FEDERAL GRID COMPANY UES GROUP

COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS

PREPARED IN ACCORDANCE WITH

INTERNATIONAL FINANCIAL REPORTING STANDARDS

FOR THE YEAR ENDED 31 DECEMBER 2008

PRICEWATERHOUSECOOPERS

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INDEPENDENT AUDITOR'S REPORT

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

1 We have audited the accompanying combined and consolidated financial statements of JSC FGC UES and its subsidiaries (the Group) which comprise the combined and consolidated balance sheet as at 31 December 2008, combined and consolidated statement of operations, combined and consolidated statement of cash flow and combined and consolidated statement of changes in equity for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

2 Management is responsible for the preparation and fair presentation of these combined and consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

3 Our responsibility is to express an opinion on these combined and consolidated financial statements based on our audit. Except as discussed in the paragraph 6, we conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

Basis for qualified opinion

6 The Group has not maintained adequate accounting records regarding the original cost, revalued amounts, depreciation and impairment provision at the level of individual items of property, plant and equipment. As such, it was not practicable to extend our auditing procedures sufficiently to satisfy ourselves as to the carrying amount of individual items of property, plant and equipment of RR 467,349 million and RR 367,686 million included in the accompanying combined and consolidated balance sheet as at 31 December 2008 and 2007, respectively, the related revaluation effects in both the combined and consolidated statement of operations and the combined and consolidated statement of changes in equity, depreciation expenses in the combined and consolidated statements of operations and the related effect on the deferred tax balance.

Qualified opinion

7 In our opinion, except for the possible effects, if any, on the combined and consolidated financial statements and comparative information of the matters noted in paragraph 6 above, the accompanying combined and

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AUDITOR'S REPORT

consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2008, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

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

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
18 November 2009

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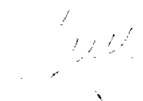
Combined and consolidated Balance Sheet as at 31 December 2008
(in millions of Russian Roubles)

	Notes	31 December 2008	31 December 2007
ASSETS			
Non-current assets			
Property, plant and equipment	6	467,349	367,686
Intangible assets	7	6,933	4,886
Investments in associates	8	44,632	509
Available-for-sale investments	9	11,774	-
Long-term promissory notes	10	51,010	195
Other non-current assets	11	3,216	909
Total non-current assets		**584,914**	**374,185**
Current assets			
Cash and cash equivalents	12	15,685	15,740
Short-term promissory notes	10	57,251	2,969
Accounts receivable and prepayments	13	31,076	22,660
Profit tax prepayments		3,635	979
Inventories	14	2,767	2,392
Available-for-sale investments	9	-	3,035
Other current assets	15	2,413	2,965
Total current assets		**112,827**	**50,740**
TOTAL ASSETS		**697,741**	**424,925**
EQUITY AND LIABILITIES			
Equity			
Share capital: Ordinary shares	16	576,757	180,691
Treasury shares	16	(6,864)	-
Share premium	16	10,347	-
Revaluation reserve		53,984	43,740
Merger reserve	16	(56,891)	(5,917)
Foreign currency translation reserve	16	47	(14)
Retained earnings		13,337	37,284
Equity attributable to shareholders of FGC UES		**590,717**	**255,784**
Minority interest	16	1,346	27,142
Total equity		**592,063**	**282,926**
Non-current liabilities			
Deferred tax liabilities	17	36,779	33,565
Non-current debt	18	17,318	-
Retirement benefit obligations	19	2,933	2,608
Total non-current liabilities		**57,030**	**36,173**
Current liabilities			
Accounts payable to shareholders of FGC UES	16	-	47,405
Current debt and current portion of non-current debt	20	16,211	33,427
Accounts payable and accrued charges	21	31,456	24,488
Taxes payable	22	981	506
Total current liabilities		**48,648**	**105,826**
Total liabilities		**105,678**	**141,999**
TOTAL EQUITY AND LIABILITIES		**697,741**	**424,925**

12 November 2009

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

Chief Accountant  V.V. Shchukin

The accompanying notes on pages 9 to 55 are an integral part of these combined and consolidated financial statements

Combined and Consolidated Statement of Operations for the year ended 31 December 2008
(in millions of Russian Roubles)

	Notes	31 December 2008	31 December 2007
Revenues	23	70,807	61,087
Other operating income		5,031	5,047
Operating expenses	24	(68,175)	(54,967)
Gain on sale of available-for-sale investments	9	2,563	-
Reversal of impairment provision for property, plant and equipment	6	-	6,367
Impairment of property, plant and equipment	6	(191)	(4,167)
Revaluation loss	6	-	(6,640)
Operating profit		**10,035**	**6,727**
Finance income	25	8,483	1,527
Finance cost	26	(7,119)	(3,465)
Impairment of available-for-sale investments and associates	8,9	(45,107)	(241)
Share of (loss) / profit of associates	8	(1,372)	1
(Loss) / Profit before profit tax		**(35,080)**	**4,549**
Total profit tax credit / (charge)	17	11,243	(2,937)
(Loss) / Profit for the period		**(23,837)**	**1,612**
Attributable to:			
Shareholders of JSC "FGC UES"		(23,784)	3,370
Minority interest		(53)	(1,758)
(Loss) / Earning per ordinary share for (loss) / profit attributable to the shareholders of JSC "FGC UES" – basic and diluted (in Russian Roubles)	27	(0.03)	0.01

12 November 2009

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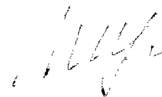
Chief Accountant  V.V. Shchukin

Combined and Consolidated Cash Flow Statement for the year ended 31 December 2008
(in millions of Russian Roubles)

	Notes	31 December 2008	31 December 2007
CASH FLOWS FROM OPERATING ACTIVITIES:			
(Loss) / Profit before profit tax		**(35,080)**	**4,549**
Adjustments to reconcile profit before profit tax to net cash provided by operations			
Depreciation of property, plant and equipment	24	16,216	13,733
Loss on disposal of property, plant and equipment	24	1,488	1,625
Revaluation loss	6	-	6,640
Impairment of property, plant and equipment	6	191	4,167
Reversal of impairment provision for property, plant and equipment	6	-	(6,367)
Amortisation of intangible assets	24	451	422
Impairment of available-for-sale investments, associates and other financial assets	8,9,26	49,404	241
Gain on disposal of available-for-sale-investments	9	(2,563)	-
Share of loss in associates	8	1,372	(1)
Accrual/(reversal) of bad debt provision	24	1,872	(268)
Interest income	25	(8,431)	(1,480)
Interest expense (debt)	26	2,777	3,465
Other non-cash transactions		(563)	(111)
Operating cash flows before working capital changes and profit tax paid		**27,134**	**26,615**
Working capital changes:			
Increase in accounts receivable and prepayments		(7,760)	(8,356)
Decrease/(increase) in other current assets		606	(2,375)
Increase in inventories		(182)	(774)
(Increase)/decrease in other non-current assets		(2,330)	2,335
Increase in accounts payable and accrued charges		6,760	11,323
Increase/(decrease) in taxes payable, other than profit tax		1,598	(2,162)
Increase/(decrease) in retirement benefit obligations		325	(53)
Profit tax paid		(5,832)	(2,554)
Net cash generated by operating activities		**20,319**	**23,999**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(115,198)	(69,326)
Purchase of intangible assets		(2,497)	(2,840)
Purchase of investments		(733)	(204)
Purchase of promissory notes		(14,000)	(2,273)
Redemption of promissory notes		10,788	-
Disposal of available-for-sale investments	9	6,063	-
Interest received		4,688	1,480
Net cash used in investing activities		**(110,889)**	**(73,163)**

Combined and Consolidated Cash Flow Statement for the year ended 31 December 2008
(in millions of Russian Roubles)

CASH FLOWS FROM FININCING ACTIVITIES:			
Proceeds from shares issuance	16	20,425	68,426
Cash received as a result of the merger, net of payments on behalf of the predecessor		72,283	-
Proceeds from issuance of non-current debt		11,543	24,952
Repayment of debt		(8,575)	(27,000)
Dividends paid		(433)	(709)
Interest paid		(2,777)	(3,387)
Finance lease payments		(1,951)	(3,878)
Net cash generated by financing activities		**90,515**	**58,404**
Net (decrease) / increase in cash and cash equivalents		**(55)**	**9,240**
Cash and cash equivalents at the beginning of the period	12	**15,740**	**6,500**
Cash and cash equivalents at the end of the period	12	**15,685**	**15,740**

12 November 2009

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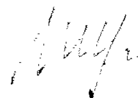
Chief Accountant  V.V. Shchukin

Combined and Consolidated Statement of Changes in Equity for the year ended 31 December 2008
(in millions of Russian Roubles)

		Attributable to shareholders of FGC UES									
	Note	Ordinary share capital	Share premium	Treasury shares	Merger reserve	Revaluation reserve	Foreign currency translation reserve	Retained earnings	Total	Minority interest	Total equity
As at 1 January 2008		**180,691**	-	-	**(5,917)**	**43,740**	**(14)**	**37,284**	**255,784**	**27,142**	**282,926**
Change of net assets of associates	8	-	-	-	-	-	-	260	**260**	-	**260**
Change in tax rate related to revaluation of property, plant and equipment	17	-	-	-	-	2,710	-	-	**2,710**	7	**2,717**
Foreign currency translation difference	8	-	-	-	-	-	61	-	**61**	-	**61**
Net income recognised directly in equity		-	-	-	-	**2,710**	**61**	**260**	**3,031**	7	**3,038**
Profit for the period		-	-	-	-	-	-	(23,784)	**(23,784)**	(53)	**(23,837)**
Total recognised income for the year		-	-	-	-	**2,710**	**61**	**(23,524)**	**(20,753)**	**(46)**	**(20,799)**
Conversion of shares	16	338,583	-	(6,864)	(50,974)	7,534	-	-	**288,279**	(25,740)	**262,539**
Issue of share capital	16	57,483	10,347	-	-	-	-	-	**67,830**	-	**67,830**
Dividends		-	-	-	-	-	-	(423)	**(423)**	(10)	**(433)**
As at 31 December 2008		**576,757**	**10,347**	**(6,864)**	**(56,891)**	**53,984**	**47**	**13,337**	**590,717**	**1,346**	**592,063**

The accompanying notes on pages 9 to 55 are an integral part of these combined and consolidated financial statements

Combined and Consolidated Statement of Changes in Equity for the year ended 31 December 2008
(in millions of Russian Roubles)

		Attributable to shareholders of FGC UES									
	Note	Ordinary share capital	Share premium	Treasury shares	Merger reserve	Revaluation reserve	Foreign currency translation reserve	Retained earnings	Total	Minority interest	Total equity
As at 1 January 2007		**121,607**	-	-	**2,336**	-	-	**34,587**	**158,530**	**21,194**	**179,724**
Effects of revaluation of property, plant and equipment	6	-	-	-	-	44,214	-	-	**44,214**	7,742	**51,956**
Revaluation on disposal of property, plant and equipment		-	-	-	474	(474)	-	-	-	-	-
Foreign currency translation difference	8	-	-	-	-	-	(14)	-	**(14)**	-	**(14)**
Net income recognised directly in equity		-	-	-	**474**	**43,740**	**(14)**	-	**44,200**	**7,742**	**51,942**
Profit for the period		-	-	-	-	-	-	3,370	**3,370**	(1,758)	**1,612**
Total recognised income for the year		-	-	-	**474**	**43,740**	**(14)**	**3,370**	**47,570**	**5,984**	**53,554**
Change in Group structure	16	-	-	-	(8,727)	-	-	-	**(8,727)**	-	**(8,727)**
Issue of share capital	16	59,084	-	-	-	-	-	-	**59,084**	-	**59,084**
Dividends		-	-	-	-	-	-	(673)	**(673)**	(36)	**(709)**
As at 31 December 2007		**180,691**	-	-	**(5,917)**	**43,740**	**(14)**	**37,284**	**255,784**	**27,142**	**282,926**

12 November 2009

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

Chief Accountant — V.V. Shchukin

Note 1. The Group and its operations

Open Joint Stock Company "Federal Grid Company of Unified Energy System" ("FGC UES" or "the Company") was established on 25 June 2002 as a wholly-owned subsidiary of the Russian Open Joint Stock Company for Energy and Electrification United Energy System of Russia ("RAO UES") as a result of implementing the decisions of the Board of Directors of RAO UES dated 25 January 2002 and 7 May 2002 in accordance with the Russian Federation Government Resolution No. 526 "Electric Utilities Reform in the Russian Federation" dated 11 July 2001.

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

The Company was established in the course of the Russian electric utilities industry restructuring, discussed further below, to maintain and operate the high voltage electricity transmission network, received from RAO UES and its subsidiaries, and to provide electricity transmission services using that network.

In 2002 and 2003 the assets of the transmission business (the high voltage network and related assets under construction) belonging to RAO UES were transferred to the Company by RAO UES as a contribution to the share capital of the Company.

In 2008 the reorganization of RAO UES was completed. RAO UES ceased to exist as a legal entity and FGC UES is RAO UES legal successor (See also Sector restructuring).

As at 31 December 2008 the FGC UES Group (the "Group") comprises FGC UES and its subsidiaries presented in Note 4. During 2008 fifty four transmission companies were merged into the Company (Note 4).

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

Starting from July 2008 the Company's ordinary registered uncertified shares are traded at the exchanges MICEX and RTS. The shares have been included in the quotation list «B» and received the trading code «FEES».

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

The Group is considered by management to have a single activity, i.e. the provision of electricity transmission services within the Russian Federation, and this activity comprises one industry and one geographic segment. Other activities do not result in significant revenues, assets or liabilities and do not constitute reportable segments as defined by International Accounting Standard 14 "Segment reporting".

Relations with the state. At 31 December 2008 the state owned 77.66 per cent of the voting ordinary shares of the Company. As at 31 December 2007 the state owned 12.44 per cent of the Company and 52.68 per cent of RAO UES who, in its turn, owned 87.56 per cent of the voting ordinary shares of the Company. The Government of the Russian Federation ("RF") is the ultimate controlling party of the Company.

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

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

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

Sector restructuring and FGC UES reorganisation. Over a period of years the Russian electric utilities industry underwent a reform process designed to introduce competition into the electricity sector and to create an environment in which RAO UES and its successor companies could raise the capital required to maintain and expand current capacity.

The regulatory framework governing the process of reforming the Russian Federation electric utilities industry and the functioning of the industry, both during the transition period and subsequent to the completion of reforms, is set forth in the following legislation: Federal Law No.35-FZ of 26 March 2003 "On Electric Utilities" and Federal Law No.36-FZ of 26 March 2003 "On the Specifics of the Functioning of Electric Utilities During the Transition Period and the Introduction of Amendments to Certain Russian Federation Legislative Acts and the Invalidation of Certain Russian Federation Legislative Acts in Connection with the Adoption of the Law "On the Electric Utilities of the Russian Federation".

Note 1. The Group and its operations (continued)

The reform assumed changes in the industry structure with the separation of natural monopoly activities (power transmission, dispatching) from potentially competitive ones (electric power production, supply). The result of the reorganisation of RAO UES is that generation and retailing companies entered the private sector for the most part and will operate in a competitive market. Government control will continue in natural monopoly areas within the industry.

The formation of the transmission companies (TCs), which were formed on the basis of transmission businesses of the regional electric and heat companies during the reform, was completed in 2007. As at 31 December 2007 RAO UES had transferred to FGC UES the shares of 50 TCs (Note 4). This transaction under common control has recorded under the predecessor accounting method (Note 2).

On 1 July 2008 the reorganization of RAO UES was completed by its merger into FGC UES. As a result RAO UES ceased to exist as a legal entity and FGC UES became the legal successor of RAO UES. The reorganization scheme included, inter alia, the spin off from RAO UES of the following companies:

- JSC "State Holding", which received shares in FGC UES (in the amount proportional to the interest of the Russian Federation in the authorized capital of RAO UES as of the date of approval of the decision on reorganization), shares in six TCs, investments in associates, other assets and liabilities;
- JSC "Minority Holding of FGC UES", which received a minority stake in FGC UES (proportional to the interest of the minority shareholders in the authorized capital of RAO UES as of the date of approval of the decision on reorganization).

The spin-off of the above holding companies was accompanied by their simultaneous merger with and into FGC UES. The merger was performed in the form of conversion of additionally issued shares of the Company for the outstanding shares of JSC "State Holding" and JSC "Minority Holding of FGC UES".

All transmission companies, including the six TCs whose shares were held by RAO UES (Note 4), except for JSC "Kuban Trunk Grids" and JSC "Tomsk Trunk Grids", were merged into FGC UES. Seven interregional transmission companies that were controlled by the Russian Federation: ITC Centre, ITC North-West, ITC Volga, ITC South, ITC Ural, ITC Siberia and ITC East, were merged into FGC UES at the same date.

According to the merger agreement the Company's shares received from all the merged entities mentioned above and not used in the conversion of shares of these merged entities were cancelled in 2008 (Note 16).

As a result of the reorganization the Company received:

- shares of subsidiaries: LLC "Index Energetiki", JSC "Mobile gas-turbine electricity plants";
- shares of associates JSC "The First Power Generating Company on the Wholesale Energy Market (WGC-1)", JSC "Territorial Generating Company number 6 (TGC-6)", JSC "Volzhskaya Territorial Generating Company (TGC-7)", JSC "Territorial Generating Company number 11 (TGC-11)", and others (Note 8);
- minority shareholdings in companies of utilities industry (Note 9);
- other assets and liabilities.

The Company's management does not have intention to hold the investments in utilities companies (including associates) for the long-term period. It is envisaged that the shares will be sold and the proceeds used to support the Group's investment in transmission business.

Operating environment. The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation. Despite strong economic growth in recent years, the financial situation in the Russian market significantly deteriorated during 2008, particularly in the fourth quarter. As a result of global volatility in financial and commodity markets, among other factors, there has been a significant decline in the Russian stock market since mid-2008. Since September 2008, there has been increased volatility in currency markets and the Russian Rouble (RR) has depreciated significantly against some major currencies. The official US Dollar (USD) exchange rate of the Central Bank of the Russian Federation ("CBRF") increased from RR 25.37 at 1 October 2008 to RR 29.38 at 31 December 2008.

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.

Note 1. The Group and its operations (continued)

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.

Recent volatility in global financial markets. The ongoing global financial and economic crisis that emerged out of the severe reduction in global liquidity which commenced in the middle of 2007 (often referred to as the "Credit Crunch") has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector and wider economy, and, at times, higher interbank lending rates and very high volatility in stock and currency markets. The uncertainties in the global financial markets have also led to failures of banks and other corporates, and to bank rescues in the United States of America, Western Europe, Russian Federation and elsewhere. Since September 2008 several large Russian banks have been acquired by state-controlled banks and companies due to their liquidity problems. The full extent of the impact of the ongoing global financial and economic crisis is proving to be difficult to anticipate or completely guard against.

The availability of external funding in financial markets has significantly reduced since August 2007. Such circumstances may affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions.

The uncertainty in the global markets combined with other local factors has during 2008 led to very high volatility in the Russian Stock Markets and at times much higher than normal interbank lending rates.

The fair values of quoted investments in active markets are based on current bid prices (financial assets) or offer prices (financial liabilities). If there is no active market for a financial instrument, the Group establishes fair value using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants. The valuation models reflect current market conditions at the measurement date which may not be representative of market conditions either before or after the measurement date. As at the balance sheet date management has reviewed its models to ensure they appropriately reflect current market conditions, including the relative liquidity of the market and credit spreads.

The existing economic situation of the world and Russian economies and a forecast decrease of GDP may affect electricity transmission volumes. Accordingly, the Government of the Russian Federation could revise its forecast of social-economic development during 2009-2011, and that could result in changes to the plans of electricity transmission tariff indexation.

Any change of plans of electricity transmission tariff indexation may influence the Group's revenues. Debtors of the Group may be adversely affected by the financial and economic environment which could in turn impact their ability to repay the amounts owed. Deteriorating economic conditions for customers may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, management has properly reflected revised estimates of expected future cash flows in its impairment assessments of accounts receivables (Note 13), property, plant and equipment (Note 6), available-for-sale financial assets (Note 9), investments in associates (Note 8).

Management is unable to reliably determine the effects on the Group's future financial position of any further deterioration in the Group's operating environment as a result of the ongoing crisis. Management believes it is taking all the necessary measures to support the sustainability and development of the Group's business in the current circumstances.

Note 2. Basis of preparation

Statement of compliance. These combined and consolidated financial statements ("Financial Statements") have been prepared in accordance with, and comply with, International Financial Reporting Standards ("IFRS").

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 FGC UES's functional currency and the currency in which these Financial Statements are presented. All financial information presented in RR has been rounded to the nearest million.

Predecessor accounting. The changes in the Group structure are described in Note 1. In these financial statements the Group accounted for the acquisition of businesses under the control of RAO UES and its subsidiaries as transactions amongst entities under common control under an accounting policy using the predecessor values method. Accordingly, assets and liabilities of the contributed entities were combined from the earliest period presented and accounted for at the carrying value, as determined by RAO UES in its IFRS consolidated financial statements. Information in respect of the comparative period and opening balances as at 1 January 2007 has been restated as if the business combination took place at the beginning of the earliest period presented. The weighted average number of shares in issue was also calculated in accordance with the predecessor method of accounting (Note 27).

The difference between the consideration paid and the predecessor carrying values of the net assets relating to the acquisition of a business from an entity under common control is recorded directly to equity, and reflected in the merger reserve.

All businesses acquired in 2008 and 2007 were accounted for using predecessor values method. In 2008 the following former subsidiaries of RAO UES were received by the Group during reorganisation: JSC "Mobile gas-turbine electricity plants", JSC "The Amur Transmission Company", JSC "The Yakutiya Transmission Company", JSC "The Primorie Transmission Company", JSC "The Ulyanovsk Transmission Company", JSC "The Khabarovsk Transmission Company" and JSC "The Tyva Transmission Company". In 2007 the following former subsidiaries of RAO UES were acquired: JSC "The Buryatiya Trunk Grids", JSC "The Chita Trunk Grids", JSC "The Electricity Trunk Grids of Komi Republic", JSC "The Kuban Trunk Grids", JSC "The Kurgan Transmission Company", JSC "Kuzbassenergo Electricity Trunk Grids", JSC "The Samara Transmission Company", JSC "The Saratov Transmission Company", JSC "Power Industry Research and Development Centre", JSC "Energostroisnabkomplekt".

New accounting developments. These combined and 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 2007, except for those policies which were changed to comply with the new or amended standards and interpretations that are in force for the year beginning on 1 January 2008.

The following new standards, amendments to standards or interpretations are mandatory for the first time for the financial year beginning 1 January 2008:

- IFRIC 11, IFRS 2—Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007);
- IFRIC 12, "Service Concession Agreements", effective for annual periods beginning on or after 1 January 2008;
- IFRIC 14, IAS 19, "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction", which is effective for annual periods beginning on or after 1 January 2008.

These interpretations did not have any significant effect on the Group's combined and consolidated financial statements.

Note 2. Basis of preparation (continued)

- Reclassification of Financial Assets—Amendments to IAS 39, Financial Instruments: Recognition and Measurement, and IFRS 7, Financial Instruments: Disclosures and a subsequent amendment, Reclassification of Financial Assets: Effective Date and Transition. The amendments allow entities the options (a) to reclassify a financial asset out of the held for trading category if, in rare circumstances, the asset is no longer held for the purpose of selling or repurchasing it in the near term; and (b) to reclassify an available-for-sale asset or an asset held for trading to the loans and receivables category, if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity (subject to the asset otherwise meeting the definition of loans and receivables). The amendments may be applied with retrospective effect from 1 July 2008 for any reclassifications made before 1 November 2008; the reclassifications allowed by the amendments may not be applied before 1 July 2008 and retrospective reclassifications are only allowed if made prior to 1 November 2008. Any reclassification of a financial asset made on or after 1 November 2008 takes effect only from the date when the reclassification is made. The Group has not elected to make any of the optional reclassifications during the period.

The following new standards, amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 January 2008 and have not been early adopted:

- IFRS 8, "Operating Segments" (effective for annual periods beginning on or after 1 January 2009). The Standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments, with segment information presented on a similar basis to that used for internal reporting purposes. The Group will apply the new amendment from 1 January 2009 and is currently assessing what impact the new IFRS will have on its combined and consolidated financial statements.

- Amendment to IAS 23, "Borrowing Cost" (revised March 2007; effective for annual periods beginning on or after 1 January 2009). The main change to IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset. The revised standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. The Group is currently assessing the impact of the amended standard on its combined and consolidated financial statements.

- Amendment to IAS 1, "Presentation of Financial Statements" (revised September 2007, effective for annual periods beginning on or after 1 January 2009). The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Group expects the revised IAS 1 to affect the presentation of its financial statements but to have no impact on the recognition or measurement of specific transactions and balances.

- Amendment to IAS 32 and IAS 1, "Puttable Financial Instruments and Obligations Arising on Liquidation" (effective for annual periods beginning on or after 1 January 2009). The amendment requires classification as equity of some financial instruments that meet the definition of a financial liability. The Group does not expect the amendment to affect its combined and consolidated financial statements.

- 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 will require 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 current standard requires the excess losses to be allocated to the owners of the parent in most cases). 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. It 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 will have to be measured at its fair value. The Group is currently assessing the impact of the amended standard on its combined and consolidated financial statements.

Note 2. Basis of preparation (continued)

- Amendments to IFRS 2, "Share-based Payment Vesting Conditions and Cancellations" (effective for annual periods beginning on or after 1 January 2009). The amendment deals with two matters: it clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. It also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group is currently assessing the impact of the amended standard on its combined and consolidated financial statements.
- 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 will allow entities to choose to measure non-controlling interests using the existing 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 acquisition 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 will have 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. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be 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. The Group will apply the new standard to any business combination from 1 January 2010.
- Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate—IFRS 1 and IAS 27 Amendment (revised May 2008; effective for annual periods beginning on or after 1 January 2009). The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous GAAP carrying value as deemed cost in the separate financial statements. The amendment also requires distributions from pre-acquisition net assets of investees to be recognised in profit or loss rather than as a recovery of the investment. The amendments will not have an impact on the Group's combined and consolidated financial statements.
- 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. The amendment is not expected to have any impact on the Group's financial statements as the Group does not apply hedge accounting.
- IFRIC 13, "Customer Loyalty Programmes", which is effective for annual periods beginning on or after 1 July 2008. IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC 13 is not relevant to the Group's operations because no Group companies operate any loyalty programmes.
- IFRIC 15, "Agreements for the Construction of Real Estate" (effective from 1 January 2009). The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. It also provides criteria for determining when entities should recognise revenue on such transactions. IFRIC 15 is not currently relevant to the Group's operations because it does not have any agreements for the construction of real estate.

Note 2. Basis of preparation (continued)

- IFRIC 16, "Hedges of a Net Investment in a Foreign Operation" (effective for annual periods beginning or after 1 October 2008). The interpretation explains which currency risk exposures are eligible for hedge accounting and states that translation from the functional currency to the presentation currency does not create an exposure to which hedge accounting could be applied. The IFRIC allows the hedging instrument to be held by any entity or entities within a group except the foreign operation that itself is being hedged. The interpretation also clarifies how the gain or loss recycled from the currency translation reserve to profit or loss is calculated on disposal of the hedged foreign operation. Reporting entities will apply IAS 39 to discontinue hedge accounting prospectively when their hedges do not meet the criteria for hedge accounting in IFRIC 16. IFRIC 16 is not expected to have any impact on the Group's combined and consolidated financial statements.
- IFRIC 17, "Distribution of Non-Cash Assets to Owners" (effective for annual periods beginning on or after 1 July 2009). The amendment 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 will be recognised in profit or loss when the entity settles the dividend payable. The Group will apply IFRIC 17 if it distributes non-cash assets to owners in the future.
- 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. The Group is currently assessing the impact of the new interpretation on its financial statements.
- IFRS 1, "First-time Adoption of International Financial Reporting Standards" (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. The Group concluded that the revised standard does not have any effect on its combined and consolidated financial statements.
- Improvements to International Financial Reporting Standards (issued in May 2008). In 2007, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The Group does not expect the amendments to have any material effect on its financial statements.

Note 2. Basis of preparation (continued)

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

- Improving Disclosures about Financial Instruments - Amendment to IFRS 7, "Financial Instruments: Disclosures" (issued in March 2009; effective for annual periods beginning on or after 1 January 2009). The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity will be required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (b) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. The Group is currently assessing the impact of the amendment on disclosures in its combined and consolidated financial statements.

- Embedded Derivatives - Amendments to IFRIC 9 and IAS 39 (effective for annual periods ending on or after 30 June 2009). The amendments clarify that on reclassification of a financial asset out of the 'at fair value through profit or loss' category, all embedded derivatives have to be assessed and, if necessary, separately accounted for. The Group is currently assessing the impact of the amendment on disclosures in its combined and consolidated financial statements.

- 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. The Group is currently assessing the impact of the amendment on its combined and consolidated financial statements.

- The International Financial Reporting Standard for Small and Medium-sized Entities (issued in July 2009) is a self-contained standard, tailored to the needs and capabilities of smaller businesses. Many of the principles of full IFRS for recognising and measuring assets, liabilities, income and expense have been simplified, and the number of required disclosures have been simplified and significantly reduced. The IFRS for SMEs may be applied by entities which publish general purpose financial statements for external users and do not have public accountability. As a listed entity, the Group is not eligible to apply the IFRS for SMEs.

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. The amendments will not have any impact on the Group's financial statements.

Unless otherwise described above, the analysis in respect of these new standards and interpretations has been carried out by the Group, and they are not expected to significantly affect the Group's combined and consolidated financial statements.

Going concern. These Financial Statements have been prepared on a going concern basis, which contemplates the realisation of assets and the satisfaction of liabilities in the normal course of business. The accompanying Financial Statements do not include any adjustments that might be necessary, should the Group be unable to continue as a going concern.

As at 31 December 2008 the Group's current assets exceeded its current liabilities by RR 64,179 million (as at 31 December 2007 current liabilities exceeded its current assets by RR 55,086 million). The change in the current financial position in 2008 is partially explained by receipt of current assets as a result of restructuring (Note 1).

As at 31 December 2007 the Group had an unregistered share issue for RR 47,405 million, which was classified as a current liability to the shareholders (Note 16). The share issue was classified as equity upon its completion and registration in 2008.

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

Property, plant and equipment. The fair value of property, plant and equipment was established by an independent valuer as at 1 January 2007 as part of a revaluation. The carrying amount and depreciation of property, plant and equipment are affected by assumptions on the replacement cost, depreciated replacement cost, grouping of individual assets and remaining useful life (Note 6). Actual results may be different from these estimates.

Provision for impairment of property, plant and equipment. At 31 December 2008 management has assessed whether the carrying value of property, plant and equipment of the Group entities is recoverable through future operations. In making this assessment, management has performed an impairment review in accordance with IAS 36 by comparing the recoverable amount of property, plant and equipment to its net book value. The recoverable amount was assessed based on value in use, calculated by discounting the estimated future cash flows using various assumptions (Note 6). Actual results may differ from the estimates and the Group's estimates can be revised in the future, either negatively or positively, depending upon the outcome or expectations based on the facts surrounding each exposure.

Reversal of impairment as at 1 January 2007 in the amount of RR 6,367 million was recognised as a consequence of recognising the results of the property, plant and equipment revaluation; similarly, a revaluation loss was recognized in the amount of RR 6,640 million (Note 6).

Note 2. Basis of preparation (continued)

Retirement benefit obligations. Post-employment benefits are generally provided for by plans which are classified and accounted for as defined benefit plans. The present value of defined post-employment benefit obligations and related current service cost are determined in accordance with actuarial valuations, which rely on demographic and financial assumptions including mortality, both during and after employment, rates of employee turnover, discount rate, future salary and benefit levels and, to a limited extent, expected return on plan assets. Actual results may differ from the estimates and the Group's estimates can be revised in the future, either negatively or positively, depending upon the outcome or expectations based on the facts surrounding each exposure.

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 its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, 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 a deterioration in the financial health of the investee, industry and sector performance, or operational or financing cash flows. The declines in fair value below cost of the investments were considered significant and the Group recorded an impairment of available-for-sale investments of RR 43,341 million in the Statement of Operations.

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

Note 3. Summary of significant accounting policies

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

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

Transfers of subsidiaries between entities under common control. Transfers of businesses between parties under common control are accounted for using the predecessor basis of accounting method. Under this method the financial statements of the combined entity are presented as if the businesses had been combined from the beginning of the earliest period presented. The assets and liabilities of the subsidiaries transferred under common control are recognised at the predecessor entity's carrying amounts. Any difference between the carrying amount of net assets and the nominal value of share capital contributed is accounted for in these combined and consolidated financial statements as an adjustment to merger reserve within equity.

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

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

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

Goodwill. Goodwill is recognised on acquisitions of subsidiaries. Goodwill arising on the acquisitions represents any excess of the cost of an acquisition over the fair value of the acquirer's share of the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of transaction. The carrying amount of goodwill is assessed for impairment on an annual basis. Any excess of the fair value of the net identifiable assets acquired over the cost of acquisition is recognised immediately in the Statement of Operations. Goodwill arising on the acquisition of associates is included in the carrying amount of the investment and is not tested separately for impairment.

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

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

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

Note 3. Summary of significant accounting policies (continued)

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

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

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

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

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

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

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

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

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

Impairment losses are recognised in the Statement of Operations when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of available-for-sale investments. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in the Statement of Operations – is removed from equity and recognised in the Statement of Operations. Impairment losses on equity instruments are not reversed through the Statement of Operations. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the Statement of Operations, the impairment loss is reversed through current period's Statement of Operations.

Note 3. Summary of significant accounting policies (continued)

Foreign currency. Monetary assets and liabilities, which are held by the Group entities and denominated in foreign currencies at the balance sheet date, are translated into Russian Roubles 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 from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Operations.

As at 31 December 2008, the official rate of exchange as determined by the Central Bank of the Russian Federation, between the Russian Rouble and the US Dollar ("US$") was RR 29.38:US$ 1.00 (31 December 2007 – RR 24.55:US$ 1.00); between the Russian Rouble and Euro: RR 41.44:Euro 1.00 (31 December 2007 RR 35.93:Euro 1.00).

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

Property, plant and equipment are subject to revaluation on a regular basis to ensure that the carrying amount does not differ materially from that which is determined using the fair value at the balance sheet date. The frequency of revaluation depends upon the movements in the fair values of the assets being revalued. Increases in the carrying amount arising on revaluation of property, plant and equipment are credited to the revaluation reserve in equity; the increase is recognised in the Statement of Operations to the extent that it reverses a revaluation decrease of the same asset previously recognised in the Statement of Operations. Decreases are charged against revaluation reserve directly in equity to the extent they offset previous increases of the same asset recognised in revaluation reserve; all other decreases are recognised in the Statement of Operations. Any accumulated depreciation at the date of revaluation is eliminated against the gross amount of the assets, and the net amount is restated to the revalued amount of the asset.

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

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

Depreciation on property, plant and equipment is calculated on a straight-line basis over the estimated useful life of the asset when it is available for use. The useful lives are reviewed at each financial year end and, if expectations differ from previous estimates, the changes are recognised prospectively.

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

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

At each reporting date the management assess whether there is any indication of impairment of property, plant and equipment. If any such indication exists, the management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the Statement of Operations to the extent it exceeds the previous revaluation surplus in equity on the same asset. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

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

Acquired computer software and licences are capitalised on the basis of the costs incurred to acquire and bring them to use. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits, are recognised as intangible assets. After initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation of intangible assets is calculated on a straight-line basis over the useful lives.

Note 3. Summary of significant accounting policies (continued)

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

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

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

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

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

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

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

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

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

Note 3. Summary of significant accounting policies (continued)

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

Value added tax on purchases and sales. Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable from the budget 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 Balance Sheet on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, the impairment loss is recorded for the gross amount of the debtor, including VAT. The related deferred VAT liability is maintained until the debtor is written off for tax purposes.

Income taxes. Income taxes have been provided for in the consolidated financial statements in accordance with Russian legislation enacted or substantively enacted by the balance sheet date. The income tax charge comprises current tax and deferred tax and is recognised in the consolidated Statement of Operations unless it relates to transactions that are recognised, in the same or a different period, 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 balances are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

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

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

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

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

Note 3. Summary of significant accounting policies (continued)

Pension and post-employment 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 in the Statement of Operations.

The Group operates defined benefit plans that cover the significant part of the Group's employees. These benefit plans define the amount of pension benefits that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognised in the Balance Sheet in respect of the defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses. The defined benefit obligations are calculated using the projected unit credit method. The present value of the defined benefit obligations are determined by discounting the estimated future cash outflows using interest rate of government bonds that have terms to maturity approximating the terms of the related pension liabilities.

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

Actuarial gains and losses and post service cost related to long-term employee benefits other than pension scheme are recognised in the Statement of Operations in the period when they arise.

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

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

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

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

Minority interest. Minority interest represents the minority shareholders' proportionate share of the equity and results of operations of the Group's subsidiaries. This has been calculated based upon the minority interests' ownership percentage of these subsidiaries. Specific rights on liquidation for preference shareholders of subsidiaries are included in the calculation of minority interests. The Group uses the 'economic entity' approach to the recognition of minorities, whereby minorities are treated as equity participants in the Group. As a consequence, any gains or losses resulting from the purchases and sales of the minority interests are recognised in the statement of changes in equity.

Revenue recognition. Revenue from rendering the electricity transmission services is recognised in the period when the services are provided. Revenue amounts are presented exclusive of value added tax. Revenue from sales of electricity is recognised on the delivery of electricity, exclusive of value added tax.

Note 4. Principal subsidiaries

All subsidiaries are incorporated and operate in the Russian Federation.

The principal subsidiaries as at 31 December 2008 and 31 December 2007 are presented below:

	31 December 2008		31 December 2007	
Name	Ownership, %	Voting, %	Ownership, %	Voting, %
Transmission companies:				
JSC "The Archangelsk Transmission Company"*	-	-	49.0	59.0
JSC "The Astrakhan Trunk Grids"*	-	-	48.7	48.7
JSC "The Belgorod Transmission Company"*	-	-	49.0	49.0
JSC "The Bryansk Transmission Company"*	-	-	49.0	65.2
JSC "The Buryatiya Trunk Grids"*	-	-	46.8	46.8
JSC "The Chelyabinsk Electricity Trunk Grids"*	-	-	49.0	58.1
JSC "The Chita Trunk Grids"*	-	-	49.0	62.2
JSC "The Chuvashia Trunk Grids"*	-	-	100.0	100.0
JSC "The Daghestan Trunk Grids"*	-	-	51.0	51.0
JSC "The Electricity Trunk Grids of Komi Republic"*	-	-	50.1	50.4
JSC "The Ivanovo Trunk Grids"*	-	-	49.7	56.6
JSC "The Kaluga Transmission company"*	-	-	52.3	52.3
JSC "The Karelia Trunk Grids"*	-	-	100.0	100.0
JSC "The Khakassia Trunk Grid Company"*	-	-	100.0	100.0
JSC "The Kirov Electricity Trunk Grids"*	-	-	48.2	48.2
JSC "The Kola Trunk Grids"*	-	-	49.2	65.52
JSC "The Kostroma Trunk Grids"*	-	-	49.0	65.3
JSC "The Krasnoyarsk Trunk Grids"*	-	-	51.8	66.3
JSC "The Kuban Trunk Grids"	49.0	49.0	49.0	49.0
JSC "The Kurgan Transmission Company"*	-	-	49.0	49.0
JSC "The Kursk Trunk Grids"*	-	-	49.0	59.5
JSC "Kuzbassenergo Electricity Trunk Grids"*	-	-	49.0	49.0
JSC "The Lipetsk Trunk Grids"*	-	-	49.0	49.0
JSC "The Mari Trunk Grids"*	-	-	64.4	70.1
JSC "The Mordovia Transmission Company"*	-	-	53.1	53.1
JSC "The Tomsk Trunk Grids"	52.0	59.9	52.0	59.9
JSC "The Tula Transmission Company"*	-	-	49.0	49.0
JSC "The Tyumen Transmission company"*	-	-	100.0	100.0
JSC "The Udmurtia Trunk Grids"*	-	-	49.0	55.4
JSC "The Vladimir Trunk Grids"*	-	-	49.0	49.0
JSC "The Volgograd Trunk Grids"*	-	-	49.0	61.3
JSC "The Vologda Trunk Grids"*	-	-	49.0	49.0
JSC "The Voronezh Transmission Company"*	-	-	49.0	49.0
JSC "The Yaroslavl Trunk Grids"*	-	-	47.4	47.4
JSC "Mosenergo Transmission company"*	-	-	50.9	50.9
JSC "The Nizhny Novgorod Transmission Company"*	-	-	49.0	49.0
JSC "The Omsk Transmission Company"*	-	-	49.0	60.4
JSC "The Orenburg Electricity Trunk Grids"*	-	-	100.0	100.0
JSC "The Oryol Transmission Company"*	-	-	49.0	60.4
JSC "The Penza Transmission Company"*	-	-	49.0	49.0
JSC "The Perm Transmission Company"*	-	-	49.0	64.4
JSC "Petersburg Trunk Grids"*	-	-	49.0	57.4
JSC "Rostovenergo Transmission company"*	-	-	48.4	48.4
JSC "The Ryazan Trunk Grids"*	-	-	49.0	49.0
JSC "The Samara Transmission Company"*	-	-	55.0	55.4
JSC "The Saratov Transmission Company"*	-	-	53.1	64.0
JSC "The Sverdlovsk Trunk Grids"*	-	-	49.0	65.3
JSC "The Smolensk Electricity Trunk Grids"*	-	-	48.7	59.3
JSC "The Tambov Transmission Company"*	-	-	49.0	49.0
JSC "The Tver Trunk Grids"*	-	-	49.0	65.3

Note 4. Principal subsidiaries (continued)

	2008		2007	
Name	**Ownership, %**	**Voting, %**	**Ownership, %**	**Voting, %**
Other companies				
JSC "Power Industry Research and Development Centre"	100.0	100.0	100.0	100.0
JSC "Energostroisnabkomplekt"	100.0	100.0	100.0	100.0
JSC "Nurenergo"	77.0	77.0	77.0	77.0
JSC "The principle electricity transmission service company of Unified National Electrical Network"	100.0	100.0	-	-
JSC "Specialized electricity transmission service company of Unified National Electrical Network"	100.0	100.0	-	-
JSC "Engineering and Construction Management Centre of Unified energy system"	100.0	100.0	-	-
JSC "DalEnergosetProject"	100.0	100.0	-	-
JSC "Mobile gas-turbine electricity plants"	100.0	100.0	-	-
LLC "Index Energetiki"	100.0	100.0	-	-

Transmission companies. The shares of the transmission companies (TCs) were received by FGC UES in 2006-2008 as payment for additional issues of ordinary shares of FGC UES. These Financial statements present these transactions as transactions under common control (Note 2). On 1 July 2008 all subsidiaries marked with * above, 7 ITC companies (see Note 1), JSC "The Amur Transmission Company", JSC "The Yakutiya Transmission Company", JSC "The Primorie Transmission Company", JSC "The Ulyanovsk Transmission Company", JSC "The Khabarovsk Transmission Company" and JSC "The Tyva Transmission Company" ceased to exist as separate legal entities and were merged into the Company forming a single legal entity.

JSC "Power Industry Research and Development Centre". JSC "Power Industry Research and Development Centre" is a research and development project institution in the sphere of electric power. The shares of JSC "Power Industry Research and Development Centre" were received by FGC UES in September 2007 as the payment for an additional issue of ordinary shares of FGC UES. These financial statements present this transaction as a transaction under common control (Note 2).

JSC "Energostroisnabkomplekt". The shares of JSC "Energostroinabkomplekt" were purchased from RAO UES in 2007 for consideration of RR 206 million paid in cash. JSC "Energostroisnabkomplekt" organises the supply of goods and services for companies operating in the industry. These financial statements present this transaction as a transaction under common control (Note 2).

JSC "Nurenergo". JSC "Nurenergo" performs electricity and heat distribution and sale activity in the Republic of Chechnya. Due to the difficult operating environment in the Republic of Chechnya, JSC "Nurenergo" has negative net assets after accounting for impairment (Note 6); no minority interest in the negative net asset position of JSC "Nurenergo" is recognised.

JSC "DalEnergoSetProject". The shares of JSC "DalEnergoSetProject" were purchased from RAO UES in June 2008 for consideration of RR 370 million paid in cash. JSC "DalEnergoSetProject" is a grid engineering company. These financial statements present this transaction as a transaction under common control (Note 2).

JSC "Mobile gas-turbine electricity plants" has been received as a result of merger of RAO UES and accounted for as a business combination under common control using the predecessor value method (Note 2). Immediately before the acquisition these companies were controlled by RAO UES of Russia. Ownership and voting share in JSC "Mobile gas-turbine electricity plants" as at 31 December 2007 reflect the share of the predecessor as at this date.

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

Note 5. Related parties

Transactions with RAO UES and the entities of the former RAO UES Group

In the normal course of business the Group entered into transactions with RAO UES (before its liquidation on 1 July 2008) and companies of the former RAO UES Group.

In 2008 and 2007 the Group had the following significant transactions and balances with RAO UES and the entities of the RAO UES Group. For the purpose of comparative presentation the transactions with the entities of former RAO UES Group are presented in the table up to the reporting date. After 1 July 2008 the main part of the Group's counterparties which were previously controlled by RAO UES Group, are controlled by the Russian Federation.

	Year ended 31 December 2008	Year ended 31 December 2007
Transmission revenue	62,302	58,013
Equipment installation income	1,605	-
Other revenues	1,489	1,284
(including transactions with associates)	*65*	-
Purchased power	344	99
(including transactions with associates)	*50*	-
Other expenses	1,036	1,374
(including transactions with associates)	*13*	-

Other revenue includes revenue from electricity network assets repair and maintenance services as well as non-transmission revenue of the Group's entities.

	31 December 2008	31 December 2007
Accounts payable to shareholders (Note 16)	-	47,405
Accounts payable and accrued charges	9,794	9,427
Trade receivables	4,170	2,257
Other receivables and prepayments (Net of allowance for doubtful debtors of RR 598 million as at 31 December 2008 and nil as at 31 December 2007)	2,970	3,172
Loans issued	296	296
Loans received	505	472

Other, besides RAO UES and its subsidiaries, state-controlled entities.

In the normal course of business the Group enters into transactions with other entities under Government control. Bank loans are provided at the prevailing market rates. Taxes are accrued and settled in accordance with the Russian tax legislation.

Note 5. Related parties (continued)

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

	Year ended 31 December 2008	Year ended 31 December 2007
Sub-lease expenses of FGC UES paid to ITC Centre	2,187	4,472
Operating lease income of TCs received from ITC Centre	2,183	4,488
Repair and maintenance services income	40	90
Transmission fee	147	49
Electricity sales	833	430
Other revenues	243	-
(including transactions with associates)	24	-
Operating expenses	1,543	492
(including transactions with associates)	56	-
Interest income	6,053	808
Interest expense	35	3

The Company also guaranteed obligations of certain state-controlled companies (Note 28).

In 2007 and the first half of 2008 the ITC Centre (85% owned by the Russian Federation and 15% owned by FGC UES) acted as the lessee of the TC's property, plant and equipment and subleased the property of TCs to FGC UES. Repair and maintenance expenses and depreciation of this property, plant and equipment were borne by the Group's companies. The income received and expenses incurred in 2007 and the first half of 2008 in relation to operating leases of the TCs' property, plant and equipment are presented net in these Financial statements with receivables and payables remaining on the consolidated Balance Sheet, based on the substance of the arrangement. On 1 July 2008 ITC Centre and all TCs (except for JSC "Kuban Trunk Grid" and JSC "Tomsk Trunk Grid") were merged into FGC UES (Note 1).

	31 December 2008	31 December 2007
Cash and cash equivalents	8,731	10,003
Advances to suppliers and prepayments (Net of allowance for doubtful debtors of RR 409 million as at 31 December 2008 and RR nil as at 31 December 2007)	1,246	1,894
Trade receivable (Net of allowance for doubtful debtors of RR 1,397 million as at 31 December 2008 and RR 799 million as at 31 December 2007)	232	165
Loans issued	-	43
Loans received	3	-
Accounts payable and accrued charges	958	804

Tax balances and charges are disclosed in Notes 17 and 22. Tax transactions are disclosed in the Statement of Operations.

Balances with associates

During the reporting period the Group had the following significant balances with associates:

	31 December 2008	31 December 2007
Trade payables	318	-
Trade receivables	1	-
Other receivables	222	-

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

Fees, compensation or allowances to the members of the Board of Directors for their services in that capacity and for attending Board meetings are paid depending on results for the year. Fees, compensation or allowances to the members of the Board of Directors, being government employees, are not paid.

Note 5. Related parties (continued)

Total remuneration in the form of salary, bonuses and non-cash benefits provided to the members of the Board of Directors and Management Board for the years ended 31 December 2008 and 2007 was as follows:

	2008		2007	
	Expense	Accrued liability	Expense	Accrued liability
Short-term compensation, including salary and bonuses	77	18	36	46
Remuneration for serving on the Board of Directors	5	-	4	2
Post-employment benefits	19	46	15	29
Total	**101**	**64**	**55**	**77**

Note 6. Property, plant and equipment

	Buildings	Power transmission grids	Substations	Construction in progress	Other	Total
Appraisal value or cost						
Opening balance as at 1 January 2008	15,059	148,227	93,059	109,885	19,042	385,272
Additions	149	1,504	423	114,439	1,664	118,179
Transfers	276	2,521	5,808	(10,816)	2,211	-
Disposals	(104)	(82)	(855)	(1,143)	(192)	(2,376)
Closing balance as at 31 December 2008	15,380	152,170	98,435	212,365	22,725	501,075
Including PPE under finance lease	-	-	5,830	-	68	5,898
Accumulated depreciation and impairment						
Opening balance as at 1 January 2008	(373)	(5,217)	(8,618)	(1,320)	(2,058)	(17,586)
Charge for the period	(292)	(5,514)	(7,917)	-	(2,493)	(16,216)
Impairment loss/reversal of impairment provision	-	-	-	(161)	(30)	(191)
Disposals	8	8	159	-	92	267
Closing balance as at 31 December 2008	(657)	(10,723)	(16,376)	(1,481)	(4,489)	(33,726)
Including PPE under finance lease	-	-	(3,096)	-	(36)	(3,132)
Net book value as at 1 January 2008	14,686	143,010	84,441	108,565	16,984	367,686
Net book value as at 31 December 2008	14,723	141,447	82,059	210,884	18,236	467,349

Note 6. Property, plant and equipment (continued)

	Buildings	Power transmission grids	Substations	Construction in progress	Other	Total
Appraisal value or cost						
Opening balance as at 31 December 2006	11,800	178,825	85,611	57,518	28,286	362,040
Elimination of accumulated depreciation and impairment	(2,679)	(60,990)	(28,367)	(3,103)	(15,947)	(111,086)
Revaluation increase	6,036	27,807	22,803	10,655	1,062	68,363
Revaluation loss	(453)	(1,526)	(308)	(1,001)	(3,352)	(6,640)
Additions	19	20	7,015	66,348	2,040	75,442
Transfers	1,490	4,280	7,093	(20,382)	7,519	-
Disposals	(1,154)	(189)	(788)	(150)	(566)	(2,847)
Closing balance as at 31 December 2007	15,059	148,227	93,059	109,885	19,042	385,272
Including PPE under finance lease	-	-	5,830	-	68	5,898
Accumulated depreciation and impairment						
Opening balance as at 31 December 2006	(2,949)	(64,055)	(31,307)	(3,103)	(16,039)	(117,453)
Reversal of impairment provision	270	3,065	2,940	-	92	6,367
Elimination of accumulated depreciation and impairment	2,679	60,990	28,367	3,103	15,947	111,086
Charge for the period	(386)	(5,218)	(6,097)	-	(2,032)	(13,733)
Impairment loss	-	-	(2,797)	(1,320)	(50)	(4,167)
Disposals	13	1	276	-	24	314
Closing balance as at 31 December 2007	(373)	(5,217)	(8,618)	(1,320)	(2,058)	(17,586)
Including PPE under finance lease	-	-	(2,914)	-	(12)	(2,926)
Net book value as at 31 December 2006	8,851	114,770	54,304	54,415	12,247	244,587
Net book value as at 31 December 2007	14,686	143,010	84,441	108,565	16,984	367,686

Construction in progress is represented by the carrying amount of property, plant and equipment that has not yet been put into operation and advances to construction companies and suppliers of property, plant and equipment. Such advances amounted to RR 58,375 million as at 31 December 2008 (RR 15,357 million as at 31 December 2007).

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

The Group's assets do not include land on which the Group's buildings and facilities are situated. The Group has the option to purchase this land upon application to the state registering body or to formalize the right for rent. According to Russian legislation the expiry date of this option is 1 January 2010 and for the land on which electric power transmission lines are located is 1 January 2013. The Group companies have not filed any application to purchase the land as at 31 December 2008.

Note 6. Property, plant and equipment (continued)

Revaluation. The property, plant and equipment have been revalued at 1 January 2007. The revaluation was performed by independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of assets of similar location and category. The fair value of property, plant and equipment is measured based on depreciated replacement cost method. The replacement cost for most buildings, power transmission lines, substations and construction in progress is based on their technical capabilities, construction costs and construction cost estimates. The cost to replace the majority of the Group's equipment is measured on the basis of purchase agreements and manufacturers' and selling companies' price-lists. The final result of the valuation is assessed using a profitability test with respect to each cash-generating unit – each company of the Group. In doing so the following assumptions have been made:

- The Regulatory Asset Base as the tariff-setting mechanism for electricity transmission will be introduced during 2010-2012;
- The return on investment, provided by the tariff after the Regulatory Asset Base is introduced, will be 9,47%;
- Growth of operating costs will be fully accounted for by the FTS in the course of establishing electricity transmission tariffs;
- The discount rate range used for profitability test varied from 12.43% to 13.55%.

An increase in the carrying amount resulting from the revaluation of property, plant and equipment has been recognised as a revaluation reserve in equity unless it reverses a previously recognised impairment loss in which case this reversal was recognised in the Statement of Operations. A decrease in the carrying amount has been recognised as loss on revaluation in the Statement of Operations.

As a result of revaluation as at 01 January 2007 the Group's equity increased by RR 51,956 million, comprising an increase in the carrying value of property, plant and equipment of RR 68,363 million, net of a related deferred tax liability of RR 16,407 million. As a result of recognizing the results of revaluation, RR 6,367 million of previously recognised impairment loss was reversed, and a revaluation loss of RR 6,640 million was recognised in the Statement of Operations.

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

	Buildings	Power transmission grids	Substations	Construction in progress	Other	Total
Net book value as at 31 December 2008	9,877	116,650	63,170	203,123	19,069	411,889
Net book value as at 31 December 2007	9,757	117,459	63,441	100,682	18,279	309,618

Impairment. The impairment loss recognised in 2008 in the amount of RR 191 million (2007: RR 1,370 million) arose in relation to property, plant and equipment of JSC "Nurenergo". As a consequence of the military, political and economic situation in Chechen Republic, the earnings of JSC "Nurenergo" from sales of electricity purchased on wholesale electricity market do not exceed current operating expenses. An impairment loss was recognised in respect of the balance for all construction in progress and property, plant and equipment in JSC "Nurenergo".

Cost and accumulated depreciation of JSC "Mobile gas-turbine electricity plants" assets including the impairment provision in the amount of RR 2,797 million were recognised by the Group in 2007 at the predecessor values for assets under finance lease.

The impairment provision included in accumulated depreciation balance as at 31 December 2008 is RR 4,151 million (as at 31 December 2007 - RR 4,167 million).

Note 6. Property, plant and equipment (continued)

As described in Note 1, the operating environment of the Group has been impacted by the ongoing global financial and economic crisis ("the economic crisis"). Specifically:

- the economic crisis has resulted in capital markets instability, significant deterioration of liquidity in the Russian economy and tighter credit conditions within Russian Federation;
- the medium-term forecast for primary economic indicators such as CPI and GDP have changed significantly;
- the decline in commodity prices, particularly, crude oil, stable gas condensate, liquefied petroleum gas, and oil products evidence lower energy demand levels ;
- the deterioration of liquidity has caused a decrease in output across a significant portion of Russian industry which has had a consequent negative impact on energy demand levels.

Given these developments, management has assessed whether the carrying value of the Group's property, plant and equipment and intangible assets at 31 December 2008 is recoverable through future operations. In making this assessment, management has performed an impairment review ("the impairment test") in accordance with IAS 36 by comparing the recoverable amount of property, plant and equipment and intangible assets to their net book values. The recoverable amount was assessed based on value in use, calculated by discounting the estimated future cash flows using the following main assumptions:

- Annual revenue growth of 30% for 2010 – 2012, assessed based on the recent industry forecasts;
- A pre-tax discount rate of 16.47% was estimated based on weighted average cost of capital.

The recoverable amount assessed for property, plant and equipment and intangible assets of the Company and its subsidiaries, except JSC "Nurenergo" and JSC "Mobile gas-turbine electricity plants", is above its carrying value. If the revised estimated pre-tax discount rate applied to the discounted cash flows had been 1% higher than management's estimates, the recoverable amount for the Group's property, plant and equipment and intangible assets would approximate their carrying amounts.

Pursuant to this impairment test, management did not identify any instances where carrying values of property, plant and equipment or intangible assets of the Company were considered to be impaired thereby requiring the recording of an impairment loss for the year ended 31 December 2008.

Leased property, plant and equipment. Subsequently to the latest revaluation the Group leased certain equipment under a number of finance lease agreements. At the end of each of the leases the Group has the option to purchase the equipment at a beneficial price. At 31 December 2008 the net book value of leased property, plant and equipment was RR 2,766 million (as at 31 December 2007 – RR 2,972 million). The leased equipment is pledged as security for the lease obligations.

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

	31 December 2008	31 December 2007
Under one year	125	183
Between two and five years	815	678
Over five years	5,031	5,510
Total	**5,971**	**6,371**

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

As at 31 December 2008 the carrying value of property, plant and equipment leased out under operating lease is RR 795 million (31 December 2007: RR 823 million).

Note 7. Intangible assets

	Corporate system of managing geographically dispersed resources	Corporate information management system (SAP-R3)	Other software	Total
Cost at 1 January 2007	883	695	1,118	2,696
Accumulated amortisation	(20)	(14)	(194)	(228)
Carrying value at 1 January 2007	863	681	924	2,468
Additions	605	2,440	555	3,600
Disposals	-	(126)	(634)	(760)
Amortisation charge	(173)	(181)	(68)	(422)
Carrying value at 31 December 2007	1,295	2,814	777	4,886
Cost at 31 December 2007	1,488	3,009	1,039	5,536
Accumulated amortisation	(193)	(195)	(262)	(650)
Carrying value at 31 December 2007	1,295	2,814	777	4,886
Additions	218	1,424	1,594	3,236
Disposals	-	(481)	(257)	(738)
Amortisation charge	(168)	(203)	(80)	(451)
Carrying value at 31 December 2008	1,345	3,554	2,034	6,933
Cost at 31 December 2008	1,706	3,952	2,376	8,034
Accumulated amortisation	(361)	(398)	(342)	(1,101)
Carrying value at 31 December 2008	1,345	3,554	2,034	6,933

The Corporate system of managing geographically dispersed resources is a software system for gathering, processing and storing information on conditions in the transmission network, which is required for effective maintenance of UNEN. The Corporate system of managing geographically dispersed resources is amortised during 5 years. The Corporate system of managing geographically dispersed resources includes the development cost of RR 847 million at 31 December 2008 and RR 605 million at 31 December 2007.

Corporate information management system (SAP-R3) consists of several modules (parts) and related licenses. As at 31 December 2008 only certain modules (parts) were placed in operation and are subject to amortisation. These modules are amortised during 5 years, on a straight-line basis. The Corporate information management system (SAP-R3) includes the development cost of RR 1,745 million as at 31 December 2008 and RR 1,334 million as at 31 December 2007.

Other software includes capitalised software development costs that meet the definition of an intangible asset of RR 1,122 million as at 31 December 2008 and RR 217 million as at 31 December 2007.

At 31 December 2008 the Group assessed the recoverable amount of the intangible assets for its possible impairment (Note 6). As a result of this assessment no impairment was identified.

Note 8. Investments in associated companies

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

	2008	2007
Carrying value at 1 January	509	-
Acquisition of associates	47,052	763
Share of (loss) / profit of associates	(1,372)	1
Impairment of investment	(1,766)	(241)
Translation difference	61	(14)
Disposal	(194)	-
Other equity movements	342	-
Carrying value at 31 December	**44,632**	**509**

During 2008 significant investments in associates were acquired as a result of the merger with RAO UES in exchange for additional shares issued by the Company. These investments, except for JSC "WGC-1", were initially recognized at their fair value at the date of transaction as the Company's shares were not actively traded at that date. The investment in JSC "WGC-1" was acquired in a transaction under common control and was recorded at the predecessor entity's carrying amount.

	31 December 2008	31 December 2007
JSC "WGC-1"	17,657	-
JSC "TGC-7"	15,920	-
JSC "TGC-6"	7,772	-
JSC "TGC-11"	2,294	-
JSC "UES "GruzRosEnergo"	570	509
Other associates	419	-
Total	**44,632**	**509**

Where there was an active market and quoted prices for shares, the fair value associates as at the date of acquisition was established using the market prices. When no published quoted price was available, the fair value was determined by applying various valuation techniques. The fair value of investments in associates for which a published price is available is as follows:

	31 December 2008	1 July 2008
JSC "WGC-1"	6,581	42,140
JSC "TGC-7"	2,515	17,279
JSC "TGC-6"	1,748	7,729
JSC "TGC-11"	786	3,557

The following is summarised financial information, in aggregate, in respect of significant associates:

31 December 2008	Ownership/ Voting,%	Assets	Liabilities	Revenues (since the date of acquisition)	Profit/(Loss) (since the date of acquisition)
JSC "UES "GruzRosEnergo"	50.0	1,421	(276)	271	5
JSC "WGC-1"	43.1	60,105	(19,162)	25,120	(2,182)
JSC "TGC-6"	24.7	42,257	(6,310)	9,853	437
JSC "TGC-7"	33.7	67,943	(15,084)	27,021	1,126
JSC "TGC-11"	27.5	14,225	(4,687)	7,596	(3,445)

Note 8. Investments in associated companies (continued)

Acquisition of associates

2008

On 1 July 2008 as a result of RAO UES reorganisation the Group acquired significant influence over the following entities: JSC "WGC-1", JSC "TGC-6", JSC "TGC-7", JSC "TGC-11", JSC "IT-energy Service", JSC "Ural Energy Management Company" and JSC "Energy Institute named after G.M.Krzhizhanovsky".

According to contracts concluded by RAO UES with the third parties before the merger into the Company, JSC "TGC-6", JSC "TGC-7" and JSC "TGC-11" were in the process of sale. The terms of the agreements presumed several payments to be made during 2008-2009. However, due to global financial situation the terms of these agreements were not met by the share purchasers. As at 31 December 2008 management of the Company is unable to determine the possibility of renegotiation of the terms of agreements and has, consequently, continued to treat the investments as held directly by the Company. The advances received by RAO UES for the shares of JSC "TGC-6", JSC "TGC-7" and JSC "TGC-11" in total amount of RR 2,324 million are included in accounts payable in these combined and consolidated financial statements at 31 December 2008 (Note 21).

2007

In September 2007 the Group received a 50% interest in the share capital of JSC "UES "GruzRosEnergo" from RAO UES as a contribution to the share capital. FGC UES and the state of Georgia, each have 50% of the share capital of JSC "UES "GruzRosEnergo".

Management of the Group assessed that the Group does not have joint control, but exercises significant influence over JSC "UES "GruzRosEnergo". Consequently, as at 31 December 2008 and 31 December 2007 the investment in JSC "UES "GruzRosEnergo" has been accounted for as an investment in an associate.

Impairment of investments in associates. The recent decline in the quoted share prices of the associates was regarded as evidence that a potential impairment may have occurred. The Group has assessed whether the carrying value of the investments at 31 December 2008 exceeded their recoverable amount. The Group determined the recoverable amount based on value in use being the present value of the future cash flows expected to be derived from the investment. The future cash flows were based on the expectation of the full competitive electricity and capacity market introduction from 2011. The future expected cash flows were discounted at 17.5% - 20.3%. Pursuant to this impairment test, the impairment loss of RR 1,766 million was recorded in relation to investment in JSC "TGC-7".

Note 9. Available-for-sale investments

	31 December 2007	Additions	Disposal	Impairment charge	31 December 2008
JSC "RusHydro"	-	8,396	-	(5,723)	2,673
JSC "Mosenergo"	-	7,661	-	(5,956)	1,705
JSC "Bashkirenergo"	-	7,671	-	(6,276)	1,395
JSC "Sangtudinskaya GES-1"	3,035	-	-	(1,935)	1,100
JSC "WGC 6"	-	7,000	-	(5,961)	1,039
JSC "MRSK Holding"	-	2,671	-	(1,638)	1,033
JSC "Kuzbassenergo"	-	6,676	-	(5,673)	1,003
JSC "WGC 4"	-	2,610	-	(2,082)	528
JSC "Inter RAO UES"	-	2,150	(30)	(1,769)	351
JSC "WGC 3"	-	1,323	-	(1,124)	199
JSC "TGC 1"	-	1,631	-	(1,454)	177
JSC "WGC 2"	-	1,245	-	(1,069)	176
JSC "TGC 9"	-	695	-	(595)	100
JSC "TGC 10"	-	1,325	(1,325)	-	-
JSC "Russian utilities systems"	-	1,000	(1,000)	-	-
JSC "TGC 8"	-	912	(912)	-	-
Other investments	-	2,614	(233)	(2,086)	295
Total	**3,035**	**55,580**	**(3,500)**	**(43,341)**	**11,774**

JSC "Sangtudinskaya GES-1"

Available-for-sale investments include shares of JSC "Sangtudinskaya GES-1", which is incorporated and operates in Tajikistan. As at 31 December 2007 and 31 December 2006 the Group's interest in JSC "Sangtudinskaya GES-1" was 21.16% and 14.78%, respectively. Management assessed the level of influence on JSC "Sangtudinskaya GES-1" and determined that it does not amount to significant influence. The controlling shareholder in JSC "Sangtudinskaya GES-1" is the Russian Federation.

In 2008 JSC "Sangtudinskaya GES-1" started operation of three out of four hydro components; the fourth was put into operation in the beginning of 2009. These developments allowed management to estimate future cashflows of the entity and assess the fair value of the investment. The fair value of shares of JSC "Sangtudinskaya GES-1" as at 31 December 2008 was determined using valuation techniques and estimated at RR 1,100 million. The decrease in value of this investment in the amount of RR 1,935 million was recognised as an impairment loss in the 2008 Statement of Operations.

At 31 December 2007 the investment in JSC "Sangtudinskaya GES-1" was classified as current available-for-sale investment as the Group had an intention to dispose it within 12 months from that date. At 31 December 2008 this investment is classified as non-current available-for-sale investment.

JSC "Bashkirenergo" and JSC "Kuzbassenergo"

As a result of merger with RAO UES the Group acquired a 21.27% share in JSC "Bashkirenergo" and a 20.27% share in JSC "Kuzbassenergo". As at 31 December 2008 the share of the voting rights was 22.29% and 20.27%, respectively. Management had assessed the level of influence that the Group has on JSC "Bashkirenergo" and JSC "Kuzbassenergo" and determined that it does not amount to significant influence. Consequently, the investments in these entities were classified as available-for-sale investments. At the date of the authorization of these consolidated financial statements the Group is actively engaged in pursuing a sale of the shares in JSC "Kuzbassenergo".

Other investments available for sale

In 2008 as a result of the reorganisation of RAO UES the Company acquired packages of shares of less than 20% in certain electricity utilities companies. These investments are classified as available-for-sale financial investments in these combined and consolidated financial statements and recorded at fair values as of the date of acquisition of these investments on 1 July 2008.

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

The fair value of the available-for-sale financial instruments was determined based on the quoted market prices or, where the quotations were not available, based on valuation techniques. At 31 December 2008 the total carrying value of the investments which fair value was determined based on the quoted market prices was RR 10,674 million.

Impairment of available-for-sale investments

The Group assessed the available-for-sale investments for impairment as at 31 December 2008 and concluded that an impairment had taken place as there was evidence of a significant and prolonged decline in the fair value of equity instruments below their cost.

The impairment of these investments as at 31 December 2008 totalled RR 43,341 million and was recorded in the Statement of Operations.

During 2008 the Company had sold the following available-for-sale investments:

	Carrying value of disposed investments	Sales income	Gain on sale of available for sale investments
JSC "TGC 10"	1,325	1,346	21
JSC "Russian utilities systems"	1,000	3,100	2,100
JSC "TGC 8"	912	933	21
JSC "TGC 4"	233	582	349
Other	30	102	72
Total	**3,500**	**6,063**	**2,563**

Note 10. Promissory notes

	Rating	Rating agency	Effective interest rate, %	Due	31 December 2008	31 December 2007
Long-term promissory notes						
JSC "VTB Bank"	BBB	Fitch Ratings	7.2%-11.6%	2010	42,084	-
LLC "Otkritie Finance"			9.1%	2010	4,042	-
LLC "FC Otkritie"			10.0%-10.1%	2010	3,294	-
JSC "System Operator UES"			6.1%-6.2%	2012	509	-
JSC "Alfa-Bank"	BB-	Fitch Ratings	12.6%	2010-2015	248	-
JSC "ROSBANK"	BBB+	Fitch Ratings	12.0%	2015	219	195
JSC "Evrofinance Mosnarbank"	B	Fitch Ratings	12.6%	2014	170	-
JSC "IDGC of Center and Volga region"			12.6%	2011-2016	115	-
Other long-term promissory notes			12.6%	2010-2016	329	-
Total long-term promissory notes					**51,010**	**195**
Short-term promissory notes						
JSC "VTB Bank"	BBB	Fitch Ratings	8.3%-8.7%	2009	48,218	-
JSC "System Operator UES"				2009	3,712	-
JSC "MOESK"			17.0%	2009	3,013	258
JSB "Alemar Bank"			13.9%	2009	1,029	-
JSC "Alfa-Bank"	BB-	Fitch Ratings		2009	845	-
JSC "Ulyanovskenergo"				2009	206	-
JSC "Altayenergo"				2008	-	2,247
JSC "Tyvaenergo"				2008	-	229
State Unitary Enterprise "ChechkommunEnergo"				2009	-	111
Other short-term promissory notes				2009	228	124
Total short-term promissory notes					**57,251**	**2,969**

All promissory notes are denominated in Russian roubles.

As at 31 December 2008 the carrying value of the long-term and short-term promissory notes acquired as a result of the merger of RAO UES is RR 43,455 million and RR 53,531 million, respectively.

Note 11. Other non-current assets

	31 December 2008	31 December 2007
Long-term bank deposits	1,820	-
Long-term accounts receivable	398	297
Total financial assets	**2,218**	**297**
Other non-current assets	672	364
VAT recoverable	326	248
Total	**3,216**	**909**

Long-term deposits represent long-term irrevocable deposits within Kit-Finance Investment Bank with a maturity date of 26 November 2010. Interest on these deposits equal to the current refinance rate of the Central Bank of Russian Federation and is paid on the maturity date. As at 31 December 2008 the refinance rate was 13.0 percent. Kit-Finance Investment Bank is undergoing financial rehabilitation procedures. Management believes that the Group will collect the full value of the deposit upon expiration of the agreement.

Note 12. Cash and cash equivalents

	31 December 2008	31 December 2007
Cash at bank and in hand	7,007	12,616
Cash equivalents	8,678	3,121
Restricted cash	-	3
Total	**15,685**	**15,740**

Cash at bank	Rating	Rating agency	31 December 2008	31 December 2007
	BB-	Fitch Ratings		
	Ba1	Moody's		
OJSC Alfa-Bank	BB-	Standart&Poor's	4,009	2,131
	BBB	Fitch Ratings		
JSB Sberbank	Baa1	Moody's	1,232	2,035
JSCB Agropromcreditbank	Baa1	Moody's	1,009	1,474
Yugo-Zapadniy bank			213	-
	Baa1	Moody's		
JSB Gazprombank	BB+	Standart&Poor's	77	5,043
	BBB	Fitch Ratings		
	Baa1	Moody's		
OJSC VTB bank	BBB	Standart&Poor's	-	1,061
Other			467	872
Total cash at bank			**7,007**	**12,616**

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

Bank deposits	Interest rate	Rating	Rating agency	31 December 2008	31 December 2007
		BBB	Fitch Ratings		
JSB Sberbank	6.0%-9.0%	Baa1	Moody's	6,912	3,000
JSB Otkrytie bank	1.6%-8.5%	-	-	1,546	120
		Baa1	Moody's		
JSB Gazprombank	8.5%	BB+	Standart&Poor's	216	-
Other	-	-	-	4	1
Total bank deposits				**8,678**	**3,121**

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

Cash equivalents include deposits denominated in foreign currency in amount of RR 1,216 million as at 31 December 2008 (nil as at 31 December 2007).

According to the revolving credit line contract with OJSC Alfa-Bank for RR 10,000 million (Note 20), the Company is obliged to maintain a quarterly turnover on its cash account in OJSC Alfa-Bank in the amount not less than 100% of the average quarterly level of borrowings.

Note 13. Accounts receivable and prepayment

	31 December 2008	31 December 2007
Trade receivables (Net of allowance for doubtful debtors of RR 1,455 million as at 31 December 2008 and RR 1,032 million as at 31 December 2007)	6,164	3,429
Other receivables (Net of allowance for doubtful debtors of RR 703 million as at 31 December 2008 and RR nil as at 31 December 2007)	2,875	2,727
Total financial assets	**9,039**	**6,156**
Advances to suppliers and prepayments (Net of allowance for doubtful debtors of RR 427 million as at 31 December 2008 and 27 million as at 31 December 2007)	2,956	4,354
VAT recoverable	14,552	6,506
Tax prepayments	4,529	5,644
Total	**31,076**	**22,660**

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

Tax prepayments will be settled against future tax liabilities.

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

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

Allowance for doubtful accounts receivable	2008	2007
As at 1 January	1,059	1,327
Provision reversal	(572)	(782)
Debt written-off	(346)	-
Provision accrual	2,444	514
As at 31 December	**2,585**	**1,059**

The provision for doubtful debts primarily relates to accounts receivable of JSC "Nurenergo" in respect of electricity supplied to consumers in the Chechen Republic.

As at 31 December 2008 the overdue receivables for which the provision had not been recorded amounted to RR 2,957 million (at 31 December 2007: RR 869 million). The ageing analysis is shown below:

	At 31 December 2008	At 31 December 2007
Less than 3 months	809	64
3 to 6 months	673	253
6 to 12 months	483	482
1 year to 5 years	992	70
Total	**2,957**	**869**

Note 14. Inventories

	31 December 2008	31 December 2007
Repair materials	1,307	1,505
Spare parts	620	540
Other inventories	840	347
Total	**2,767**	**2,392**

The cost of inventories is shown net of an obsolescence provision for RR 1 million as at 31 December 2008 (RR 6 million as at 31 December 2007). At 31 December 2008 and 31 December 2007 the Group had no inventories pledged as security under loan and other agreements.

Note 15. Other current assets

Other current assets include short-term investments in certificates of deposit

	Interest rate	Rating	Rating agency	31 December 2008	31 December 2007
JSB Otkrytie bank deposit account	6.5%-7.5%	-	-	2,356	2,745
JSB Sberbank deposit account	12.7%	BBB Baa1	Fitch Ratings Moody's	30	-
OJSC Alfa-Bank deposit account	3.0%	BB- Ba1 BB-	Fitch Ratings Moody's Standart&Poor's	-	140
Total bank deposits				**2,386**	**2,885**
Other current assets				27	80
Total current assets				**2,413**	**2,965**

Although JSB Otkrytie bank has no international credit rating, management believes that the bank is a reliable counterparty with a stable position on the Russian market.

Other current assets include deposits denominated in foreign currency in amount of RR 2,056 million as at 31 December 2008 (nil as at 31 December 2007).

Note 16. Equity

Basis of presentation of movements in equity. The Group was formed by the combination of certain electricity transmission businesses under common control. Due to the use of the predecessor basis of accounting (Note 2), the majority of the net equity recognised by the Group is based on the carrying value of the net assets of the businesses contributed as recorded in the IFRS financial records of the predecessor enterprises, subject to effects of subsequent revaluation of property, plant and equipment. Similarly, for the purpose of comparability, the equity of the Group has been presented for comparative periods and as at 1 January 2007 as if the current Group structure has existed from 1 January 2007 (Note 4).

As the mergers into the Company involved an additional share issue completed after 1 January 2008, the equity statement reflects additions to share capital in the amount equal to the statutory nominal value of the shares issued. The number of shares issued as part of the merger was calculated based on the conversion coefficients of RAO UES' and its subsidiaries' shares into the Company shares agreed by the respective shareholders. In accordance with the predecessor basis of accounting, the effect of such additions to share capital is offset by a corresponding decrease in the merger reserve and a concurrent reduction in minority interest.

Share capital

	Number of shares issued and fully paid		31 December 2008	31 December 2007
	31 December 2008	31 December 2007		
Ordinary shares	1,153,514,196,362	361,382,207,920	576,757	180,691

As at 31 December 2008 the authorised share capital comprised 1,346,805,824 thousand ordinary shares with a nominal value of RR 0.5 per share.

Additional issue of shares. In 2007 the Company completed the process of issuing additional ordinary shares started in 2006 when the consideration from RAO UES was received in total amount of RR 34,338 million in the form of 42 TCs, grid assets and cash. Additional consideration for this issue was received in 2007 in cash of RR 2,266 million from RAO UES and RR 22,480 million from Russian Federation. The total number of shares issued was 118,167,724 thousand with a nominal value of RR 0.5 per share, for the total consideration of RR 59,084 million. Following the issue, the Russian Federation represented by the Federal Agency for Federal Property Management (FAFPM) acquired a 12.44 percent interest in FGC UES. Consequently, the interest of RAO UES in FGC UES decreased from 100 percent on 1 January 2007 to 87.56 percent as at 31 December 2007.

In August 2007 the Group started the process of placing an additional 114,965,254 thousand ordinary shares with an offering price of RR 0.59 per share. As at 31 December 2007 consideration from RAO UES was received for 80,347,312 thousand ordinary shares in the form of shares of 8 TCs, JSC "Power Industry Research and Development Centre" and JSC "UES "GruzRosEnergo" which was based on Russian statutory value of the assets of RR 9,283 million and cash of RR 38,122 million. The issue was completed and registered in April 2008. Therefore, as at 31 December 2007 the consideration received from RAO UES in total amount of RR 47,405 million was classified as a liability to shareholders. Additional consideration was received in respect of the issue in 2008 in the form of cash amounts, being RR 1,625 million from RAO UES and RR 18,800 million from the Russian Federation. As a result of this issue, which was registered and competed in April 2008, the share capital was increased to RR 238,174 million and additional share premium recognised in the amount of RR 10,347 million.

Issue and conversion of shares transaction. On 1 July 2008 the Company issued 771,743,118 thousand ordinary shares, which were used for the conversion of the outstanding ordinary and preference shares of 54 transmission companies, 7 interregional transmission companies, JSC "State Holding", JSC "Minority Holding of FGC UES" and RAO UES in connection with the merger of these entities into the Company. The coefficients used for the shares conversion were approved by the Company's shareholders and the shareholders of the entities merged. As a result of the merger with RAO UES the Company received certain subsidiaries which accounted for as a business combination under common control using the predecessor value method (Note 2). Apart from investment in these subsidiaries JSC "State Holding", JSC "Minority Holding of FGC UES" and RAO UES had on their Balance Sheet some assets and liabilities which did not constitute businesses, and, therefore, were not accounted in these financial statements using the predecessor accounting method. The merger of the above mentioned entities resulted in an increase of the Group's equity for the IFRS carrying values of the subsidiaries and fair value of the other assets and liabilities received in the amount of RR 262,539 million.

Note 16. Equity (continued)

The total number of shares issued as part of the conversion of shares transaction was 771,743,118 thousand with the nominal value of RR 385,871 million. The issued shares which were not converted (94,576,384 thousand with the nominal value of RR 47,288 million) were redeemed.

The difference of RR 69,180 million between the nominal value of the shares issued and IFRS carrying values of the subsidiaries together with the fair value of other assets contributed to the Company as a result of the merger, was recorded within the reserves in equity.

Merger reserve. Based on the application of predecessor accounting (Note 2), the difference of RR 50,974 million between the statutory value of the share capital issued, the IFRS carrying values of the assets and liabilities of the subsidiaries, fair value of the other assets and liabilities received as a result of the merger and the minority interest has been recorded as a merger reserve within equity.

Treasury shares. Treasury shares as at 31 December 2008 represent 13,727,165 thousand of ordinary shares in the amount of RR 6,864 million.

	Year ended 31 December 2008	Year ended 31 December 2007
As at 1 January	-	-
Treasury shares acquired as a result of reorganisation	6,864	-
As at 31 December	**6,864**	-

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

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

Translation reserve. The translation reserve, relating to the exchange differences arising on translation of the net assets of foreign associate, as at 31 December 2008 was a credit of RR 47 million (31 December 2007: debit of RR 14 million) and is included in retained earnings and other reserves.

Dividends. The annual statutory accounts of the parent company, FGC UES, form the basis for the annual profit distribution and other appropriations. The specific Russian legislation identifies the basis of distribution as the net profit. For the year ended 31 December 2008, the statutory net profit of the parent company, FGC UES, as reported in the published statutory financial statements for the year ended 31 December 2008, was RR 4,465 million (for the year ended 31 December 2007: RR 2,296 million). However, this legislation and other statutory laws and regulations dealing with the distribution rights are open to legal interpretation and, accordingly, management believes at present it would not be appropriate to disclose an amount for the distributable reserves in these Financial statements. A dividend was declared in June 2008 in respect of the year ended 31 December 2007 of RR 0.0008 per ordinary share for a total amount of RR 380 million (declared in 2007 in respect of the year ended 31 December 2006: RR 0.0016 per ordinary share for a total amount of RR 588 million).

Note 17. Profit tax

Profit tax expense comprises the following:

	For the year ended 31 December 2008	For the year ended 31 December 2007
Current profit tax charge	(3,175)	(1,765)
Deferred profit tax credit/(charge)	14,418	(1,172)
Total profit tax credit/(charge)	**11,243**	**(2,937)**

During 2008 and 2007 most entities of the Group were subject to tax rates of 24 percent on taxable profit.

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

From 1 January 2009 the income tax rate for Russian companies has been reduced to 20 percent. This rate has been used for the calculation of the deferred tax assets and liabilities as at 31 December 2008.Net profit before profit tax for financial reporting purposes is reconciled to profit tax expenses as follows:

	For the year ended 31 December 2008	For the year ended 31 December 2007
Profit before profit tax	**(35,080)**	**4,549**
Theoretical profit tax charge at statutory tax rate of 24 percent	8,419	(1,092)
Tax effect of items which are not deductible or assessable for taxation purposes	(808)	(480)
Effect of change in tax rate	4,646	-
Non-recognised deferred tax asset	(1,014)	(1,365)
Total profit tax credit/(charge)	**11,243**	**(2,937)**

Deferred profit tax. Differences between IFRS and Russian statutory taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. Deferred profit tax assets and liabilities are measured at 20 percent at 31 December 2008 and at 24 percent at 31 December 2007, the rates expected to be applicable when the asset or liability will reverse.

Deferred profit tax assets and liabilities for the year ended 31 December 2008:

		Movements for the year			
	31 December 2008	Recognised in the Statement of operations	Recognised in Equity	Share Conversion result	31 December 2007
Deferred profit tax liabilities					
Property, plant and equipment	29,313	(2,993)	(2,710)	-	35,016
Investments in associates	8,790	(2,452)	84	11,158	-
Available-for-sale investments	500	(8,941)	-	9,441	-
Accounts receivable and prepayments	-	(208)	-	-	208
Other deferred tax liabilities	82	(49)	-	-	131
Total deferred profit tax liabilities	**38,685**	**(14,643)**	**(2,626)**	**20,599**	**35,355**
Deferred profit tax assets					
Property, plant and equipment	(816)	418	-	-	(1,234)
Available-for-sale investments	(1,890)	(1,890)	-	-	-
Long-term promissory notes	(846)	(846)	-	-	-
Accounts receivable and prepayments	(866)	287	-	-	(1,153)
Retirement benefit obligation	(162)	206	-	-	(368)
Accounts payable and accruals	(45)	783	-	-	(828)
Other deferred tax assets	(322)	285	-	(341)	(266)
Tax losses	(508)	(32)	-	-	(476)
Unrecognised deferred tax assets	3,549	1,014	-	-	2,535
Total deferred profit tax assets	**(1,906)**	**225**	-	**(341)**	**(1,790)**
Deferred profit tax liabilities, net	**36,779**	**(14,418)**	**(2,626)**	**20,258**	**33,565**

Note 17. Profit tax (continued)

The Group has not recognised potential deferred tax assets in respect of tax losses carried forward of RR 2,543 million (2007: RR 1,986 million) at JSC "Nurenergo". The tax losses expire in 10 years from their origination. In particular, these tax losses expire during 2012-2018, including RR 634 million during 2012-2013.

Deferred profit tax assets and liabilities for the year ended 31 December 2007:

		Movements for the year			
	31 December 2007	Recognised in the Statement of Operations	Recognised in Equity	Share Conversion result	31 December 2006
Deferred profit tax liabilities					
Property, plant and equipment	35,016	1,943	16,407	-	16,666
Accounts receivable and prepayments	208	208	-	-	-
Other deferred tax liabilities	131	131	-	-	-
Total deferred profit tax liabilities	**35,355**	**2,282**	**16,407**	**-**	**16,666**
Deferred profit tax assets					
Property, plant and equipment	(1,234)	(329)	-	-	(905)
Accounts receivable and prepayments	(1,153)	(1,116)	-	-	(37)
Retirement benefit obligation	(368)	73	-	-	(441)
Accounts payable and accruals	(828)	(828)	-	-	-
Other deferred tax assets	(266)	(337)	-	-	71
Tax losses	(476)	62	-	-	(538)
Unrecognised deferred tax assets	2,535	1,365	-	-	1,170
Total deferred profit tax assets	**(1,790)**	**(1,110)**	**-**	**-**	**(680)**
Deferred profit tax liabilities, net	**33,565**	**1,172**	**16,407**	**-**	**15,986**

The Group recognized temporary differences on property, plant and equipment which relate to differences between accounting and tax bases for depreciation rates, fair values and statutory tax base of property, plant and equipment. As a result of the revaluation of property, plant and equipment made as at 1 January 2007, the Group recognised deferred tax liabilities in equity in the amount of RR 16,407 million (Note 6).

Note 18. Non-current debt

	Currency	Effective interest rate	Due	31 December 2008	31 December 2007
Certified interest-bearing non-convertible bearer bonds, Issue 02	RR	8.3%	22.06.2010	7,000	7,000
Certified interest-bearing non-convertible bearer bonds, Issue 03	RR	7.1%	12.12.2008	-	7,000
Certified interest-bearing non-convertible bearer bonds, Issue 04	RR	7.3%	06.10.2011	6,000	6,000
Certified interest-bearing non-convertible bearer bonds, Issue 05	RR	7.2%	01.12.2009	4,980	5,000
Loan from European Bank for Reconstruction and Development (EBRD)	RR	MosPrime + 2.2%	12.06.2014	5,000	5,000
Other non-current debt				-	472
Total non-current debt				22,980	30,472
Less: current portion of non-current bonds				(4,980)	(7,000)
Less: current portion of EBRD loan				(682)	-
Less: current portion of other non-current debt				-	(472)
Less: current portion of non-current debt related to restructuring				-	(18,000)
Less: Loan from European Bank for Reconstruction and Development reclassified to current debt				-	(5,000)
Non-current debt				**17,318**	**-**

The effective interest rate is the market interest rate applicable to the loan at the date of origination for fixed rate loans and the current market rate for floating rate loans.

At 31 December 2008 the estimated fair value of total non-current debts (including the current portion) was RR 21,130 million (31 December 2007: RR 30,747 million), which is estimated using the market prices for quoted FGC UES bonds as at 31 December 2008.

During 2004-2006 the Group issued certified interest-bearing non-convertible bearer coupon bonds for the total nominal value of RR 30,000 million. The interest was defined at the time of the issue and is fixed for the maturity period. The coupon is payable semi-annually.

Issue 01 bonds in the amount of RR 5,000 million and issue 03 bonds in the amount of RR 7,000 million were repaid in 2007 and 2008, respectively.

Reclassification of non-current debts

Bonds

In connection with the reorganization of FGC UES approved by the shareholders in December 2007, the Company notified its creditors of their right to demand the settlement of liabilities. In this circumstance, in accordance with IAS 1 "Presentation of Financial Statements", the related liabilities in the amount of RR 18,000 million should be presented as current liabilities as FGC UES did not have an unconditional right to defer the settlement of the liabilities for at least 12 months after the balance sheet date.

The Company's creditors had the right to make a claim within 30 days from the date of their notification. The claims received from the creditors up to the date of expiry of the notification period amounted to RR 70 million; the remaining amount of FGC UES non-current debt was reclassified back to non-current liabilities on expiry of the notification period.

Note 18. Non-current debt (continued)

EBRD loan

As at 31 December 2007 the Group was not in compliance with certain requirements stated in the conditions of the loan agreement with European Bank for Reconstruction and Development. These breaches gave the European Bank for Reconstruction and Development the right to demand immediate repayment of the loan. Consequently, this loan was reclassified to current debt at 31 December 2007. As at 31 December 2008 all requirements of the loan agreement are met and this loan is classified as non-current debt.

In 2009 EBRD loan was repaid (Note 31).

Note 19. Retirement benefit obligation

	Year ended 31 December 2008	Year ended 31 December 2007
Retirement benefit liabilities at 1 January	**2,608**	**2,661**
Net expense recognised in the Statement of Operations	648	185
Employer contributions	(323)	(238)
Retirement benefit liabilities at 31 December	**2,933**	**2,608**

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

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

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

The tables below provide information about benefit obligations, plan assets and actuarial assumptions as at 31 December 2008 and 31 December 2007.

The amounts recognised in the Balance Sheet are determined as follows:

	31 December 2008	31 December 2007
Present value of defined benefit obligations	4,262	3,841
Unrecognised actuarial losses	(464)	(316)
Unrecognised past service cost	(865)	(917)
Liability recognised in the Balance Sheet	**2,933**	**2,608**

The amounts recognised in the Statement of Operations are as follows:

	Year ended 31 December 2008	Year ended 31 December 2007
Current service cost	258	221
Interest cost	261	279
Net actuarial gain recognized in the period	(19)	-
Recognised past service cost	148	160
Curtailment gain	-	(475)
Net expense recognised in the Statement of Operations	**648**	**185**

Note 19. Retirement benefit obligation (continued)

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

	Year ended 31 December 2008	Year ended 31 December 2007
Present value of defined benefit obligations at 1 January	**3,841**	**3,367**
Current service cost	258	221
Interest cost	261	279
Actuarial losses	129	513
Past service cost	96	459
Benefits paid	(323)	(238)
Curtailment gain	-	(760)
Present value of defined benefit obligations at 31 December	**4,262**	**3,841**

Principal actuarial assumptions are as follows:

	31 December 2008	31 December 2007
Nominal discount rate (determined by reference to the market yields of the government bonds denominated in Russian Roubles)	9.0%	6.8%
Nominal pension entitlement increase (prior to benefit commencements)	8.0%	7.0%
Nominal increase in pensions-in-pay (after benefit commencement)	7.0%	6.0%
Mortality	Russian population Mortality table 1998	Russian population Mortality table 1998

The expected contributions under voluntary pension programs in 2009 are expected in the amount of RR 243 million.

There were changes in actuarial assumptions during the reporting period, thus actuarial loss arose during this period reflected experience adjustments and the effect of change in actuarial assumptions.

	31 December 2008	31 December 2007
Present value of defined benefit obligations	4,262	3,841
Deficit in plan	(4,262)	(3,841)
Losses arising from experience adjustments on plan liabilities	808	376

Note 20. Current debt and current portion of non-current debt

	Effective interest rate	31 December 2008	31 December 2007
JSB Alfa Bank	14.0%	10,000	-
Current portion of non-current bonds	7.2-8.3%	4,980	7,000
European Bank for Reconstruction and Development	MosPrime + 2.2%	682	5,000
IDGC Holding	14.1%	505	-
Current portion of other non-current debts		-	472
Current portion of non-current debt related to restructuring (Note 18)	7.2-8.3%	-	18,000
Other current debt		44	2,955
Total		**16,211**	**33,427**

As at 31 December 2007 other current debt includes debt of JSC "Mobile gas-turbine electricity plants" to RAO UES that was transferred in 2008 to FGC UES as a result of merger.

The Group had undrawn committed financing facilities of RR 5,000 million (31 December 2007: nil) which may be used for the general purposes of the Group.

Note 21. Accounts payable and accrued charges

	31 December 2008	31 December 2007
Trade payables	16,300	16,273
Total financial liabilities	**16,300**	**16,273**
Accrued liabilities and other creditors	7,514	3,051
Advances received	7,642	5,164
Total	**31,456**	**24,488**

Note 22. Taxes payable

	31 December 2008	31 December 2007
Value added tax	508	201
Property tax	219	113
Employee taxes	49	56
Other taxes	205	136
Total	**981**	**506**

Note 23. Revenues

	Year ended 31 December 2008	Year ended 31 December 2007
Transmission fee	66,229	59,443
Electricity sales	2,516	1,141
Equipment installation income	1,605	-
Grids repair and maintenance services	457	503
Total	**70,807**	**61,087**

Other operating income primarily includes income from non-core activities, such as income from finance leases, communication and agent services.

Note 24. Operating expenses

	Year ended 31 December 2008	Year ended 31 December 2007
Depreciation of property, plant and equipment	16,216	13,733
Employee benefit expenses and payroll taxes	13,680	10,370
Purchased electricity	12,924	11,926
Repair and maintenance services:	7,955	7,418
(including materials for repair)	*1,592*	*1,264*
Accrual (reversal) of allowance for doubtful debtors	1,872	(268)
Rent	1,575	1,292
Loss on disposal of property, plan and equipment	1,488	1,625
Cost of equipment installed	1,347	-
Other materials	1,220	1,200
Insurance	1,211	950
Consulting, legal and auditing services	1,025	910
Business trips and transportation expenses	996	902
Information system maintenance	815	524
Security services	763	724
Communication service	495	367
Fuel	479	82
Amortisation of intangible assets	451	422
Taxes, other than on income	364	504
Research and development	358	303
Electricity transit via foreign countries	272	184
Other	2,669	1,799
Total	**68,175**	**54,967**

Starting from 2006 FGC UES purchases electricity to compensate electricity losses which occurred during the transmission. Previously such losses were a direct expense incurred by the UNEN users. As a result of this change the transmission tariffs were adjusted to compensate for this additional expense.

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

	Year ended 31 December 2008	Year ended 31 December 2007
Wages and salaries	10,819	8,524
Payroll taxes	2,213	1,661
Pension costs - defined benefit plans	648	185
Total	**13,680**	**10,370**

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

Note 25. Finance income

	Year ended 31 December 2008	Year ended 31 December 2007
Interest income	8,431	1,480
Other	52	47
Total finance income	**8,483**	**1,527**

The discounting of non-interest bearing debt gives rise to an interest income. Subsequent to its initial recognition, the discount is amortised over the period of the debt as an expense.

Note 26. Finance cost

	Year ended 31 December 2008	Year ended 31 December 2007
Interest expense (debt)	2,777	3,413
Interest expense (discount), net	-	52
Impairment of promissory notes	4,297	-
Foreign currency exchange differences	45	-
Total finance cost	**7,119**	**3,465**

Impairment loss was recognised in respect of promissory notes of JSC "Otkritie Finance" and JSC "FC Otkritie" (Note 10).

Note 27. Earnings per ordinary share for profit attributable to the shareholders of JSC "FGC UES"

	For the year ended 31 December 2008	For the year ended 31 December 2007
Weighted average number of ordinary shares (millions of shares)	776,157	376,284
Profit attributable to the shareholders of FGC UES (millions of RR)	(23,784)	3,370
Weighted average earnings per share – basic and diluted (in RR)	**(0.03)**	**0.01**

The weighted average number of shares was adjusted to reflect the effect of transactions under common control for shares registered after balance sheet date.

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

Note 28. Contingencies, commitments and operating risks

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

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

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

Being a legal successor of RAO UES, at 31 December 2008 the Company was engaged in litigation proceedings in relation to invalidation of the contract concluded by RAO UES to sell shares of JSC "TGC-2" and repayment of cash in amount of RR 9,308 million. No provision is made in these consolidated financial statements as the Group's management believes that it is not likely that any significant loss will eventuate.

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

As at 31 December 2008 management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained, including the uncertainty of deductibility of certain types of costs for taxation purposes. Where management believes it is probable that a position cannot be sustained, an appropriate amount has been accrued for in these Financial Statements. The Group estimates that possible tax claims in respect of certain open tax positions of the Group companies primarily related to deductibility of certain types of costs for taxation purposes could amount to as much as RR 2,488 million if the tax positions would be successfully challenged (as at 31 December 2007: RR 1,599 million).

Note 28. Contingencies, commitments and operating risks (continued)

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

Environmental matters. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. Group entities periodically evaluate their obligations under environmental regulations.

Potential liabilities might arise as a result of changes in legislation and regulation or civil litigation. The impact of these potential changes cannot be estimated, but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage, other than any amounts which have been accrued in the accompanying financial statements.

Capital commitments related to construction of property, plant and equipment. Future capital expenditures for which contracts have been signed amount to RR 214,555 million and RR 97,263 million at 31 December 2008 and 31 December 2007, respectively.

Obligations under guarantee contracts. Guarantee contracts are irrevocable assurances that the Group will make payments in the event of the other party's default on its obligations. At 31 December 2008 the Group guarantees the fulfilment of JSC Bureyskaya GES obligations under the promissory note with Ministry of Railways of Russian Federation in the amount of RR 1,144 million. The date of termination of the security obligation is 1 July 2009.

Note 29. Financial instruments and financial risks

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

Financial instruments by categories:

31 December 2008	Loans and accounts receivable	Investments available for sale	Other financial liabilities	Total
Asset Balance Sheet items				
Investments available for sale (Note 9)	-	11,774	-	11,774
Other non-current assets (Note 11)	2,218	-	-	2,218
Accounts receivable (Note 13)	9,039	-	-	9,039
Long-term promissory notes (Note 10)	51,010	-	-	51,010
Short-term promissory notes (Note 10)	57,251	-	-	57,251
Other current assets (Note 15)	2,413	-	-	2,413
Cash and cash equivalents (Note 12)	15,685	-	-	15,685
Total assets	**137,616**	**11,774**	-	**149,390**
Liability Balance Sheet items				
Non-current debt (Note 18)	-	-	17,318	17,318
Current debt and current portion of non-current debt (Note 20)	-	-	16,211	16,211
Trade payables (Note 21)	-	-	16,300	16,300
Total liabilities	-	-	**49,829**	**49,829**

Note 29. Financial instruments and financial risks (continued)

31 December 2007	Loans and accounts receivable	Assets available for sale	Other financial liabilities	Total
Asset Balance Sheet items				
Investments available for sale (Note 9)	-	3,035	-	3,035
Other non-current assets (Note 11)	297	-	-	297
Accounts receivable (Note 13)	6,156	-	-	6,156
Long-term promissory notes (Note 10)	195	-	-	195
Short-term promissory notes (Note 10)	2,969	-	-	2,969
Other current assets (Note 15)	2,965		-	2,965
Cash and cash equivalents (Note 12)	15,740	-	-	15,740
Total assets	**28,322**	**3,035**	-	**31,357**
Liability Balance Sheet items				
Current debt and current portion of non-current debt (Note 20)	-	-	33,427	33,427
Account payable to shareholders of FGC UES	-	-	47,405	47,405
Trade payables (Note 21)	-	-	16,273	16,273
Total liabilities	-	-	**97,105**	**97,105**

(a) Market risk

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

(ii) Interest rate risk. The Group's operating profits and cash flows from operating activity are largely not dependent on the changes in market interest rates. The Group is exposed to interest rate risk in connection with the market value of interest-bearing long-term borrowings. The majority of interest rates on the borrowing are fixed, the exception being the loan issued by the European Bank for Reconstruction and Development to which a variable interest rate applies (Note 18).

Sensitivity analyses of rates fluctuations for 2008 and 2007 years based on expected forecasts of rates changes at the date of redemption of exchange commitments indicate if the MosPrime rate increased by 0.5 percent the profit after tax would decrease by RR 25 million for the years ended 31 December 2008 and 2007.

The Group's interest-bearing assets consist of bank deposits amounting to RR 12,884 million (as at 31 December 2007 – RR 6,006 million) placed at fixed rate and promissory notes amounting to RR 108,261 million (as at 31 December 2007 – RR 3,164 million).

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

(iii) Other price risk. Equity price risk arises from available-for-sale investments received during the share conversion process. Management of the Group monitors its investment portfolio based on market indices. Material investments within the portfolio are managed on an individual basis and all buy and sell decisions are taken by the management of the Group. The primary goal of the Group's investment strategy is to maximise investment returns in order to meet partially the Group's investment programme needs. Transactions in equity products are monitored and authorised by the Group treasury. The total amount of investments available-for-sale exposed to the market risk equals RR 10,675 million. At 31 December 2008, if equity prices at that date had been 60% (2007: 10%) lower with all other variables held constant, loss for the year would have been RR 4,270 million (2007: RR 0 thousand) higher, as a result of impairment of corporate shares classified as available-for-sale.

Note 29. Financial instruments and financial risks (continued)

(b) Credit risk. As at 31 December 2008 the amount of financial assets, which are exposed to credit risk, is RR 137,616 million (as at 31 December 2007: RR 28,322 million). Although collection of receivables could be influenced by economic factors, management of the Group believes that there is no significant risk of loss to the Group beyond the provision for impairment of receivables already recorded.

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

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

The Group's customers in 2008 principally represent former RAO UES subsidiaries. However main credit risks are concentrated within balances of promissory notes. The detailed information on promissory notes is presented in Note 10.

The Group receives bank guarantees in relation to advances paid to construction companies and suppliers of property, plant and equipment. These guarantees represent an irrevocable assurance of the bank to make payments to the Group in the event of the default of the construction company or supplier of property, plant and equipment on its obligations. The total amount of guarantees received is RR 57,434 million as at 31 December 2008 (RR 8,322 million as at 31 December 2007).

(c) Liquidity risk. Liquidity risk is managed at the Group level and includes maintaining the appropriate volume of monetary funds, conservative approach to excess liquidity management, and access to financial resources by securing credit facilities and limiting the concentrations of cash in banks. The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant. As at 31 December 2007, Group has made certain reclassification of non-current debts to current debts (Note 18).

	Less than 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
At 31 December 2008					
Non-current and current debt	18,442	14,547	6,252	778	40,019
Trade payables	16,300	-	-	-	16,300
Total as at 31 December 2008	**34,742**	**14,547**	**6,252**	**778**	**56,319**
At 31 December 2007					
Non-current and current debt	33,427	-	-	-	33,427
Account payable to shareholders of FGC UES	47,405	-	-	-	47,405
Trade payables	16,273	-	-	-	16,273
Total as at 31 December 2007	**97,105**	-	-	-	**97,105**

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

Note 30. Capital risk management

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

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

At 31 December 2008 the Group was in compliance with the above share capital requirements.

Note 30. Capital risk management (continued)

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

The Group monitors capital ratios, including the gearing ratio, calculated on the basis of figures of financial statements prepared under the Russian Accounting Standards. The Group should ensure that its gearing ratio, being the total debt divided by the total equity, does not exceed 0.50. At 31 December 2008 the Company's gearing ratio calculated under RAS was 0.05.

Note 31. Post-balance sheet events

Dividends. In June 2009 the Annual General Meeting approved the proposal of the Board of Directors not to pay dividends for 2008.

Additional share issue in 2009. In January 2009 FGC UES started to place additional 146,500 million shares with a par value RR 0.5 each for the amount of RR 73,250 million. The execution of pre-emptive right to purchase shares was completed in July 2009 when 64,612 million additional shares were placed, mainly in favor of the Russian Federation. This share issue should be completed in December 2009.

JSC "WGC-1" trust management. In January 2009 Federal Anti-Monopoly Service satisfied a request of JSC INTER RAO UES concerning the acquisition of shares of JSC "WGC-1" in trust management including those owned by the Company. In March 2009 the Company signed an agreement of trust management of the rights on the shares of WGC-1 with JSC INTER RAO UES which was approved by Company's Board of directors.

Repayment of EBRD loan. In April 2009 the Company early repaid the long-term European Bank for Reconstruction and Development loan in amount of RR 5,000 million due in 2014.

Bonds issue. In November 2009 the Federal Financial Markets Service registered the Company's six bond issues for the total amount of RR 50,000 million. The bonds have the face value of RR 1,000, fixed interest rate and mature in ten years.