordance with IFRS. Accordingly, they should not be considered as alternatives to profit for the period as a measure of operating performance or to cash flows from operating activities as a measure of liquidity. Our calculation of these ratios may be different from the calculation used by other companies and therefore comparability may be limited. We believe that EBITDA and Adjusted EBITDA provide useful information to investors because they are indicators of the strength and performance of our ongoing business operations and indicators of our ability to fund discretionary spending such as capital expenditures, acquisition of subsidiaries and other investments and our ability to incur and service debt. While

depreciation and amortisation are considered operating costs under IFRS, these expenses primarily represent non-cash current period allocations of costs associated with long-lived assets acquired

or constructed in prior periods.

### ***Adjusted profit for the period***

The amount of adjusted profit for the period is used in calculation of the Return on assets and Return on equity measures. The following table sets forth a reconciliation of adjusted profit to profit or loss for the periods indicated:

	<b>year ended 31 December</b>	
	<b>2010</b>	<b>2009</b>
	<i>(in millions of roubles)</i>	
<b>Profit/(loss) for the period.....</b>	<b>18,383</b>	<b>(63,974)</b>
<b>Adjustments to net profit/(loss):</b>		
Reversal of movement in non-specific impairment provision of property, plant and equipment .....	1,988	(5,056)
Revaluation loss on property, plant and equipment	-	104,456
Impairment of available-for-sale investments and associates	235	2,018
Loss on re-measurment of assets held-for-sale	6,896	-
Loss on dilution of share in associates	2,790	-
Deferred income tax on adjustments..	(2,382)	(20,284)
<b>Adjusted profit for the period <sup>(1)</sup> .....</b>	<b>27,910</b>	<b>17,169</b>

(1) Unaudited

### ***EBITDA and Adjusted EBITDA***

EBITDA represents profit or loss for the period before profit tax expense, finance expense, finance income and depreciation and amortisation. Adjusted EBITDA represents EBITDA adjusted to exclude movement in non-specific impairment provision of property, plant and equipment, revaluation loss on property, plant and equipment, impairment of available-for-sale investments and associates, loss on re-measurment of assets held-for-sale, loss on dilution of share in associates, and to include finance income.

The following table sets forth a reconciliation of EBITDA and Adjusted EBITDA to profit or loss for the periods indicated:

	<b>year ended 31 December</b>	
	<b>2010</b>	<b>2009</b>
	<i>(in millions of roubles)</i>	
<b>Profit/(loss) for the period .....</b>	<b>18,383</b>	<b>(63,974)</b>
<b>Add back:</b>		

Income tax.....	5,572	(13,979)
Interest expense, net.....	(5,188)	(8,516)
Depreciation and amortisation .....	31,054	17,670
<b>EBITDA<sup>(1)</sup></b> .....	<b>50,001</b>	<b>(68,799)</b>
<b>Adjustments to EBITDA:</b>		
Reversal of movement in non-specific impairment provision of property, plant and equipment .....	1,988	(5,056)
Revaluation loss on property, plant and equipment	-	104,456
Impairment of available-for-sale investments and associates	235	2,018
Loss on re-measurement of assets held-for-sale	6,896	-
Loss on dilution of share in associates	2,790	-
Finance income .....	<b>5,807</b>	10,000
<b>Adjusted EBITDA<sup>(2)</sup></b> .....	<b>67,717</b>	<b>42,619</b>

(1)(2) Unaudited

#### *Liquidity ratios and other measures*

	<b>As of 31 December</b>	
	<b>2010</b>	<b>2009</b>
	<i>(in millions of roubles, except ratios)</i>	
Current liquidity ratio <sup>(1)</sup> .....	3.9	3
Cash liquidity ratio <sup>(2)</sup> .....	1.3	2.2
Total equity/Total assets ratio <sup>(3)</sup> .....	0.83	0.86
Net debt <sup>(4)</sup> .....	(3,950)	(79,022)

(1) Current liquidity ratio is calculated as total current assets divided by total current liabilities. For the purpose of this ratio the proceeds received from shareholders of Federal Grid for the additional shares issued before the registration of issue (recorded as accounts payable to the shareholders of Federal Grid) were excluded from current liabilities.

(2) Cash liquidity ratio is calculated as sum of cash and cash equivalents, bank deposits and short-term promissory notes divided by total current liabilities. For the purpose of this ratio the proceeds received from shareholders of Federal Grid for the additional shares issued before the registration of issue (recorded as accounts payable to the shareholders of Federal Grid) were excluded from current liabilities.

(3) For the purpose of this ratio the proceeds received from shareholders of Federal Grid for the additional shares issued before the registration of issue (recorded as accounts payable to the shareholders of Federal Grid) were treated as an element of equity.

(4) Net debt represents non-current debt plus current debt and current portion of non-current debt reduced by cash and cash equivalents, bank deposits and short-term promissory notes.

## Revenues

The Group's revenues are derived primarily from the provision of electricity transmission services. Changes in the revenues derived from electricity transmission services are primarily dependent

on changes in the level of tariffs established by the FTS. The Group also earns revenue from the sale of electricity generated by our subsidiaries to third parties on the wholesale market.

The Group's revenues increased by RUB 25,750 million, or 29.4%, to RUB 113,330 million for the year ended 31 December 2010 from RUB 87,580 million for the year ended 31 December 2009.

The table below sets out the Group's revenues for the periods indicated.

	Year ended 31 December				Percentage change between year ended 31 December 2010 and 2009
	2010	Percentage of total revenues	2009	Percentage of total revenues	
	<i>(in millions of roubles, except percentages)</i>				
Transmission fees .....	109,371	96.5%	80,242	91.6%	36.3%
Electricity sales.....	3,070	2.7%	3,348	3.8%	(8.3)%
Other revenues.....	889	0.8%	3,990	4.6%	(77.7)%
<b>Total .....</b>	<b>113,330</b>	<b>100.0%</b>	<b>87,580</b>	<b>100.0%</b>	<b>29.4%</b>

### *Transmission fees*

The Group's revenues from electricity transmission services increased by RUB 29,129 million, or 36.3%, to RUB 109,371 million for the year ended 31 December 2010, from RUB 80,242 million for the year ended 31 December 2009, primarily as a result of an increase in tariffs for transmission established by the FTS by 51% and slight decrease in customer contract demand by 4%, as well as slight increase in revenue from compensation of electricity losses by 8%.

### *Electricity sales*

The Group's revenues from electricity sales decreased by RUB 278 million, or 8.3%, to RUB 3 070 million for the year ended 31 December 2010, from RUB 3,348 million for the year ended 31 December 2009 as a result of the termination of revenue recognition of electricity sales to some customers of JSC "Nurenergo" caused by low possibility to recover debts for the electricity supplied.

### *Other revenues*

Other revenues include connection services and grid repair and maintenance services. The Group's other revenues decreased by RUB 3,101 million, or 77.7%, to RUB 889 million for the year ended 31 December 2010 from RUB 3,990 million for the year ended 31 December 2009, primarily as a result of decrease of volume of technological connection services rendered.

### *Operating expenses*

The table below sets out the Group's operating expenses for the periods indicated.

	Year ended 31 December				Percentage change between year ended 31 December 2010 and 2009
	2010	Percentage of total operating expenses	2009	Percentage of total operating expenses	
	(in millions of roubles, except percentages)				
Depreciation of property, plant and equipment and amortisation of intangible assets	31,054	35.3%	17,670	22.6%	75.7%
Employee benefit expenses and payroll taxes	20,114	22.9%	15,904	20.3%	26.5%
Purchased electricity	15,942	18.1%	15,431	19.7%	3.3%
Repair and maintenance services	5,023	5.7%	6,933	8.9%	(27.5)%
(Reversal)/accrual of allowance for doubtful debtors	(2,164)	(2.5)%	5,527	7.1%	(139.2)%
Other	17,904	20.4%	16,751	21.4%	6.9%
<b>Total operating expenses</b>	<b>87,873</b>	<b>100%</b>	<b>78,216</b>	<b>100%</b>	<b>12.3%</b>

The Group's operating expenses increased by RUB 9,657 million, or 12.3%, to RUB 87,873 million for the year ended 31 December 2010, from RUB 78,216 million for the year ended 31 December 2009.

#### ***Depreciation of property, plant and equipment and amortisation of intangible assets***

The Group's depreciation and amortization expenses increased by RUB 13,384 million, or 75.7%, to RUB 31,054 million for the year ended 31 December 2010 from RUB 17,670 million for the year ended 31 December 2009 primarily as a result of property, plant and equipment revaluation performed at 31 December 2009.

#### ***Employee benefit expenses and payroll taxes***

The Group's employee benefits expenses and payroll taxes expenses increased by RUB 4,210 million, or 26.5%, to RUB 20,114 million for the year ended 31 December 2010, from RUB 15,904 million for the year ended 31 December 2009, primarily as a result of an increase in the average number of employees by 12% and an increase in the average salaries due to indexation of remuneration based on inflation and other factors.

#### ***Repair and maintenance services***

The Group's expenses for repair and maintenance services obtained from external contractors decreased by RUB 1,910 million, or 27.5%, to RUB 5,023 million for the year ended 31 December 2010, from RUB 6,933 million for the year ended 31 December 2009, primarily as a result of the decreased share of repair works from external contractors and increased share of non-contracted repair works.



*(Reversal) / accrual of allowance for doubtful debtors*

In the year ended 31 December 2009, the Group recognised a charge for doubtful debtors in the amount of RUB 5,527 million. After a detailed analysis of accounts receivable as at 31 December 2010, the Group recognized a net decrease in the provision of RUB 2,164 million in the year ended 31 December 2010, of which RUB 1,957 million related to customers for transmission services and for electricity sales, respectively, and RUB 207 million related to other accounts receivable.

***Gain on sale of available-for-sale investments***

The Group's gain on sale of available-for-sale investments amounted to RUB 606 million and RUB 1 504 million for the year ended 31 December 2010 and 2009, respectively. The gain recognised in the year ended 31 December 2010 was attributable to the partial disposal of the shares in JSC "Volzhskaya TGK". The gain recognised in the year ended 31 December 2009 was attributable to the partial disposal of the shares in JSC "Kuzbassenergo" and complete disposal of the shares in JSC "TGK 14", JSC "TGK 2".

***Loss on re-measurement of assets held-for-sale***

As at 31 December 2010 all available-for-sale investments, except for shares of JSC "IDGC Holding" and JSC "Inter RAO UES", in the total amount of RUB 44,278 million and most of investments in associates, such as JSC "WGC-1", JSC "TGC-6", JSC "TGC-11", JSC "Volzhskaya TGC" and JSC "UES "GruzRosEnergo" in the total amount of RUB 53,227 million were reclassified as held for sale under IFRS 5 "Non-current assets held-for sale and discontinued operations" as the management of the Company has committed to a plan to transfer these assets during 2011 year to JSC "Inter RAO UES" in exchange for ordinary shares of "Inter RAO UES with the market value of RUB 90,609 million at 31 December 2010.

Loss on re-measurement of assets-held-for sale was recognized in Statement of Comprehensive Income in the amount of RUB 6,896 million,

In 2011 all above-mentioned investments, except for JSC "UES "GruzRosEnergo", JSC "Sangtudinskaya GES-1" and JSC "TGC-11 Holding", were transferred.

***Impairment of property, plant and equipment and intangible assets***

*Reversal of impairment as a result of revaluation of property, plant and equipment*

Property, plant and equipment were revalued as of 31 December 2009. As a result there was partial reversal of previously accrued impairment provisions amounted to RUB 5,244 million.

*Specific impairment of property plant and equipment and intangible assets*

In 2009, the Group recognised a specific impairment in relation to advances issued for the purchase of property, plant and equipment and construction in progress amounted to RUB 1,633 million and specific impairment of intangible assets amounted to RUB 466 million.

During the year 2010 an additional impairment provision in relation to advances issued for the purchase of property, plant and equipment and construction in progress in the amount of RUB 21 million was recognised and at the same time RUB 1,358 million of previously recognised impairment was reversed.

An additional impairment amounted to RUB 195 million were recognised in 2010 in relation to intangible assets.

*Impairment of assets of JSC "Nurenergo" and JSC "Mobile gas-turbine plants"*

In 2009 and 2010, the Group has recognised additional impairment RUB 206 million and RUB 188 million, respectively in relation to property, plant and equipment of JSC "Nurenergo".

As at 31 December 2010 management revised the business plans of JSC “Mobile gas-turbine plants” and performed an impairment review (“the impairment test”) in accordance with IAS 36 by comparing the recoverable amount of property, plant and equipment and intangible assets to their net book values. As a result of this review, the carrying amount of property, plant and equipment exceeded the recoverable amount by RUB 1,782 million. The respective impairment loss was recognised in profit and loss for the year ended 31 December 2010.

Net effects of changes in the impairment provision for property, plant and equipment and intangible assets for the year ended 31 December 2010 and 2009 were loss amounted to RUB 846 million and gain amounted to RUB 2 957 million, respectively.

#### ***Revaluation loss on property, plant and equipment***

Property, plant and equipment were not revalued in the year ended 31 December 2010.

#### ***Operating (loss)/profit***

As a result of the foregoing factors, operating result increased by RUB 109,149 million, to a net operating profit of RUB 22,805 million for the year ended 31 December 2010, from a net operating loss of RUB 86,344 million for the year ended 31 December 2009.

#### ***Finance income***

Finance income decreased by RUB 4,193 million, or 41.9%, to RUB 5,807 million for the year ended 31 December 2010, from RUB 10,000 million for the year ended 31 December 2009, primarily due to decrease in the interest income caused by reduction of investments in bank deposits and promissory notes.

#### ***Finance costs***

Finance costs decreased by RUB 865 million, or 58.3%, to RUB 619 million for the year ended 31 December 2010, from RUB 1,484 million for the year ended 31 December 2009, primarily due to increase of amount of interest capitalized in construction in progress.

#### ***Impairment of available-for-sale investments and associates***

The impairment of available-for-sale investments and associates decreased by RUB 1,783 million, or 88.4%, to RUB 235 million for the year ended 31 December 2010, from RUB 2,018 million for the year ended 31 December 2009, primarily due to re-classification of the most of the available-for sale investments and all of the investments in associates to Non-current assets held-for-sale.

#### ***Loss on dilution of share in associates***

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

#### ***Share of result of associates***

The share of result of associates decreased by RUB 2,726 million, or 144%, to a loss of RUB 833 million for the year ended 31 December 2010, from income of RUB 1,893 million for the year ended 31 December 2009.

#### ***Profit / (loss) before profit tax***

Loss before profit tax increased by RUB 102,088 million, or 131%, from a loss of RUB 77,953 million for the year ended 31 December 2009 to a profit of RUB 24,135 million for the year ended 31 December 2010.

***Profit tax***

Profit tax charge for the year ended 31 December 2010 amounted to RUB 5,752 million, as compared to tax benefit of RUB 13,979 million for the year ended 31 December 2009. Change in profit tax amount has been caused by reduction in deferred tax credit and increase in taxable profit which led to increase in current tax charge.

***Profit / (loss) for the period***

As a result of the factors discussed above, the net result for the period increased by RUB 82,357 million, to a net profit of RUB 18,383 million for the year ended 31 December 2010, from a net loss of RUB 63,974 million for the year ended 31 December 2009.

**Liquidity and Capital Resources**

The Group's primary sources of liquidity are cash provided by operating activities and debt and equity financing. Future requirements for the Group's business needs, including those to fund additional capital expenditures in accordance with its business strategy, are expected to be financed by a combination of cash flows generated by Group's operating activities, as well as external sources of financing and funds from the Russian government.

***Capital requirements***

The electricity transmission business is capital-intensive and many of the Group's facilities are ageing and require regular maintenance and upgrades. Expenditures to maintain, expand and increase the efficiency and size of the transmission grid are, accordingly, an important priority and have a significant effect on the Group's cash flows and future results of operations.

The table below sets out total capital expenditures on property, plant and equipment for the periods indicated.

	<b>Year ended 31 December</b>	
	<b>2010</b>	<b>2009</b>
	<i>(in millions of roubles)</i>	
<b>Total property, plant and equipment additions .....</b>	<b>144,876</b>	<b>91,149</b>

***Liquidity and working capital***

The Group relies on cash from its operating activities, debt financing and proceeds from issuance of additional shares of Federal Grid as its main sources of liquidity and working capital.

### *Historical cash flows*

The table below summarises the Group's cash flows for the periods indicated.

	<b>Year ended 31 December</b>	
	<b>2010</b>	<b>2009<sup>(1)</sup></b>
	<i>(in millions of roubles)</i>	
Net cash generated by operating activities.....	53,449	32,455
Net cash used in investing activities.....	(127,043)	(32,473)
Net cash generated by financing activities.....	53,468	18,032
<b>Net (decrease)/increase in cash and cash equivalents.....</b>	<b>(20,126)</b>	<b>18,014</b>

(1) As presented in comparative information in the 2010 Audited Consolidated Financial Statements.

#### *Net cash generated by operating activities*

In the year ended 31 December 2010 net cash generated by operating activities increased by RUB 20,994 million, or 64.7%, to RUB 53,449 million, from RUB 32,455 million for the year ended 31 December 2009. This change was due to increased revenues from operating activities of the Group, changes in working capital netted-off by increase in profit tax charge.

Changes in working capital items from period to period have had and will continue to have a significant effect on cash generated by operating activities, as will the effect of external factors such as growth in demand for transmission services and growth in electricity transmission tariff.

#### *Net cash used in investing activities*

Net cash used in the Group's investing activities increased by RUB 94,570 million, or 291.2%, to RUB 127,043 million for the year ended 31 December 2010, from RUB 32,473 million for the ended 31 December 2009, primarily as a result of an increase in cash used to finance the purchase of property, plant and equipment by RUB 50,860 million (from RUB 90,079 million for the year ended 31 December 2009 to RUB 140,939 million for the year ended 31 December 2010,

an increase in the cash used to purchase promissory notes by RUB 56,932 million. Costs of investing activities have partially been compensated by the cash proceeds received from repayment of bank deposits and increased interest income proceeds.

#### *Net cash generated by financing activities*

Net cash generated by the Group's financing activities increased by RUB 35,436 million, or 196.5%, to RUB 53,468 million for the year ended 31 December 2010, from RUB 18,032 million for the year ended 31 December 2009, primarily as a result of significant cash proceeds received during issuance of corporate bonds with the aggregate nominal value of RUB 50,000 million.

## ***Borrowings***

As at 31 December 2010, the Group's total debt amounted to RUB 57,385 million as compared to RUB 13,545 million as at 31 December 2009.

The following table sets out the current debt and non-current debt of the Group as at 31 December 2010.

	<b>As at 31 December 2010</b>	<b>As at 31 December 2009</b>
	<i>(in millions of roubles)</i>	
Total current debt and current portion of non-current debt.....	7,385	7,545
Total non-current debt .....	50,000	6 000
<b>Total debt .....</b>	<b>57,385</b>	<b>13,545</b>

As at 31 December 2010, the Group's total non-current debt amounted to RUB 50,000 million. The non-current debt of the Group comprises certified interest-bearing non-convertible rouble-denominated bonds. As at 31 December 2010 the Group has outstanding series 06-11 of corporate bonds issued in September-October 2010 with the aggregate nominal value of RUB 50,000 million.

