**OJSC INTERREGIONAL DISTRIBUTION GRID COMPANY OF URALS
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008**

Contents

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Independent Auditors' Report

To the Board of Directors of Open Joint-Stock Company
"Interregional Distribution Grid Company of Urals"

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Open Joint-Stock Company "Interregional Distribution Grid Company of Urals" (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated balance sheets as at 31 December 2008 and 2007, and the consolidated income statements, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 consolidated financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. Except as described in the Basis for Qualified Opinion paragraph, we conducted our audits in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audits to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement.

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 consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Basis for Qualified Opinion

We did not observe the counting of inventories stated at RUR 618,529 thousand as at 31 December 2007 because we were engaged as auditors of the Group only after that date. It was impracticable to satisfy ourselves as to those inventory quantities by other audit procedures. Accordingly, we were unable to determine whether any adjustments might be necessary to inventories, operating expenses, income tax expense, profit for the year and retained earnings as at and for the year ended 31 December 2007, and operating expenses, income tax expense and profit for the year ended 31 December 2008.

Qualified Opinion

In our opinion, except for the effects of such adjustments, if any, that might have been determined to be necessary had it been practicable to obtain sufficient appropriate audit evidence as described in the Basis for Qualified Opinion paragraph, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2008 and 2007, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

ZAO KPMG

ZAO KPMG
26 October 2009

(in thousands of Russian Roubles, unless otherwise stated)

	Notes	Year ended 31 December 2008	Year ended 31 December 2007
Revenue	4	41,593,436	38,023,245
Operating expenses	5	(40,239,752)	(35,574,719)
Other operating income		2,541	6,202
Result from operating activities		**1,356,225**	**2,454,728**
Financial income	7	25,329	52,955
Financial expenses	7	(565,587)	(223,600)
Share of profit of equity accounted investee	11	23,493	2,469
Profit before income tax		**839,460**	**2,286,552**
Income tax	8	164,246	(939,918)
Profit for the year		**1,003,706**	**1,346,634**
Attributable to:			
Shareholders of the Company		872,636	1,250,462
Minority interest		131,070	96,172
Earnings per share			
Basic and diluted earnings per share (expressed in RUR)	17	0.0100	0.0143

These consolidated financial statements were approved by management on 26 October 2009 and were signed on its behalf by:

General Director Rodin V.N.

Chief Accountant Abrosimova O.M.

(in thousands of Russian Roubles, unless otherwise stated)

	Notes	31 December 2008	31 December 2007
Non-current assets			
Property, plant and equipment	9	46,663,822	41,448,943
Investment property	9	301,451	316,477
Intangible assets	10	142,683	211,655
Investments in equity accounted investee	11	564,072	540,579
Deferred tax assets	8	140,048	210,475
Other non-current assets	12	605,564	476,927
Total non-current assets		**48,417,640**	**43,205,056**
Current assets			
Inventories	13	649,957	618,529
Income tax receivable		68,960	548,797
Trade and other receivables	14	4,505,103	3,096,137
Prepayments for current assets	15	394,246	620,202
Cash and cash equivalents	16	866,002	949,863
Other current assets		37,926	236,908
Total current assets		**6,522,194**	**6,070,436**
TOTAL ASSETS		**54,939,834**	**49,275,492**
EQUITY AND LIABILITIES			
Equity	17		
Share capital		8,743,049	8,743,049
Retained earnings		25,800,285	24,931,657
Total equity attributable to shareholders of the Company		**34,543,334**	**33,674,706**
Minority interest		622,576	492,570
Total equity		**35,165,910**	**34,167,276**
Non-current liabilities			
Loans and borrowings	18	3,266,629	623,128
Long-term advances	19	1,208,761	489,891
Employee benefits	20	303,935	349,351
Finance lease liabilities	21	315,220	106,536
Deferred tax liabilities	8	3,360,116	4,456,350
Other long-term liabilities		35,037	23,874
Total non-current liabilities		**8,489,698**	**6,049,130**
Current liabilities			
Loans and borrowings	18	5,621,256	4,855,039
Trade and other payables	22	5,303,186	3,853,553
Current portion of finance lease liabilities	21	157,825	56,258
Other taxes payable	23	187,194	257,378
Income tax payable		14,765	36,858
Total current liabilities		**11,284,226**	**9,059,086**
TOTAL LIABILITIES		**19,773,924**	**15,108,216**
TOTAL EQUITY AND LIABILITIES		**54,939,834**	**49,275,492**

(in thousands of Russian Roubles, unless otherwise stated)

	Notes	Year ended 31 December 2008	Year ended 31 December 2007
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax		**839,460**	**2,286,552**
Adjustments to reconcile profit before income tax and net cash from operating activities:			
Depreciation and amortization		2,932,534	2,425,642
Impairment losses		642,736	254,377
Net finance expenses		540,258	170,645
Share of profit of equity accounted investee		(23,493)	(2,469)
Loss on disposal of property, plant and equipment		531,041	294,791
Adjustment for other non-cash transactions		(35,659)	28,425
Operating profit before changes in working capital and provisions		**5,426,877**	**5,457,963**
Change in trade and other receivables and prepayments		(1,890,830)	(1,415,057)
Change in inventories		(106,502)	49,884
Change in trade and other payables		2,183,215	1,616,951
Change in taxes payable other than income		(70,206)	(275,802)
Cash flows from operations before income taxes paid		**5,542,554**	**5,433,939**
Income tax paid		(403,817)	(413,389)
Cash flows from operating activities		**5,138,737**	**5,020,550**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of property, plant and equipment		(8,032,120)	(7,268,317)
Acquisition of intangible assets		(22,585)	(217,533)
Proceeds from disposal of property, plant and equipment		419,612	403,784
Proceeds from repayment of loans issued		26,005	12,531
Proceeds from sales of promissory notes		5,833	158,501
Acquisition of promissory notes		-	(488,000)
Interest received		15,223	23,392
Cash flows from investing activities		**(7,588,032)**	**(7,375,642)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from loans and borrowings		11,314,373	13,616,834
Repayment of loans and borrowings		(7,924,467)	(9,934,830)
Repayment of finance lease liabilities		(300,534)	(42,159)
Interest paid		(713,114)	(266,524)
Dividends paid		(10,824)	(191,186)
Cash flows from financing activities		**2,365,434**	**3,182,135**
Net (decrease)/increase in cash and cash equivalents		**(83,861)**	**827,043**
Cash and cash equivalents at the beginning of the year		**949,863**	**122,820**
Cash and cash equivalents at the end of the year	16	**866,002**	**949,863**

Consolidated Statement of Changes in Equity for the year ended 31 December 2008

(in thousands of Russian Roubles, unless otherwise stated)

	Total equity attributable to shareholders of the Company			Minority interest	Total equity
	Share capital	Retained earnings	Total		
At 1 January 2007	**8,743,049**	**23,865,369**	**32,608,418**	**396,398**	**33,004,816**
Profit for the year	-	1,250,462	1,250,462	96,172	1,346,634
Total recognised income and expense		1,250,462	1,250,462	96,172	1,346,634
Dividends to shareholders	-	(184,174)	(184,174)	-	(184,174)
At 31 December 2007	**8,743,049**	**24,931,657**	**33,674,706**	**492,570**	**34,167,276**
Profit for the year	-	872,636	872,636	131,070	1,003,706
Total recognised income and expense		872,636	872,636	131,070	1,003,706
Dividends to shareholders	-	(4,008)	(4,008)	(1,064)	(5,072)
At 31 December 2008	**8,743,049**	**25,800,285**	**34,543,334**	**622,576**	**35,165,910**

(in thousands of Russian Roubles, unless otherwise stated)

Note 1. Background

(a) The Group and its operations

Open joint-stock company "Interregional Distribution Grid Company of Urals and Volga" was set up on 28 February 2005 based on Resolution no. 28p of the Russian open joint-stock company RAO "United Energy Systems of Russia" (hereafter, "RAO UES") dated 24 February 2005. On 14 August 2007 OJSC "Interregional Distribution Grid Company of Urals and Volga" was renamed to open joint-stock company "Interregional Distribution Grid Company of Urals" (hereafter, the "Company" or "IDGC of Urals").

The Company's registered office is located at 140, Mamina-Sibiryaka street, Ekaterinburg, Russia, 620026.

The principal activities of the Company and its subsidiaries (together referred to as the "Group" or "IDGC of Urals Group") are as follows:

- electricity transmission and distribution,
- connection services,
- electricity sales,
- other (repair, construction, maintenance, rent and transportation services).

The consolidated financial statements of the Company as at and for the year ended 31 December 2008 and 2007 comprise the Company, its subsidiaries and the Group's interest in associate:

	31 December 2008	31 December 2007
Company	**% owned**	**% owned**
Subsidiaries		
OJSC «Ekaterinburg Electric Grid Company»	91.04	91.04
LLC «Elektroservisnaya kompaniya»	54.62	54.62
OJSC «Ekaterinburgenergosbyt»	91.04	-
OJSC «Permenergotrans»	100.00	100.00
LLC «Sluzhba bezopasnosti «Permenergo»	100.00	100.00
OJSC «Permelektrosetremont»	100.00	100.00
OJSC «Sverdlovenergozhilstroy»	100.00	100.00
CJSC «Strahovaya kompaniya «Privat-Energostrah»	99.87	99.87
Associate		
OJSC «Kurganenergo» (53.81% ownership and 49.00% voting rights)	49.00	49.00

(b) Group formation

For the past few years Russian electric utilities industry has gone through a reform designed to introduce competition into the electricity sector and to create an environment in which the companies can raise capital required to maintain and expand current capacity.

As part of the reform process, throughout 2005 OJSC «Sverdlovenergo», OJSC «Chelyabenergo» and OJSC «Permenergo» were reorganized to spin off electricity transmission and distribution units from power generation and other non-core units.

The Group was legally formed on 30 April 2008 as a merger of the following companies in accordance with the Resolution of the Board of Administration of RAO UES no. 1795пр/9 dated 25 December 2007:

- OJSC «Chelyabenergo»,
- OJSC «Permenergo»,
- OJSC «Sverdlovenergo».

The merger was affected through conversion of shares issued by the Company in exchange for shares in the acquired entities. As a result of the merger, above-mentioned companies ceased to exist as separate legal entities and the Company became their legal successor. In addition, the Group includes investment in associate OJSC «Kurganenergo» with ownership rights of 53% and voting rights of 49%, which allows the Group to exercise significant influence, but not control, over the financial and operating policies of the associate.

On 1 July 2008 RAO UES ceased to exist as a separate legal entity and transferred shares of the Company to JSC «IDGC Holding», a newly formed state controlled entity.

As at 31 December 2008, the Government of the Russian Federation owned 52.7% shares of JSC «IDGC Holding» which in turn owned 51.52 % of the Company.

(c) Relations with the state and regulation of the Group

Since its foundation the Company has been under control of the Government of the Russian Federation. The Government of the Russian Federation directly affects the Group's operations through indirect control and state tariffs on electricity transmission and connection services, which are set by the Federal Service on Tariffs, through the Regional Energy Commission.

The Group's customer base includes a large number of entities controlled by or related to the Government of the Russian Federation. The state also controls a number of the Group's suppliers, such as JSC «FGC UES», providing electricity transmission services through a federal network.

(d) 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 2008 (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, 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, Russia and elsewhere. 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 existing economic situation of the world and Russian economies and a forecast decrease of GDP may affect electricity consumption. Accordingly, the Government of the Russian Federation could revise its forecast of social-economic development during 2009-2012, and that could result in changes to the terms of the liberalization of the wholesale market and plans of electricity tariff indexation.

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.

(e) Russian business environment

The Russian Federation has been experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks that typically do not exist in other markets. In addition, the recent contraction in the capital and credit markets has further increased the level of economic uncertainty in the environment. The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

Note 2. Basis of preparation

(a) Statement of compliance

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

(b) First time adoption of IFRS

These consolidated financial statements are the first full set of consolidated financial statements, prepared in accordance with IFRS.

The accounting policies set out in Note 3 have been applied in preparing the financial statements for years ended 31 December 2008 and 2007 and in the preparation of an opening IFRS statement of financial position at 1 January 2007 (the Group's date of transition). In preparing these consolidated financial statements the Group used IFRS, effective as at 31 December 2008 and used them consistently in preparation of these consolidated financial statements.

The formation of the Group was completed on 30 April 2008 (refer to Note 1(b)). All the entities constituting the merged Group were under common control of RAO UES. These financial statements are prepared in accordance with the Group accounting policies in respect of business combinations involving entities under common control (refer to Note 3 (a)) as if the formation of the Group was completed as at 1 January 2007.

As the Group did not prepare consolidated financial statements under Russian Accounting Principles, no reconciliation to previous GAAP on transition to IFRS is provided.

The Group uses exceptions from IFRS for the first-time adopter of IFRS for revalued amount of property, plant and equipment as deemed historic cost.

(c) Basis of measurement

The consolidated IFRS financial statements are prepared on the historical cost basis except for investments available-for-sale that are stated at fair value and property, plant and equipment that was revalued as at 1 January 2007 by an independent appraiser to determine deemed cost as part of adoption of IFRS (see Note 9).

(d) Functional and presentation currency

The national currency of the Russian Federation is the Russian ruble («RUR»), which is the Group companies' functional currency and the currency in which these financial statements are presented. All financial information presented in Russian rubles has been rounded to the nearest thousand.

(e) Use of judgments, estimates and assumptions

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

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

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

- Note 4 – Revenue;
- Notes 8, 23 – Taxation;
- Note 9 – Property, plant and equipment;
- Note 13 – Inventory;
- Note 14, 15 – Trade and other receivables, prepayments;
- Note 20 – Employee benefits;
- Note 28 – Contingencies.

Note 3. Summary of significant accounting policies

The significant accounting policies applied in the preparation of the consolidated financial statements are described in notes 3(a) to 3(t). These accounting policies have been consistently applied.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

(ii) Acquisitions from entities under common control

A business combination involving entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party both before and after the business combination, and control is not transitory.

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are restated.

(iii) Associates (equity accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Associates are accounted for using the equity method. The consolidated financial statements include the Group's share of the income and expenses of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an associate, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued, except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(iv) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising in translation are recognised in the income statement, except for differences arising on the translation of available-for-sale equity instruments.

(c) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Cash and cash equivalents comprise cash on current accounts with banks, cash on hand, call deposits and short-term (less than three months) and highly liquid deposits with immaterial liquidity risk.

Held-to-maturity investments

If the Group has the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

Available-for-sale financial assets

The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, and foreign exchange gains and losses on available-for-sale monetary items, are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to the income statement.

Financial assets at fair value through profit or loss

An instrument is classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Upon initial recognition attributable transaction costs are recognised in the income statement when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in the income statement.

Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses. Investments in equity securities that are not quoted on a stock exchange are principally valued using valuation techniques such as discounted cash flow analysis, option pricing models and comparisons to other transactions and instruments that are substantially the same. Where fair value cannot be estimated on a reasonable basis by other means, investments are stated at cost less impairment losses.

(ii) Derivative financial instruments

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in the income statement when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognised immediately in the income statement.

(d) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Preference share capital

Preference share capital is classified as equity if it is non-redeemable, or redeemable only at the Company's option, and any dividends are discretionary. Dividends thereon are recognised as distributions within equity.

Preference share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. Dividends thereon are recognised as interest expense in the income statement.

Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, is net of any tax effects, and is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to / from retained earnings.

(e) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment, except for land, are measured at cost less accumulated depreciation and impairment losses. Land is measured at cost less accumulated impairment loss. The cost of property, plant and equipment at 1 January 2007, the date of transition to IFRS, was determined by reference to its fair value at that date.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are recognised net in "other operating income" in the income statement. When revalued assets are sold, the amounts included in the revaluation surplus reserve are transferred to retained earnings.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as incurred.

(f) Depreciation

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

Type of property, plant and equipment	Useful lives (in years)
Production buildings	5-60
Electricity grids	4-70
Substations' equipment	1-40
Other	1-50

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

(g) Investment property

Investment property is measured at cost less accumulated depreciation and impairment losses. The cost of investment property at 1 January 2007, the date of transition to IFRS, was determined by reference to its fair value at that date.

Investment property is held primarily for the purpose of capital appreciation.

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of each part of an item of investment property.

The estimated useful lives for the current and comparative periods are as follows:

Type of investment property	Useful lives (in years)
Production buildings	5-60

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

(h) Intangible assets

(i) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement when incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The capitalised expenditure includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Borrowing costs related to the development of qualifying assets are recognised in the income statement as incurred.

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

(ii) Other intangible assets

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

(iii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in the income statement as incurred.

(iv) Amortisation

Amortisation is recognised in the income statement on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. Intangible assets are represented by electricity certificates with the estimated useful lives for the current and comparative periods of 2-3 years.

(i) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's balance sheet.

(j) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventory is determined on the weighted average cost method and includes expenditures incurred in acquiring the inventories and bringing them to their existing location and condition. Net realizable value is the estimated selling price in the ordinary course of business, less selling expenses.

(k) Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the income statement. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to the income statement.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in the income statement. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(l) Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans, including Russia's State pension fund, are recognised in the income statement when they are due.

(ii) Defined benefit plans and other long-term employee benefits

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and any unrecognised past service are deducted.

The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations and are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method.

The Group's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed using the projected unit credit method.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised in the income statement on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the income statement. Past service cost on other long-term obligations is recognized immediately.

Actuarial gains or losses arising from post-employment benefit obligation that exceed 10 per cent of the greater of the present value of the defined benefit obligation and 10 per cent of the fair value of plan assets at the end of the prior year are amortized over the expected average remaining working lives of the participating employees. Actuarial gains and losses on long-term obligations other than post-employment benefit obligation are recognized immediately.

(m) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(i) Warranties

A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

(ii) Restructuring

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

(iii) Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

(n) Revenue

Revenue is measured at the fair value of the consideration received or receivable. Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer and the amount of revenue can be measured reliably. Revenues are shown net of value added tax ("VAT").

(i) Electricity transmission

Revenue from electricity transmission is recognized in the income statement when the customer acceptance of the volume of electricity transmitted is received. The tariffs for energy transmission are approved by the Federal Tariff Agency and Regional Energy Commission.

(ii) Connection services

Revenue from connection services represents a non-refundable fee for connecting the customer to the electricity grid network. The terms, conditions are negotiated separately and are independent from fees generated by electricity transmission services. The tariffs for connection services fees are approved by the Regional Energy Commission or administration of Ekaterinburg city.

Revenue is recognized when electricity is activated and the customer is connected to the grid network or, for contracts where connection services are performed in stages, revenue is recognized in the proportion to the stage of completion when act of acceptance is signed by the customer.

(iii) Other services

Revenue from installation, repair and maintenance services and other sales is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer or when the services are provided.

(o) Other expenses

(i) Lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the contingency no longer exists and the lease adjustment is known.

(ii) Social expenditure

To the extent that the Group's contributions to social programs benefit the community at large and are not restricted to the Group's employees, they are recognised in the income statement as incurred.

(p) Finance income and expenses

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, and foreign currency gains. Interest income is recognised as it accrues in the income statement, using the effective interest method. Dividend income is recognised in the income statement on the date that the Group's right to receive payment is established.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, dividends on preference shares classified as liabilities, foreign currency losses, changes in the fair value of financial assets at fair value through profit or loss and impairment losses recognised on financial assets.

Foreign currency gains and losses are reported on a net basis.

(q) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

(r) Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(s) Earnings per share

The Group presents basic earnings per share («EPS») data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. The Company has not issued any instruments that potentially may dilute EPS.

(t) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segment information is presented in respect of the Group's business segments only as the Group operates predominantly in a single geographical area which is Ural region. The business segments are determined based on the Group's management and internal reporting structure. Inter-segment transactions are represented by electricity transmission services, tariffs for which are set by the Regional Energy Comission.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly loans and borrowings and related expenses, financial expenses and income tax assets and liabilities.

Segment capital expenditure is the cost incurred during the period to acquire property, plant and equipment.

(u) New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2008, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective.

- IFRS 8 *Operating Segments* introduces the "management approach" to segment reporting. IFRS 8 *Operating Segments*, which becomes mandatory for the Group's 2009 consolidated financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them.
- Revised IAS 1 *Presentation of Financial Statements* (2007) which becomes mandatory for the Group's 2009 consolidated financial statements is expected to have a significant impact on the presentation of the consolidated financial statements. The Standard introduces the concept of total comprehensive income and requires presentation of all owner changes in equity in the statement of changes in equity, separately from non-owner changes in equity.
- Amended IAS 27 *Consolidated and Separate Financial Statements* (2008) requires accounting for changes in ownership interests by the Group in a subsidiary, while maintaining control, to be recognised as an equity transaction. When the Group loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in profit or loss. The amendments to IAS 27 become mandatory for the Group's 2010 consolidated financial statements.
- Revised IFRS 3 *Business Combinations* (2008) and amended IAS 27 (2008) *Consolidated and Separate Financial Statements*, which come into effect on 1 July 2009 (i.e. become mandatory for the Group's 2010 consolidated financial statements). The revisions address, among others, accounting for step acquisitions, require acquisition-related costs to be recognised as expenses and remove exception for changes in contingent consideration to be accounted by adjusting goodwill. The revisions also address how non-controlling interests in subsidiaries should be measured upon acquisition and require to recognise the effects of transactions with non-controlling interest directly in equity.

(in thousands of Russian Roubles, unless otherwise stated)

- IFRIC 15 *Agreements for the Construction of Real Estate* addresses the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. IFRIC 15, which becomes mandatory for the Group's 2009 consolidated financial statements, is not expected to have any effect on the consolidated financial statements.
- IFRIC 17 *Distributions of Non-cash Assets to Owners* addresses the accounting of non-cash dividend distributions to owners. The interpretation clarifies when and how the non-cash dividend should be recognised and how the differences between the dividend paid and the carrying amount of the net assets distributed should be recognised. IFRIC 17 becomes effective for annual periods beginning on or after 1 July 2009.
- Various Improvements to IFRSs have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purpose, will come into effect not earlier than 1 January 2009. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

Note 4. Revenue

	Year ended 31 December 2008	Year ended 31 December 2007
Electricity transmission	30,772,890	29,477,455
Electricity sales	8,313,962	5,812,867
Connection services	1,742,714	1,454,040
Other services	763,870	1,278,883
Total	**41,593,436**	**38,023,245**

Other services are comprised of revenue from installation, repair and maintenance services and other sales.

Note 5. Operating expenses

	Year ended 31 December 2008	Year ended 31 December 2007
Electricity transmission paid to local distribution grids	19,464,534	18,574,874
Purchased electricity	5,360,430	3,772,449
Personnel costs	4,636,897	4,424,518
Depreciation and amortization	2,932,534	2,425,642
Repair and maintenance	1,619,743	1,362,937
Transportation	1,216,940	727,867
Electricity metering services	789,552	715,939
Allowance for impairment of accounts receivable	567,662	245,068
Consulting, legal and audit services	543,930	586,983
Loss on the disposal of property, plant and equipment	531,041	294,791
Materials	524,169	529,922
Rent	513,576	332,598
Security	235,083	215,683
Insurance	234,635	234,358
Bank commission	154,261	192,601
Taxes other than income tax	151,942	157,182
Communication services	89,426	85,093
Social expenditures and charity expenses	81,982	115,789
Provision for obsolete and slow moving inventories	75,074	9,309
Other	516,341	571,116
Total	**40,239,752**	**35,574,719**

(in thousands of Russian Roubles, unless otherwise stated)

Note 6. Personnel costs

	Year ended 31 December 2008	Year ended 31 December 2007
Wages, salaries and bonuses	3,693,147	3,556,992
Contributions to State pension fund	859,687	820,567
Expense in respect of post-employment defined benefit plan (Note 20)	75,973	44,988
Expense in respect of long-term service benefits provided (Note 20)	8,090	1,971
Personnel costs	**4,636,897**	**4,424,518**

Note 7. Financial income and expenses

	Year ended 31 December 2008	Year ended 31 December 2007
Financial income		
Interest income	24,211	27,989
Rewinding of discount of financial assets	1,118	24,966
Total financial income	**25,329**	**52,955**
Financial expenses		
Interest expense on loans and borrowings	(471,858)	(209,024)
Interest expense on leasing	(92,935)	(14,286)
Net foreign exchange losses	(794)	(290)
Total financial expenses	**(565,587)**	**(223,600)**

Note 8. Income tax

	Year ended 31 December 2008	Year ended 31 December 2007
Current tax expense		
Current income tax	(867,940)	(734,799)
Overprovided in prior years	6,379	635
	(861,561)	(734,164)
Deferred tax expense		
Origination and reversal of temporary differences	1,025,807	(205,754)
	1,025,807	(205,754)
Income tax	**164,246**	**(939,918)**

The Group is taxable in a number of jurisdictions within the Russian Federation and, as a result, is subject to a variety of taxes as established under the statutory provisions of each jurisdiction.
Until 1 January 2009, operations in the Russian Federation were subject to a Federal income tax rate of 6.5% and a regional income tax rate that varied from 13.5% (Perm region) to 17.5%.

Starting 1 January 2009, the Federal income tax rate is 2.0% and regional income tax rate varies from 13.5% (Perm region) to 18.0%. These rates have been used in the calculation of deferred tax assets and liabilities as at 31 December 2008.

(in thousands of Russian Roubles, unless otherwise stated)

Reconciliation of effective tax rate:

	Year ended 31 December 2008	%	Year ended 31 December 2007	%
Profit before income tax	**839,460**	**100**	**2,286,552**	**100**
Income tax at applicable tax rate	(201,470)	24	(548,772)	24
Tax effect of items which are not deductible or taxable for taxation purposes	(361,657)	43	(388,744)	17
Effect of income taxed at lower rates	9,961	(1)	(3,037)	-
Change in tax rate	711,033	(85)	-	-
Overprovided in prior period	6,379	(1)	635	-
Total	**164,246**	**(20)**	**(939,918)**	**41**

Deferred tax assets and liabilities

Differences between IFRS and Russian statutory taxation regulations give rise to temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and their tax bases.

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	31 December 2008	31 December 2007	31 December 2008	31 December 2007	31 December 2008	31 December 2007
Property, plant and equipment	192	103	(3,699,950)	(4,733,130)	(3,699,758)	(4,733,027)
Trade and other receivables and prepayments	283,482	217,394	-	(8,564)	283,482	208,830
Trade and other payables	64,260	50,802	(24,940)	(29,877)	39,320	20,925
Investments	111,843	162,133	(4,460)	-	107,383	162,133
Inventories	60,919	36,658	-	-	60,919	36,658
Other	83	58,606	(11,497)	-	(11,414)	58,606
Tax assets/(liabilities)	**520,779**	**525,696**	**(3,740,847)**	**(4,771,571)**	**(3,220,068)**	**(4,245,875)**
Set off of tax	(380,731)	(315,221)	380,731	315,221	-	-
Net tax assets/(liabilities)	**140,048**	**210,475**	**(3,360,116)**	**(4,456,350)**	**(3,220,068)**	**(4,245,875)**

(in thousands of Russian Roubles, unless otherwise stated)

Note 9. Property, plant and equipment

	Production buildings	Electricity grids	Substations' equipment	Assets under construction	Other	Total
Cost/ deemed cost						
Balance at 1 January 2007	4,555,521	21,068,377	6,906,186	1,423,150	2,672,827	36,626,061
Additions	210,705	280,459	278,357	7,029,403	164,874	7,963,798
Transfers	297,154	1,362,055	3,059,598	(4,919,904)	201,097	-
Disposals	(122,560)	(205,834)	(38,026)	(50,359)	(333,180)	(749,959)
Balance at 31 December 2007	**4,940,820**	**22,505,057**	**10,206,115**	**3,482,290**	**2,705,618**	**43,839,900**
Balance at 1 January 2008	4,940,820	22,505,057	10,206,115	3,482,290	2,705,618	43,839,900
Additions	170,947	335,468	962,048	7,376,713	252,072	9,097,248
Transfers	393,202	1,013,421	1,676,683	(3,749,733)	666,427	-
Disposals	(135,798)	(164,238)	(42,085)	(277,877)	(508,894)	(1,128,892)
Balance at 31 December 2008	**5,369,171**	**23,689,708**	**12,802,761**	**6,831,393**	**3,115,223**	**51,808,256**
Depreciation						
Balance at 1 January 2007	-	-	-	-	-	-
Depreciation charge	(170,586)	(1,291,813)	(626,316)	-	(321,265)	(2,409,980)
Disposals	1,663	11,374	-	-	5,986	19,023
Balance at 31 December 2007	**(168,923)**	**(1,280,439)**	**(626,316)**	**-**	**(315,279)**	**(2,390,957)**
Balance at 1 January 2008	(168,923)	(1,280,439)	(626,316)	-	(315,279)	(2,390,957)
Depreciation charge	(224,640)	(1,377,772)	(943,478)	-	(286,669)	(2,832,559)
Disposals	7,940	16,628	10,932	-	43,582	79,082
Balance at 31 December 2008	**(385,623)**	**(2,641,583)**	**(1,558,862)**	**-**	**(558,366)**	**(5,144,434)**
Net book value						
At 1 January 2007	**4,555,521**	**21,068,377**	**6,906,186**	**1,423,150**	**2,672,827**	**36,626,061**
At 31 December 2007	**4,771,897**	**21,224,618**	**9,579,799**	**3,482,290**	**2,390,339**	**41,448,943**
At 31 December 2008	**4,983,548**	**21,048,125**	**11,243,899**	**6,831,393**	**2,556,857**	**46,663,822**

As at 31 December 2008 assets under construction include advance payments for property, plant and equipment of RUR 1.2 billion (2007: RUR 547.4 million).

The amount of capitalised interest for the year ended 31 December 2008 was RUR 259.6 million (2007: RUR 99.8 million).

Determination of deemed cost

The deemed cost of property, plant and equipment of the Group has been determined by reference to its fair value as at 1 January 2007, the date of transition to IFRS, based on the independent appraisal.

As a result of the appraisal, the net book value of the appraised property, plant and equipment increased from RUR 23.2 billion reflected in the statutory financial statements, to RUR 36.6 billion in these consolidated financial statements as at 1 January 2007.

The fair value and estimated remaining useful life as at 1 January 2007 was determined by the independent appraiser, comprised of the consortium of CJSC «Deloitte & Touche CIS», LLC «FBK», LLC «Institut problem predprinimatelstva» and LLC «AKF «Top-Audit». The appraisal was performed in accordance with International standards on Appraisal.

The majority of the items of property, plant and equipment is specialised electricity equipment and is rarely sold on the open market other than as part of continuing business. The market for similar property, plant and equipment is not active and does not provide a sufficient number of sales of comparable property, plant and equipment for using a market-based approach for determining fair value.

Consequently the fair value of property, plant and equipment was primarily determined using depreciated replacement cost. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation, and obsolescence.

The depreciated replacement cost was estimated based on internal sources and analysis of the Russian and international markets for similar property, plant and equipment. Various market data were collected from published information, catalogues, statistical data etc.

In addition to the determination of the depreciated replacement cost, cash flow testing was conducted in order to assess the reasonableness of those values, which resulted in the depreciated replacement cost values being decreased by RUR 55.3 billion in arriving at the above value.

The following key assumptions were used in performing the cash flow testing:

- The projections of cash flows are based on the actual operating results and the 5-year and 10-year business plans. 10-year business plan were adopted for OJSC "Permenergo", OJSC "Sverdlovenergo", OJSC "Chelyabenergo"; 5-year business plans were adopted for other Group entities (refer to Note 1(a)).
- Based on Government regulation, the electricity transmission industry was expected to switch to the Regulatory Asset Base (RAB) regulation of tariffs, which is aimed at ensuring the fair return on invested capital. The shift to RAB regulation as at 1 January 2007 was expected to occur in 2012 with the transition period 2010-2011. The RUR rate of return on the invested capital as determined by Government regulations was expected to be in the range of 5.5 percent to 6.5 percent.
- In the first year at the business plans the total revenue from electricity transmission and distribution is estimated in the amount of RUR 34.7 billion. The management intends to reach the amount of RUR 4.2 billion by the fifth year of the 5-year business plan and the amount of RUR 59.4 billion by the tenth year of the 10-year business plan.
- A discount rate was estimated based on weighted average cost of capital («WACC») in the range from 17.62 percent to 20.63 percent for 5-year business plans and from 14.49 percent to 15.27 percent for 10-year business plans (depending on the actual capital structure of the Company's subsidiaries as at the valuation date) was applied in determining the recoverable amount of property, plant and equipment.
- A terminal value was derived at the end of a 5-year and 10-year interim periods for the 5-year and 10-year business plans, respectively. A terminal rate of 5.5 percent was considered in estimating the terminal value for the assets at the 5-year business plan and 2.7 percent for the assets at the 10-year business plan.

The values assigned to the key assumptions represent management's assessment of future trends in the business and are based on both external and internal sources.

(in thousands of Russian Roubles, unless otherwise stated)

Impairment test

The Group management analyses the indication of impairment due to volatility of markets and ongoing global financing and economic crisis. The Group's property, plant and equipment and intangible assets are tested for impairment at each balance sheet date separately for each cash-generating unit.

The recoverable amounts represent their value in use determined by discounting the nominal future cash flows of each cash-generating unit generated from their continuing use and ultimate disposal. The following key assumptions were used in performing the cash flow testing as at 31 December 2008:

- In 2008 the Government approved the methodology of RAB regulation through the issuance of resolution 231-э dated 26 June 2008. As at the impairment testing date Management and industry experts expect the shift to RAB regulation of the remaining Group's subsidiaries to occur not later than 1 January 2011.
- Based on Government regulations introduced in 2008, the return on capital invested before RAB regulation introduction period will gradually increase over the transition period and is expected to be 12% after the introduction of RAB. The return on the capital invested after the RAB regulation is introduced is expected to be 12%.
- Cash flows were projected based on Group budgets and official forecasted scenarios of the Russian electric power sector development prepared by CJSC Energy Forecasting Agency (the agency was established in 2005 by RAO UES for monitoring, analysis and forecasting the development of Russian electric power sector).
- Cash flows were calculated separately for each of the 4 cash-generating units («CGU»), being the regional network companies (individual branches from merger on 30 April 2008).
- Cash flows were extrapolated assuming no further growth in production volume from 2009 and revenue and expenses increasing in line with above-mentioned scenarios.
- In the assessment of cash flows, possible changes in electricity pricing and basic macroeconomic conditions making an impact on the Group's business practice were considered.
- A discount rate in the range from 18.23 percent to 18.79 percent was applied in determining the recoverable amount of the CGU. The discount rate was estimated based on weighted average cost of capital («WACC»).
- The values assigned to the key assumptions represent management's assessment of future trends in the business and are based on both external and internal sources (historical data).

The result of the impairment testing at the reporting dates does not give rise to any impairment charge. The sensitivity analysis shows, that change in the discount rate by 100 b.p. does not give rise to impairment charges.

Security

As at 31 December 2008 and 2007 there are no property, plant and equipment which are subject to a registered debenture to secure bank loans.

Leased plant and machinery

The Group leases production equipment and transport 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.

The net book value of leased property, plant and equipment accounted for as part of the Group's property, plant and equipment was as follows:

31 December 2008	**Substations' equipment**	**Other**	**Total**
Cost of leased assets	847,559	176,520	1,024,079
Accumulated depreciation	(146,881)	(30,591)	(177,472)
Net book value	**700,678**	**145,929**	**846,607**

(in thousands of Russian Roubles, unless otherwise stated)

31 December 2007	Substations' equipment	Other	Total
Cost of leased assets	319,439	187,090	506,529
Accumulated depreciation	(43,834)	(25,673)	(69,507)
Net book value	**275,605**	**161,417**	**437,022**

Investment property

	31 December 2008	31 December 2007
Cost/ deemed cost		
Balance at 1 January	326,261	324,805
Additions	-	1,474
Disposals	(6,665)	(18)
Balance as at 31 December	319,596	326,261
Depreciation		
Balance as at 1 January	(9,784)	-
Depreciation charge	(8,418)	(9,784)
Disposals	57	-
Balance as at 31 December	(18,145)	(9,784)
Net book value		
Balance as at 1 January	316,477	324,805
Balance as at 31 December	301,451	316,477

As at 31 December 2008 the fair value of investment property was RUR 680.2 million (31 December 2007: RUR 617.9 million).

Investment property mainly comprises of buildings owned by the Group and leased out under operating leases. The fair value of investment property was determined by reference to market evidence. This property is primarily held for the purpose of capital appreciation.

(in thousands of Russian Roubles, unless otherwise stated)

Note 10. Intangible assets

	31 December 2008	31 December 2007
Cost		
Balance as at 1 January	217,533	-
Additions	22,585	217,533
Disposals	-	-
Balance as at 31 December	240,118	217,533
Amortization		
Balance as at 1 January	(5,878)	-
Amortization charge	(91,557)	(5,878)
Balance as at 31 December	(97,435)	(5,878)
Net book value		
As at 1 January	211,655	-
As at 31 December	142,683	211,655

The Company's major activities (refer Note 1) are subject to obligatory certification under current Russian legislation. Intangible assets primarily comprise of electricity certificates acquired to meet obligatory certification requirements.

Note 11. Investments in equity accounted investee

The principal activities of OJSC «Kurganenergo» are electricity transmission, distribution and connection services. The ownership rights comprised of 53% of ordinary shares, representing 49% of voting rights, which allows the Group to exercise significant influence, but not control, over operating and financial activities of the associate.

	Carrying value as at 1 January 2007	Share of profit of associates	Carrying value as at 31 December 2007
OJSC «Kurganenergo»	538,110	2,469	540,579
Total investments in equity accounted investee	**538,110**	**2,469**	**540,579**

	Carrying value as at 31 December 2007	Share of profit of associates	Carrying value as at 31 December 2008
OJSC «Kurganenergo»	540,579	23,493	564,072
Total investments in equity accounted investee	**540,579**	**23,493**	**564,072**

The following is summarised financial information, in aggregate, in respect of equity accounted investee:

(in thousands of Russian Roubles, unless otherwise stated)

	31 December 2008	31 December 2007
Total assets	1,839,925	1,794,924
Total liabilities	(688,759)	(691,703)
Revenue	2,692,711	2,200,571
Expenses	(2,644,766)	(2,195,334)
Profit for the year	47,945	5,037

OJSC «Kurganenergo» is a listed company on Russian Trade System. Trading activity with shares of the associate was limited to 5 transactions in 2008 and 6 transactions in 2007.

Note 12. Other non-current assets

	31 December 2008	31 December 2007
Long-term receivable from pension fund	361,419	203,229
VAT on long -term advances received	160,358	81,681
Long term loans issued	69,378	71,964
Other non-current assets	14,409	120,053
Total	**605,564**	**476,927**

The Group's exposure to credit and currency risks related to non-current accounts receivable are disclosed in note 29.

Note 13. Inventories

	31 December 2008	31 December 2007
Raw materials and supplies	498,806	477,883
Spare parts	284,141	190,875
Other inventories	44,700	52,387
Provision for obsolete and slow moving inventories	(177,690)	(102,616)
Total	**649, 957**	**618,529**

As of 31 December 2008 and 2007 there were no inventories that have been pledged to secure bank loans and borrowings of the Group.

Note 14. Trade and other receivables

	31 December 2008	31 December 2007
Trade receivables	3,969,422	2,588,165
Other receivables	572,545	353,102
VAT recoverable	413,054	293,975
VAT on advances received	252,957	116,841
Allowance for impairment of accounts receivable	(702,875)	(255,946)
Total	**4,505,103**	**3,096,137**

The trade receivables balance includes the amount of RUR 1.4 billion as at 31 December 2008 (31 December 2007: RUR 0.7 billion) due from OJSC «Sverdlovenergosbut», the Group's largest customer. There are no other customers who represent more than 5% of the total balance of trade receivables.

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 29.

(in thousands of Russian Roubles, unless otherwise stated)

Note 15. Prepayments for current assets

	31 December 2008	31 December 2007
Prepayments	325,430	258,473
Prepaid taxes	230,286	369,625
Allowance for impairment of prepayments	(161,470)	(7,896)
Total	**394,246**	**620,202**

Note 16. Cash and cash equivalents

	31 December 2008	31 December 2007
Cash at bank and petty cash	863,947	836,904
Bank deposits	2,055	112,959
Total	**866,002**	**949,863**

All cash and cash equivalents are denominated in RUR.

	Rating	Rating agency	31 December 2008	31 December 2007
Cash at bank and petty cash				
JSCB "Agropromcredit"	Baa1	Moody's	694,802	614,978
OJSC "Alfa-Bank"	ruAA-	Standard & Poor's	77,862	-
JSB "Sberbank"	Aaa	Moody's	34,227	19,082
JSB "Gazprombank"	ruAA+	Standard & Poor's	28,408	347
JSB "Ekaterinburg National City Bank"	Group A-	National Rating Agency	15,968	-
JSB "Uraltransbank"	Bb+	Fitch Ratings	5,285	14,442
Other			7,395	188,055
Total cash at bank and petty cash			**863,947**	**836,904**
Bank deposits				
JSCB "Perminvestbank"	no rating	no rating	1,500	6,600
JSB "Strategy"	no rating	no rating	-	55,100
JSB "TRANSCAPITALBANK"	A1.ru	Moody's	-	50,100
Other			555	1,159
Total bank deposit			**2,055**	**112,959**
Total			**866,002**	**949,863**

The Group's exposure to interest rate risk and sensitivity analysis for financial assets and liabilities are disclosed in note 29.

(in thousands of Russian Roubles, unless otherwise stated)

Note 17. Equity

Share capital

The Group was formed as at 30 April 2008 by the combination of a number of businesses under common control. For the purpose of comparability, the equity of the Group has been presented for comparative periods and as at 1 January 2007 (the date of transition to IFRS) as if the current group structure had existed as at 1 January 2007.

Prior to the reorganization, the Company's share capital consisted of 100,000,000 ordinary shares of RUR 0.10 par value. The share capital of 87,430,485,711 ordinary shares of the Company was formed through the issuance and exchange of 2,414,185,974 ordinary shares of the Company into shares of an associate, OJSC "Kurganenergo", and issuance of 84,916,299,737 of shares of the Company and conversion of these newly issued shares into the shares of the merged entities (refer to Note 1) as follows:

- 49,102/184,159 of ordinary shares of OJSC "Chelyabenergo"' with par value of RUR 1 were converted into one additionally issued share of the Company with par value of RUR 0.10;
- 49,102/166,480 of preference shares of OJSC "Chelyabenergo" with par value of RUR 1were converted into one additionally issued share of the Company with par value of RUR 0.10;
- 49,102/29,721,660 of ordinary shares of OJSC "Permenergo" with par value of RUR 55 were converted into one additionally issued share of the Company with par value of RUR 0.10;
- 49,102/26,868,381 of preference shares of OJSC "Permenergo" with par value of RUR 55 were converted into one additionally issued share of the Company with par value of RUR 0.10;
- 49,102/2,629,547 of ordinary shares of OJSC '"Sverdlovenergo" with par value of RUR 1 were converted into one additionally issued share of the Company with par value of RUR 0.10;
- 49,102/2,377,111 of preference shares of OJSC "Sverdlovenergo" with par value of RUR 1 were converted into one additionally issued share of the Company with par value of RUR 0.10.

	31 December 2008	31 December 2007
Number of ordinary shares authorized, issued and fully paid	87,430,485,711	87,430,485,711
Par value (in RUR)	0.10	0.10
Total share capital	**8,743,049**	**8,743,049**

Dividends paid and declared

In accordance with Russian legislation the Company's distributable reserves are limited to the balance of accumulated retained earnings as recorded in the Company's statutory financial statements prepared in accordance with Russian Accounting Principles. The Company had retained earnings, including profit for the year, of RUR 19.9 billion as at 31 December 2008 (31 December 2007: 17.4 billion).

At the annual shareholders' meeting held on 19 June 2009 the Company approved a decision not to declare dividends for 2008.

In 2008 the Company declared dividends of RUR 5 million for 2007 (2007: 184.2 million for 2006).

(in thousands of Russian Roubles, unless otherwise stated)

During 2008, the Company paid dividends of RUR 11 million (2007: 191 million). Dividends payable by the Company of RUR 24 million are included in Trade and other payables in the consolidated balance sheet as of 31 December 2008 (31 December 2007: RUR 30 million).

Earnings per share

The calculation of earnings per share is the net profit for the year divided by the weighted average number of ordinary shares outstanding during the year as if the business combination among the Group entities took place as at 1 January 2007 (refer to Note 2 for basis of preparation of these consolidated financial statements). The Company has no dilutive potential ordinary shares.

	Year ended 31 December 2008	Year ended 31 December 2007
Weighted average number of ordinary shares issued	87,430,485,711	87,430,485,711
Profit attributable to the shareholders of the Company	872,636	1,250,462
Earnings per share (in RUR)	0.0100	0.0143

Note 18. Loans and borrowings

The note provides information about the contractual terms of the Group's loans and borrowings. For more information about the Group's exposure to interest rate risk refer to note 29.

Long-term loans and borrowings

	Nominal interest rate,%	Year of maturity	31 December 2008	31 December 2007
OJSC "Savings Bank of the Russian Federation"	8%-12.95%	2010-2013	2,098,129	598,128
JSB "Gazprombank"	11%-17%	2010	1,168,500	25,000
Total			**3,266,629**	**623,128**

Short-term loans and borrowings

Name of lender	Nominal interest rate,%	31 December 2008	31 December 2007
Bank loans			
JSB "Gazprombank"	9.45-17%	2,098,820	2,084,100
JSC "TransCreditBank"	11.8-13.68%	500,000	150,000
OJSC "Savings Bank of the Russian Federation"	10.5-12.56%	500,000	-
JSCB "Agropromcredit"	14.5-17%	381,550	20,939
OJSC "Absolut"	10.75%	138,586	-
Other		2,300	-
Unsecured bond issues	8.15-8.76%	2,000,000	2,600,000
Total		**5,621,256**	**4,855,039**

All loans and borrowings of the Group are denominated in RUR and bear fixed interest rate.

Loans with JSB "Gazprombank" are partially secured by rights to claim future cash collections from the Company's customers for electricity transmission services. These rights to claim are limited to a maximum amount of RUR 3.3 billion as of 31 December 2008 (31 December 2007: RUR 2.8 billion). All other loans and borrowings are unsecured.

In 2007 the Company issued bonds for the purpose of financing its investment activity.

(in thousands of Russian Roubles, unless otherwise stated)

The Group's exposure to currency and liquidity risk related to loans and borrowings is disclosed in Note 29.

Note 19. Long-term advances

Long-term advances are mostly comprised of advances received for connection services to the electricity grid.

Note 20. Employee benefits

The Group provides the following long-term pension and social benefit plans:

- defined contribution pension plan and defined benefit pension plan (Non-Government Pension Fund of the Electric Power and Non-Government Pension Fund "Proffesionalny"); and
- defined benefit pension plans regulated by Collective Bargaining Agreements that include lump sum benefit for pensioners, benefits paid in connection with the jubilee dates birthday of employee and pensioners, and financial support for pensioners.

The table below summarizes the amounts of defined benefit obligations recognized in the financial statements.

Amounts recognized in the combined balance sheet:

	31 December 2008		31 December 2007	
	Post-employment benefits	Other long-term benefits	Post-employment benefits	Other long-term benefits
Present value of funded defined benefit obligations	410,537	13,832	434,160	8,081
Unrecognized actuarial losses	(75,237)	-	(92,890)	-
Unrecognized past service cost	(45,197)	-	-	-
Net defined benefit obligation	**290,103**	**13,832**	**341,270**	**8,081**

Amounts recognized in the income statement:

	Year ended 31 December 2008		Year ended 31 December 2007	
	Post-employment benefits	Other long-term benefits	Post-employment benefits	Other long-term benefits
Current service cost	25,931	1,035	21,629	570
Interest expenses	26,043	505	23,359	562
Recognized actuarial loss	4,947	6,550	-	839
Past service cost	3,665	-	-	-
Immediate recognition of Past service cost	15,387	-	-	-
Total	**75,973**	**8,090**	**44,988**	**1,971**

Movements in the present value of the Group's defined benefit obligations are as follows:

	Year ended 31 December 2008		Year ended 31 December 2007	
	Post-employment benefits	Other long-term benefits	Post-employment benefits	Other long-term benefits
Defined benefit obligations as at the beginning of the period	**434,160**	**8,081**	372,163	**9,928**
Current service cost	25,931	1,035	21,629	570
Interest cost	26,043	505	23,359	562
Actuarial (gains) losses	(12,706)	6,550	92,890	839
Benefits paid	(127,140)	(2,339)	(75,881)	(3,818)
Past service cost	64,249	-	-	-
Defined benefit obligations as at the end of the period	**410,537**	**13,832**	**434,160**	**8,081**

(in thousands of Russian Roubles, unless otherwise stated)

Movements in the Group's net benefit obligations are as follows:

	Year ended 31 December 2008		Year ended 31 December 2007	
	Post-employment benefits	Other long-term benefits	Post-employment benefits	Other long-term benefits
Net defined benefit obligations as at the beginning of the period	341,270	8,081	372,163	9,928
Net expenses for the period	75,973	8,090	44,988	1,971
Benefits paid	(127,140)	(2,339)	(75,881)	(3,818)
Net defined benefit obligations as at the end of the period	**290,103**	**13,832**	**341,270**	**8,081**

Principal actuarial estimations are as follows:

	Year ended 31 December 2008		Year ended 31 December 2007	
	Post-employment benefits	Other long-term benefits	Post-employment benefits	Other long-term benefits
Discount rate (nominal)	8.85%	8.85%	6.79%	6.79%
Future salary and pension increases	5.81%	5.81%	6.15%	6.15%
Future inflation rate	5.81%	5.81%	6.15%	6.15%
Employees average remaining working life (years)	10	10	10	10

Note 21. Finance lease liabilities

The Group leases production equipment and transportation vehicles 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. Finance lease liabilities are payable as follows:

	Nominal interest rate,%	Currency	31 December 2008	31 December 2007
Non-current finance lease obligation	17%-36%	RUR	**315,220**	**106,536**
Current portion finance lease obligation	17%-36%	RUR	**157,825**	**56,258**

Non-current finance lease liabilities outstanding as at 31 December 2008 mature from 2010 to 2012 (31 December 2007: from 2009 to 2012).

	31 December 2008			31 December 2007		
	Minimum lease payments	Interest	Present value of minimum lease payments	Minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	257,431	(99,606)	157,825	98,292	(42,034)	56,258
Between one and five years	399,707	(84,487)	315,220	138,493	(31,957)	106,536
Total	**657,138**	**(184,093)**	**473,045**	**236,785**	**(73,991)**	**162,794**

(in thousands of Russian Roubles, unless otherwise stated)

The net book value of leased property, plant and equipment is disclosed in Note 9.

The finance lease liabilities are secured by leased assets.

The Group's exposure to currency and liquidity risk related finance lease liabilities is disclosed in Note 29.

Note 22. Trade and other payables

	31 December 2008	31 December 2007
Trade payables	2,787,748	2,214,079
Advances received	1,702,619	719,117
Payables to employees	456,845	426,842
Dividends payable	24,083	29,835
Accrued liabilities and other payables	331,891	463,680
Total	**5,303,186**	**3,853,553**

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 29.

Note 23. Other taxes payable

	31 December 2008	31 December 2007
Unified social tax	91,384	81,207
Property tax	37,833	14,326
Fines and other penalties	1,615	37,598
Land tax	-	41,516
Value added tax	-	28,521
Other taxes	56,362	54,210
Total	**187,194**	**257,378**

Note 24. Related parties

Control relationships

Related parties include shareholders, affiliates and entities under common ownership and control with the Group and members of the Board of Directors and key management personnel. The Company's parent as at 31 December 2008 was OJSC IDGC Holding. The party with the ultimate control over the Company is the Government of the Russian Federation which held the majority of the voting rights of OJSC IDGC Holding.

Before 30 June 2008 the Company's parent was OJSC RAO UES of Russia. On 1 July 2008 OJSC RAO UES of Russia ceased to exist as a separate legal entity and transferred 51.52 percent of OJSC IDGC of Urals to OJSC IDGC Holding, a state controlled entity.

In the normal course of business the Group enters into transactions with other entities under common government control including Federal Grid Company, Russian railways, state-controlled banks and various governmental bodies. Prices for electricity, electricity transmission and connection services are based on tariffs set by federal and regional tariff regulatory bodies. Bank loans are provided on the basis of market rates. Taxes are accrued and settled in accordance with Russian tax legislation.

The amounts outstanding with related parties are unsecured and will be settled in cash.

The Group's parent company produces publicly available financial statements.

(in thousands of Russian Roubles, unless otherwise stated)

Transactions with the Company's Parent, its subsidiaries and associates

Transactions with the Company's parent, its subsidiaries and associate include transactions with RAO UES of Russia, its subsidiaries and associates for the period from 1 January 2007 to 30 June 2008 and afterwards with OJSC IDGC Holding, its subsidiaries and associates, and were as follows:

	Year ended 31 December 2008	Year ended 31 December 2007
Revenue		
Electricity transmission and electricity sales	10,745,189	22,415,778
Revenue from other services	13,341	73,619
Operating expenses		
Electricity transmission paid to local distribution grids and purchased electricity	8,696,991	15,953,718
Other expenses	12,857	109,254

Balances with RAO UES of Russia, its subsidiaries and associates and with OJSC IDGC Holding, its subsidiaries and associates as at 31 December 2007 and 2008, accordingly, were as follows:

	31 December 2008	31 December 2007
Trade and other receivable and prepayments	967	1,132,259
Trade and other payables	-	663,078

Transactions with state controlled entities

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

	Year ended 31 December 2008	Year ended 31 December 2007
Revenue		
Electricity transmission and electricity sales	3,014,946	2,532,155
Revenue from connection services	212,749	100,866
Revenue from other services	64,646	26,985
Operating expenses		
Electricity transmission paid to local distribution grids and purchased electricity	10,031,302	1,649,675
Other expenses	121,849	144,409
Interest expense	3,590	13,594

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

	31 December 2008	31 December 2007
Trade and other receivable and prepayments	360,149	720,920
Trade and other payables	523,456	448,417
Loans and borrowings	3,098,128	748,128

(in thousands of Russian Roubles, unless otherwise stated)

As at 31 December 2008 cash held at state-controlled banks amounted to RUR 50 million (31 December 2007: RUR 39 million).

Transactions with members of the Board of Directors and key management personnel

There are no transactions with members of the Board of Directors and key management personnel except for remuneration in the form of salary and bonuses, which were as follows:

	Year ended 31 December 2008		Year ended 31 December 2007	
	Members of Board of Directors	Key management personnel	Members of Board of Directors	Key management personnel
Salaries and bonuses	9,492	93,785	28,471	143,941

Note 25. Operating leases

The Group leases a number of land plots, office facilities and other assets owned by local governments and commercial enterprises under operating lease agreements.

Non-cancellable operating lease rentals under land lease agreements are payable as follows:

	31 December 2008	31 December 2007
Less than one year	102,156	87,331
Between one year and five years	265,407	234,219
More than five years	1,260,152	945,734
Total	**1,627,715**	**1,267,284**

The land plots leased by the Group are the territories on which the Group electricity grids, substations and other assets are located. There are lease contracts for land leases concluded for a period of 49 years. Lease payments are reviewed regularly to reflect market rates.

Non-cancellable operating lease rentals under other lease agreements are payable as follows:

	31 December 2008	31 December 2007
Less than one year	229,242	218,414
Between one year and five years	707,634	727,104
More than five years	175,988	296,448
Total	**1,112,864**	**1,241,966**

The majority of these lease payments relates to the lease of the office building of OJSC IDGC of Urals in Yekaterinburg with a lease term up to 2014.

During the current year RUR 513 million (2007: RUR 332 million) was recognized in the income statement in respect of operating leases.

Note 26. Segment information

The Group has the following business segments:

- Transmission and distribution of electricity and connection services which are related activities and are subject to similar risks and returns, therefore they are reporting as one business segment.
- Sale of electricity to final customers segment.

The information for the year ended 31 December 2008 and 2007 is presented below:

(in thousands of Russian Roubles, unless otherwise stated)

	Transmission and distribution of electricity		Sales of electricity to final customers		Eliminations		Consolidated	
	2008	2007	2008	2007	2008	2007	2008	2007
Revenue from external customers	32,695,039	32,210,378	8,898,397	5,812,867	-	-	41,593,436	38,023,245
Inter-segment revenue	3,083,612	2,152,997	584,435	-	(3,668,047)	(2,152,997)	-	-
Total segment revenue	**35,778,651**	**34,363,375**	**9,482,832**	**5,812,867**	**(3,668,047)**	**(2,152,997)**	**41,593,436**	**38,023,245**
Segment result	**938,703**	**1,515,307**	**417,522**	**939,421**				
Unallocated expenses								
Financial income							25,329	52,955
Financial expenses							(565,587)	(223,600)
Share of profit of equity accounted investee							23,493	2,469
Income tax							164,246	(939,918)
Profit for the year							**1,003,706**	**1,346,634**

	Transmission and distribution of electricity		Sales of electricity to final customers		Eliminations		Consolidated	
	2008	2007	2008	2007	2008	2007	2008	2007
Segment assets	**53,563,377**	**47,333,854**	**857,927**	**664,716**	**(254,552)**	**(22,929)**	**54,166,752**	**47, 975,641**
Investment in equity accounted investee							564,072	540,579
Unallocated assets							209,010	759,272
Total assets							**54,939,834**	**49,275,492**
Segment liabilities	**7,094,105**	**6,561,707**	**671,604**	**198,066**	**(254,552)**	**(22,929)**	**7,511,157**	**6,736,844**
Unallocated liabilities							12,262,767	8,371,372
Total liabilities							**19,773,924**	**15,108,216**
Depreciation/ amortisation	2,932,534	2,425,642	-	-	-	-	-	-
Capital expenditure	9,097,248	7,963,798	-	-	-	-	-	-

Note 27. Commitments

Capital commitments

As at 31 December 2008 the Group has outstanding commitments for the acquisition and construction of property, plant and equipment of RUR 4.5 billion (31 December 2007: RUR 3.4 billion).

Note 28. Contingencies

Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not generally available. The Group does not have full coverage for its stations, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

Litigation

During the year, the Group was involved in the number of court procedures (both as a plaintiff and as a defendant) arising in the originally course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material adverse effect on the results of operation, financial position or cash flows of the Group and which have not been accrued or disclosed in these consolidated financial statements.

Taxation

The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

While management believes that it has adequately provided for tax liabilities based on its interpretation of current and previous legislation, the risk remains that tax authorities on the Russian Federation could take differing positions with regard to interpretive issues. This uncertainty may expose the Group to additional taxation, fines and penalties that could be significant.

Environmental matters

The Group and its predecessors have operated in the electric power industry in the Russian Federation for many years. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The 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.

(in thousands of Russian Roubles, unless otherwise stated)

Note 29. Financial risk management

(a) Overview

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk,
- Liquidity risk,
- Market risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group does not hedge its exposure to such risks. Further quantitative disclosures are included throughout these consolidated financial statements.

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

Trade and other receivables

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

The Group management assesses the credit quality of the customer taking into account its financial position, past experience and other factors. The Group establishes an allowance for impairment that represents its estimate of anticipated losses in respect of trade and other receivables that relate to individually significant exposures.

The customer base for electricity transmission services is limited to several distribution companies and a small number of large commercial enterprises.

Approximately 63% of the Group's revenue for the year ended 31 December 2008 (2007: 77%) is attributable to sales transactions with seven customers (2007: seven customers) transacting with the Group for several years, and, consequently, losses have incurred infrequently. Accounts receivable from these customers represents 69% (2007: 33%) from the total outstanding balance of trade and other receivables.

The Group does not require collateral in respect of trade and other receivables.

Exposure to credit risks

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	31 December 2008	31 December 2007
Cash and cash equivalents	866,002	949,863
Trade and other receivables	3,839,092	2,685,321
Other current assets	37,925	236,908
Other non-current assets	445,206	395,246
Total	**5,188,225**	**4,267,338**

(in thousands of Russian Roubles, unless otherwise stated)

The maximum exposure to credit risk for trade receivables at the reporting date by type of customer was:

	31 December 2008	31 December 2007
Electricity transmission	2,343,085	1,783,770
Electricity sales	676,498	468,040
Connection services	69,227	4,111
Other services	374,516	143,876
Total	**3,463,326**	**2,399,797**

Impairment losses

The aging of trade and other receivables at the reporting date was:

	31 December 2008		31 December 2007	
	Gross	Impairment	Gross	Impairment
Not past due	3,059,514	(71,093)	2,479,773	(32,748)
Past due less than 90 days	491,232	(90,684)	19,984	(1,271)
Past due 90 – 180 days	351,869	(197,156)	4,618	(2,624)
Past due 180 – 365 days	141,765	(126,705)	41,693	(39,208)
Past due more than 1 year	497,587	(217,237)	395,199	(180,095)
Total	**4,541,967**	**(702,875)**	**2,941,267**	**(255,946)**

The movement in the allowance for impairment in respect of trade and other receivables during the year was as follows:

	31 December 2008	31 December 2007
Balance at 1 January	255,946	167,156
Increase during the period	452,890	88,790
Decrease due to reversal	(5,961)	-
Balance at 31 December	**702,875**	**255,946**

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stress conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group monitors the risk of cash shortfalls, using current liquidity planning. The management analyses payment dates associated with financial assets and also forecast cash flows from operating activity and manages liquidity risk by maintaining bank credit lines and sufficient cash balances on its settlement accounts.

The Group had negative net current assets as at 31 December 2008. Subsequent the reporting date the Group refinanced its existing short-term loans and borrowings and obtained new credit lines for the amounts exceeding the liquidity gap.

(in thousands of Russian Roubles, unless otherwise stated)

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding impact of netting agreements:

As at 31 December 2008:

	Carrying amount	Contractual cash flows	Less than 6 months	6-12 months	1-2 years	2-5 years
Non-derivative financial liabilities:						
Unsecured bond issues	2,000,000	2,070,375	2,070,375	-	-	-
Loans and borrowings	6,887,885	8,121,672	1,992,193	2,243,351	1,892,475	1,993,653
Finance lease liabilities	473,045	657,138	134,670	122,761	216,126	183,581
Trade and other payables	3,635,602	3,635,602	3,212,654	387,911	35,037	-
Total	**12,996,532**	**14,484,787**	**7,409,892**	**2,754,023**	**2,143,638**	**2,177,234**

As at 31 December 2007:

	Carrying amount	Contractual cash flows	Less than 6 months	6-12 months	1-2 years	2-5 years
Non-derivative financial liabilities:						
Unsecured bond issues	2,600,000	2,661,031	2,661,031	-	-	-
Loans and borrowings	2,878,167	3,221,899	2,255,008	175,106	74,031	717,754
Finance lease liabilities	162,794	236,785	53,829	44,463	121,768	16,725
Trade and other payables	3,157,341	3,157,341	2,683,735	449,732	23,874	-
Total	**8,798,302**	**9,277,056**	**7,653,603**	**669,301**	**219,673**	**734,479**

(d) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

Foreign currency risk

The Group does not have any significant exposure to foreign currency risk as no significant sales, purchases and borrowings are denominated in a currency other than the functional currency of Group entities, which is the Russian Rouble.

Interest rate risk

Interest rate risk is the risk that changes in floating interest rates will adversely impact the financial results of the Group. The Group does not use any derivatives to manage interest rate risk exposure.

The majority of the financial assets and liabilities of the Group are fixed rate financial instruments. The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

(e) Capital management

The Group's manages its capital to ensure Group entities are able to continue as a going concern while maximizing the return to the equity holders through the optimization of the debt and equity balance. The management of the Group reviews the capital structure on a regular basis. Based on results of this review, the Group takes steps to balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing one.

There were no changes in the Group's approach to capital management during the year. The company is subject to external capital requirements that require that its net assets as determined in accordance with Russian accounting principles must exceed its charter capital at all times.

(f) Fair values

Management believes that at the reporting date the fair value of the Group's financial assets and liabilities approximates their carrying value.