OJSC INTERREGIONAL DISTRIBUTION GRID COMPANY OF CENTER AND VOLGA REGION
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

Contents

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Independent Auditors' Report

To the Board of Directors of OJSC Interregional Distribution Grid Company of Center and Volga Region

Report on the Consolidated IFRS Financial Statements

We have audited the accompanying consolidated financial statements of OJSC Interregional Distribution Grid Company of Center and Volga Region (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement 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 combined 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 audit. Except as described in the Basis for Qualified Opinion paragraph, we conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting 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 710,982 thousand and RUR 743,418 thousand as at 31 December 2008 and 31 December 2007, respectively, because we were engaged as auditors of the Group only after those dates. 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, cost of sales, taxation, net profit and retained earnings as at and for the years ended 31 December 2007 and 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 its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

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9 November 2009

OJSC IDGC of Center and Volga Region
Consolidated Balance Sheet as at 31 December 2008

(in thousands of Russian Roubles, unless otherwise stated)

	Note	31 December 2008	31 December 2007
ASSETS			
Non-current assets			
Property, plant and equipment	7	39,563,448	31,537,540
Intangible assets	8	112,333	183,833
Investments in equity accounted investee	9	42,267	47,912
Other investments and financial assets	10	553,752	409,088
Other non-current assets	11	205,853	140,863
Total non-current assets		**40,477,653**	**32,319,236**
Current assets			
Inventories	15	710,982	743,418
Income tax receivable		162,003	97,804
Trade and other receivables	13	4,512,170	2,783,630
Prepayments for current assets	14	329,796	302,908
Cash and cash equivalents	12	2,460,842	461,523
Total current assets		**8,175,793**	**4,389,283**
TOTAL ASSETS		**48,653,446**	**36,708,519**
EQUITY AND LIABILITIES			
Share capital	16	11,269,782	11,269,782
Reserves		13,102	49,510
Retained earnings		15,843,787	13,969,630
Total equity attributable to shareholders of the Company		**27,126,671**	**25,288,922**
Minority interest		-	26,157
Total equity		**27,126,671**	**25,315,079**
Non-current liabilities			
Deferred income tax liabilities	26	2,450,901	3,134,865
Employee benefits	17	823,787	407,091
Loans and borrowings	18	9,659,606	2,336,427
Trade and other payables	19	601,642	103,915
Total non-current liabilities		**13,535,936**	**5,982,298**
Current liabilities			
Loans and borrowings	18	1,053,319	836,015
Trade and other payables	19	6,689,865	4,008,422
Income tax payable		41	180,078
Other taxes payable	20	247,614	386,627
Total current liabilities		**7,990,839**	**5,411,142**
Total liabilities		**21,526,775**	**11,393,440**
TOTAL EQUITY AND LIABILITIES		**48,653,446**	**36,708,519**

These consolidated financial statements were approved by management on 6 November 2009 and were signed on its behalf by:

Director General

Ushakov E.V.

Chief Accountant

Rodionova I.U.

The consolidated balance sheet is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 36.

(in thousands of Russian Roubles, unless otherwise stated)

	Note	Year ended 31 December 2008	Year ended 31 December 2007
Revenue	21	38,302,245	26,678,691
Operating expenses	22	(36,173,229)	(24,917,793)
Other income and expenses, net	24	377,682	373,405
Operating profit		**2,506,698**	**2,134,303**
Financial income	25	71,142	85 745
Financial expenses	25	(418,016)	(112,194)
Share of loss of equity accounted investee (net of income tax)		(5,645)	(12,648)
Profit before income tax		**2,154,179**	**2,095,206**
Income tax expense	26	(280,905)	(754,400)
Profit for the year		**1,873,274**	**1,340,806**
Attributable to:			
Shareholders of the Company		1,874,157	1,341,483
Minority interest		(883)	(677)
Earnings per share	16		
Earnings per share – basic and diluted (in Russian roubles)		0.0166	0.0119

The consolidated income statement is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 36.

(in thousands of Russian Roubles, unless otherwise stated)

	Notes	Year ended 31 December 2008	Year ended 31 December 2007
OPERATING ACTIVITIES:			
Profit before income tax		**2,154,179**	**2,095,206**
Adjustments for:			
Depreciation and amortisation	7, 8	3,098,090	2,563,510
Allowance for impairment of accounts receivable		78,072	74,811
Finance income and expenses, net		346,877	26,449
Loss on disposal of property, plant and equipment		109,039	68,022
Accounts payable written-off		(17,537)	(78,637)
Income from surplus of assets		(83,653)	(130,799)
Gain on disposal of investments		(45,775)	-
Gain on disposal of subsidiaries		(27,924)	-
Share of loss of equity accounted investee (net of income tax)		5,645	12,648
Adjustment for other non-cash transactions		4,370	(3,850)
Operating profit before working capital changes and income tax paid		**5,621,383**	**4,627,360**
Working capital changes:			
Increase in trade and other receivables		(1,906,720)	(623,789)
Increase in prepayments		(38,134)	(24,831)
Decrease/(increase) in inventories		47,060	(17,127)
Increase in financial assets related to employee benefit fund		(186,927)	(180,966)
Increase in trade and other payables		3,159,068	1,270,193
Increase in employee benefits		416,696	2,595
Decrease in taxes payable other than income		(131,011)	(218,004)
Cash flows from operations before income taxes and interest paid		**6,981,415**	**4,835,431**
Income tax paid		(1,187,108)	(692,093)
Interest paid		(570,604)	(79,374)
Net cash flows from operating activities		**5,223,703**	**4,063,964**
INVESTING ACTIVITIES:			
Acquisition of property, plant and equipment and intangible assets		(10,850,084)	(5,393,447)
Proceeds from disposal of property, plant and equipment		28,547	73,134
Disposal of subsidiaries, net of cash disposed of		111,738	-
Interest received		12,942	13,731
Proceeds from disposal of other investments		213,694	114,287
Net cash flows used in investing activities		**(10,483,163)**	**(5,192,295)**
FINANCING ACTIVITIES:			
Proceeds from loans and borrowings		10,568,551	6,523,984
Repayment of loans and borrowings		(3,133,156)	(4,714,887)
Dividends paid		(27,738)	(321,215)
Payment of finance lease liabilities		(148,878)	(129,312)
Net cash flows from financing activities		**7,258,779**	**1,358,570**
Net increase in cash and cash equivalents		**1,999,319**	**230,239**
Cash and cash equivalents at beginning of year		**461,523**	**231,284**
Cash and cash equivalents at end of year		**2,460,842**	**461,523**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 36.

(in thousands of Russian Roubles, unless otherwise stated)

	Share capital	Available-for-sale investments revaluation reserve	Retained earnings	Total	Minority interest	Total equity
At 1 January 2007	**11,269,782**	**44,404**	**12,927,844**	**24,242,030**	**26,834**	**24,268,864**
Change in fair value of available-for-sale investments, net of tax	-	5,106	-	5,106	-	5,106
Profit/(loss) for the year	-	-	1,341,483	1,341,483	(677)	1,340,806
Total recognised income and expense				1,346,589	(677)	1,345,912
Dividends to shareholders	-	-	(299,697)	(299,697)	-	(299,697)
At 31 December 2007	**11,269,782**	**49,510**	**13,969,630**	**25,288,922**	**26,157**	**25,315,079**
At 1 January 2008	**11,269,782**	**49,510**	**13,969,630**	**25,288,922**	**26,157**	**25,315,079**
Change in fair value of available-for-sale investments, net of tax	-	(36,408)	-	(36,408)	-	(36,408)
Profit/(loss) for the year	-	-	1,874,157	1,874,157	(883)	1,873,274
Total recognised income and expense				1,837,749	(883)	1,836,866
Disposal of subsidiaries	-	-	-	-	(25,274)	(25,274)
At 31 December 2008	**11,269,782**	**13,102**	**15,843,787**	**27,126,671**	**-**	**27,126,671**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 36.

(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 Center and Volga Region" (hereafter, the "Company") and its subsidiaries (together referred to as the "Group") comprise Russian open joint stock companies as defined in the Civil Code of the Russian Federation. The Company was set up on 28 June 2007 based on Resolution no. 193p of 22 June 2007 and pursuant to the Board of Directors' decision (board of directors' meeting minutes no. 250 of 27 April 2007) of the Russian Open Joint-Stock Company RAO "United Energy Systems of Russia" (hereafter, "RAO UES").

The Company's registered office is Rozhdestvenskaya street, Nizhniy Novgorod, 603950, Russia.

The Group's principal activity is the transmission and distribution of electricity and connection of customers to the electricity grid.

The Group consists of the Company and its subsidiaries:

Name	31 December 2008 % owned	31 December 2007 % owned
OJSC "Luchinskoye Agricultural Enterprise"	100.00	100.00
OJSC "Motor Vehicle Plant"	100.00	100.00
OJSC "Berendeyevskoye"	100.00	100.00
CJSC "Svet"	100.00	100.00
OJSC "Energetik Recreation Center"	-	51.00
OJSC "Energiya" Breeding Farm"	-	100.00
OJSC "Energetik Sanatorium-Preventorium"	100.00	100.00
OJSC "Udmurtenergoremont"	-	100.00

The reform process in the Russian electric utilities industry creates conditions for competitive electricity market development in which the Group can raise the capital required to maintain and expand current capacity.

As part of the reform process, a merger of the Company with the entities listed below was effected on 29 February 2008 in accordance with the Resolution no. 250 of the Board of Directors of RAO UES of 27 April 2007:

OJSC "Kalugaenergo";

OJSC "Tulenergo";

OJSC "Ryazanenergo";

OJSC "Vladimirenergo";

OJSC "Ivenergo";

OJSC "Nizhnovenergo";

OJSC "Kirovenergo";

OJSC "Marienergo";

OJSC "Udmurtenergo".

The merger was affected through conversion of shares issued by the Company in exchange for shares in the acquired entities (see Note 16). As a result of the merger, above-mentioned companies ceased to exist as separate legal entities and the Company became their legal successor.

Prior to the formation of the Group the Group prepared combined IFRS financial statements for the year ended 31 December 2007, to show the financial position, financial performance and cash flows of the companies constituting the merged Group. All the companies were under common control of RAO UES. These consolidated financial statements are prepared in accordance with the Group accounting policies in respect of business combinations involving entities under common control (see Note 3 (a)) as if the formation of the Group was completed as at 1 January 2006. Accordingly, the combined financial statements form the corresponding figures in these consolidated financial statements.

As at 31 December 2007, the Government of the Russian Federation owned 52.68% of RAO UES, which in turn owned 100% of the Company.

On 1 July 2008 RAO UES ceased to exist as a separate legal entity and transferred shares of the Company to Open Joint-Stock Company "Interregional Distribution Grid Companies Holding" (hereafter, "IDGC Holding"), a newly formed state-controlled entity.

As at 31 December 2008, the Government of the Russian Federation owned 52.70% shares of IDGC Holding, which in turn owned 50.40% of the Company.

The Government of the Russian Federation influences the Group's activities through setting power transmission and distribution tariffs.

(b) ***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 (hereinafter, "Financial Statements") have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

(b) Basis of measurement

The Financial Statements are prepared on the historical cost basis except that investments available-for-sale are stated at fair value; property, plant and equipment was revalued to determine deemed cost as part of the adoption of IFRS as at 1 January 2006.

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian rouble ("RUR"), which is the Group's functional currency and the currency in which these Financial Statements are presented. All financial information presented in Russian roubles has been rounded to the nearest thousand.

(d) 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 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 7 – Property, plant and equipment;
- Note 13 – Trade and other receivables;
- Note 17 – Employee benefits.

Note 3. Significant accounting policies

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

(a) Basis of consolidation

Business combination including 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 that control is not transitory.

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Company 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. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the acquired entity's IFRS financial statements. The components of equity of the acquired entities are added to the same components within the Company equity except that any share capital of the acquired entities is recognised as part of retained earnings. Any cash paid for the acquisition is recognised directly in equity.

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 presently are exercisable are taken into account. The financial statements of subsidiaries are included in the 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.

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 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.

Transactions eliminated on consolidation

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing these 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

Transactions in foreign currencies are translated to Russian roubles at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to Russian roubles at the exchange rate at that date. Non-monetary assets and liabilities that are measured at fair value and denominated in a foreign currency are translated to Russian roubles 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.

(c) 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 any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Accounting for finance income and expenses is discussed in note 3(m).

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.

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 and where fair value cannot be estimated on a reasonable basis by other means are stated at cost less impairment losses.

(d) Property, plant and equipment

Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. The deemed cost of property, plant and equipment at 1 January 2006, the date of transition to IFRSs, was determined by reference to its fair value at that date.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing of assets 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. Borrowing costs on qualifying assets are contained as part of the cost of such assets.

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 "operating expenses" in the income statement.

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 costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as incurred.

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. Depreciation commences on the month following the acquisition or, in respect of internally constructed assets, from the month following the month an assets is completed and ready for use. 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)
Buildings	7-50
Transmission networks	5-40
Equipment for electricity transformation	5-40
Other	1-50

(e) Intangible assets

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

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

Amortisation is recognised in the income statement on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The estimated useful lives for the current and comparative periods are 3 to 10 years.

(f) 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.

Leases, other than finance leases, are treated as operating leases, and leased assets are not recognised on the Group's balance sheet. Operating lease payments (net of benefits granted by the lessor) are recognised in the income statement on a straight line basis over the lease term.

(g) Inventories

Inventories are measured at the lower of cost and net realisable 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 realisable value is the estimated selling price in the ordinary course of business, less selling expenses.

(h) Impairment

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.

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. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in 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.

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.

(i) Employee benefits

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. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. 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 costs and the fair value of any plan assets 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 that 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. When the calculation results in a benefit to the Group, the recognised asset is limited to the net total of any unrecognised past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

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.

In calculating the Company's obligation in respect of a plan, to the extent that any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the defined benefit obligation and the fair value of plan assets, that portion is recognised in the income statement over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognised. Actuarial gains and losses on other long-term obligations are recognised immediately.

Other long-term employee benefits

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. Any actuarial gains or losses are recognised in the income statement in the period in which they arise.

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

(j) 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.

Repurchase 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.

(in thousands of Russian Roubles, unless otherwise stated)

As at 31 December 2008 construction in progress includes advance prepayments for property, plant and equipment of RUR 3,351,937 thousand (as at 31 December 2007: RUR 260,276 thousand).

Borrowing costs totalling RUR 292,100 thousand at 31 December 2008 were included in cost of property, plant and equipment and represent interest on loans (as at 31 December 2007: RUR 16,471 thousand).

Impairment testing

Given the current challenging market conditions, the management performed an impairment test in respect of property, plant and equipment as at 31 December 2008. The impairment test is based on value in use methodology.

The following key assumptions were used in determining the recoverable amounts of property, plant and equipment:

- Based on Government reglations, 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 the invested capital. In 2008 the Government approved the methodology of RAB regulation through the issuance of resolution 231-э dated 26 June 2008 and approved the transition of two merged entities to RAB regulated tariffs. 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.
- Cash flows were projected based on actual operating results and the most recent business plan approved by the management. The projections incorporate the Group's best estimates of production, tariffs and operating expenses growth anticipated under the revised RAB regime. The forecasted period was set till the year 2016.
- Based on Government regulations, 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%.
- A discount rate of 15.71% was applied in determining the recoverable amount. The discount rate was estimated based on weighted average cost of capital.

As a result of the analysis, no impairment loss has been recognised for the year ended 31 December 2008.

Security

As at 31 December 2008 no equipment (as at 31 December 2007: RUR 22,174 thousand) is pledged as collateral according the bank loan agreements (see Note 18).

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 follows:

	31 December 2008	31 December 2007
Cost	303,771	354,594
Accumulated depreciation	(46,607)	(26,771)
Net book value	**257,164**	**327,823**

(in thousands of Russian Roubles, unless otherwise stated)

Note 8. Intangible assets

	Patents and licenses	Computer software	Total
Cost			
Balance at 1 January 2007	44,054	-	44,054
Additions	158,817	20,588	179,405
Balance at 31 December 2007	**202,871**	**20,588**	**223,459**
Balance as 1 January 2008	**202,871**	**20,588**	**223,459**
Additions	5,766	4,022	9,788
Balance as 31 December 2008	**208,637**	**24,610**	**233,247**
Accumulated amortisation			
Balance at 1 January 2007	**(3,285)**	-	**(3,285)**
Amortisation for the year	(33,939)	(2,402)	(36,341)
Balance at 31 December 2007	**(37,224)**	**(2,402)**	**(39,626)**
Balance as at 1 January 2008	**(37,224)**	**(2,402)**	**(39,626)**
Amortisation for the year	(74,338)	(6,950)	(81,288)
Balance at 31 December 2008	**(111,562)**	**(9,352)**	**(120,914)**
Net book value			
At 1 January 2007	**40,769**	-	**40,769**
At 31 December 2007	**165,647**	**18,186**	**183,833**
At 31 December 2008	**97,075**	**15,258**	**112,333**

Intangible assets include mandatory licenses for electricity transmission and capitalised SAP/R3 implementation expenses.

Note 9. Investments in equity accounted investees

The Group has the following investments in equity accounted investees:

	Country	Ownership/Voting
OJSC "Tulenergokomplect"	Russia	50.00%

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

	31 December 2008	31 December 2007
Total assets	55,825	75,260
Total liabilities	(36,005)	(38,421)
Revenue	28,897	132,537
Loss for the year	(11,290)	(25,295)

Note 10. Other investments

	31 December 2008	31 December 2007
Available-for-sale investments stated at cost	8,985	11,261
Available-for-sale investments stated at fair value	18,110	70,286
Financial assets related to employee benefit fund	526,657	327,541
Total	**553,752**	**409,088**

The fair value of available-for-sale investments with a carrying amount as at 31 December 2007 and 31 December 2008 of RUR 5,143 thousand was determined by reference to their quoted market prices; these investments are listed on the Moscow Interbank Currency Exchange (MICEX).

Available-for-sale investments stated at cost comprise unquoted equity securities in the insurance and energy industries. There is no market for these investments and there have not been any recent transactions that provide evidence of fair value.

Financial assets related to employee benefit fund relate to the Group contributions accumulated in solidary and employees' individual pension accounts with the Non-State Pension Fund of Electric Power Industry (employee benefit fund). Subject to certain restrictions contributions to the employee benefit fund can be withdrawn at the discretion of the Group.

(in thousands of Russian Roubles, unless otherwise stated)

Note 11. Other non-current assets

	31 December 2008	31 December 2007
Unfinished intangible assets	95,950	43,056
Other receivables	78,836	72,684
Trade receivables	36,385	32,290
Finance lease receivables	-	1,205
Prepayments	19,298	-
Less: Accounts receivable impairment allowance	(24,616)	(8,372)
Total	**205,853**	**140,863**

The Group's exposure to credit and currency risks and impairment losses related to non-current accounts receivable are disclosed in Note 31.

Note 12. Cash and cash equivalents

	31 December 2008	31 December 2007
Bank balances	1,866,822	412,284
Bank promissory notes	566,769	12,900
Call deposits	27,000	35,900
Petty cash	251	439
Total	**2,460,842**	**461,523**

All cash and cash equivalents are denominated in RUR.

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 31.

Note 13. Trade and other receivables

	31 December 2008	31 December 2007
Trade receivables	3,231,614	2,766,876
Other receivables	1,147,984	691,733
VAT receivable	677,990	215,888
Taxes receivable	244,350	229,055
Finance lease receivables	12,128	11,206
Less: Allowance for impairment of trade receivable	(652,619)	(906,793)
Less: Allowance for impairment of other receivable	(149,277)	(224,335)
Total	**4,512,170**	**2,783,630**

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in Note 31.

Note 14. Prepayments for current assets

	31 December 2008	31 December 2007
Prepayments	360,466	322,332
Less: Allowance for impairment of prepayments	(30,670)	(19,424)
Total	**329,796**	**302,908**

Note 15. Inventories

	31 December 2008	31 December 2007
Raw materials and supplies	543,432	563,659
Spare parts	139,246	127,664
Other inventories	28,304	52,095
Total	**710,982**	**743,418**

(in thousands of Russian Roubles, unless otherwise stated)

Note 16. Equity

Share capital

	31 December 2008	31 December 2007
Number of ordinary shares authorised, issued and fully paid	112,697,817,043	112,697,817,043
Par value (in RUR)	0.10	0.10
Total share capital (in RUR)	**11,269,781,704**	**11,269,781,704**

The charter capital of the Company formed upon its foundation was RUR 10,000 thousand and consisted of 100,000,000 ordinary shares of RUR 0.1 par value.

29 February 2008 the Company registered the results of 112,597,817,043 ordinary shares issue which were placed by conversion upon merger of regional generation companies.

Formation of the Group was completed on 29 February 2008 through conversion of OJSC "Kalugaenero", OJSC "Tulenergo", OJSC "Ryazanenergo", OJSC "Vladimirenergo", OJSC "Nizhnovenergo", OJSC "Kirovenergo", OJSC "Marienergo", OJSC "Udmurtenergo" and OJSC "Ivenergo" shares into an additionally issued 112,597,817,043 ordinary shares of the Company as follows:

- 24,393/8,307,841 of ordinary shares of OJSC "Vladimirenergo" with par value of RUR 72.00 were converted into one additionally issued ordinary share of the Company with par value of RUR 0.1;
- 24,393/116,435 of ordinary shares of OJSC "Ivenergo" with par value of RUR 1.00 were converted into one additionally issued ordinary share of the Company with par value of RUR 0.1;
- 24,393/106,632 of preference shares of OJSC "Ivenergo" with par value of RUR 1.00 were converted into one additionally issued ordinary share of the Company with par value of RUR 0.1;
- 24,393/3,660,401 of ordinary shares of OJSC "Kalugaenero" with par value of RUR 10.00 were converted into one additionally issued ordinary share of the Company with par value of RUR 0.1;
- 24,393/97,418 of ordinary shares of OJSC "Kirovenergo" with par value of RUR 1.00 were converted into one additionally issued ordinary share of the Company with par value of RUR 0.1;
- 24,393/89,216 of preference shares of OJSC "Kirovenergo" with par value of RUR 1.00 were converted into one additionally issued ordinary share of the Company with par value of RUR 0.1;
- 24,393/819,890 of ordinary shares of OJSC "Marienergo" with par value of RUR 1.00 were converted into one additionally issued ordinary share of the Company with par value of RUR 0.1;
- 24,393/750,855 of preference shares of OJSC "Marienergo" with par value of RUR 1.00 were converted into one additionally issued ordinary share of the Company with par value of RUR 0.1;
- 24,393/194,079,154 of ordinary shares of OJSC "Nizhnovenergo" with par value of RUR 85.00 were converted into one additionally issued ordinary share of the Company with par value of RUR 0.1;
- 24,393/177,737,689 of preference shares of OJSC "Nizhnovenergo" with par value of RUR 85.00 were converted into one additionally issued ordinary share of the Company with par value of RUR 0.1;
- 24,393/1,572,918 of ordinary shares of OJSC "Ryazanenergo" with par value of RUR 10.00 were converted into one additionally issued ordinary share of the Company with par value of RUR 0.1;
- 24,393/117,828 of ordinary shares of OJSC "Tulenergo" with par value of RUR 1.00 were converted into one additionally issued ordinary share of the Company with par value of RUR 0.1;
- 24,393/1,454,307 of ordinary shares of OJSC "Udmurtenergo" with par value of RUR 1.00 were converted into one additionally issued ordinary share of the Company with par value of RUR 0.1;
- 24,393/1,331,854 of preference shares of OJSC "Udmurtenergo" with par value of RUR 1.00 were converted into one additionally issued ordinary share of the Company with par value of RUR 0.1

The difference between the nominal value share capital of the company after the reorganisation and the total nominal value of shares in the merged entities before the reorganisation was RUR 307 thousand and was debited to retained earnings at 1 January 2006.

Share capital as at 31 December 2007 was presented as if restructuring completed in February 2008 had taken place at the beginning of the earliest period presented.

(in thousands of Russian Roubles, unless otherwise stated)

Dividends paid and declared

In accordance with Russian legislation the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with Russian Accounting Principles. As at 31 December 2008 the Company had retained earnings, including the profit for the current year, of RUR 3,625,867 thousand (as at 31 December 2007: RUR 2,642,240 thousand).

In 2008 the Company did not declare dividends for the year 2007 (in 2007: RUR 299,697 thousand).

Dividends per share at 31 December 2008 were: nil (as at 31 December 2007: RUR 0.0027).

Earnings per share

The calculation of earnings per share is based upon the profit for the year and the outstanding number of ordinary shares after the merger on 29 February 2008 in order to determine earnings per share for the combined entities as if the merger was completed on 1 January 2006, the date of Group's transition to IFRS. 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	112,697,817,043	112,697,817,043
Profit attributable to the shareholders	1,874,157	1,341,483
Weighted average earnings per ordinary share – basic (in RUR)	0.0166	0.0119

Note 17. Employee benefits

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

- defined contribution pension plan and defined benefit pension plan (Non-State Pension Fund of the Electric Power and Non-State Pension Fund "Proffesionalny"); and
- defined benefit pension plans and other long-term defined benefit plans regulated by Collective Bargaining Agreements that include lump sum benefit for pensioners upon retirement, benefits paid in connection with the jubilee dates of pensioners and employees, financial support for pensioners, one-time benefits paid in case of death.

The table below summarises the amounts of defined benefit obligations recognised in the financial statements.

Amounts recognised in the consolidated balance sheet:

	31 December 2008		31 December 2007	
	Post-employment benefits	Other benefits	Post-employment benefits	Other benefits
Present value of funded defined benefit obligations	1,716,873	21,352	543,511	11,673
Net actuarial incomes not recognised in the balance sheet	(108,311)	-	(114,972)	-
Past service cost not recognised in the balance sheet	(806,127)	-	(33,121)	-
Net liability in the balance sheet	**802,435**	**21,352**	**395,418**	**11,673**

(in thousands of Russian Roubles, unless otherwise stated)

Amounts recognised in the consolidated income statement:

	Year ended 31 December 2008 Post-employment benefits	Other benefits	Year ended 31 December 2007 Post-employment benefits	Other benefits
Current service cost	96,146	1,274	27,928	879
Interest expenses	37,546	738	30,743	614
Recognised actuarial loss	5,511	10,555	-	3,727
Past service cost	20,904	-	2,766	-
Immediate recognition of vested prior service cost	324,164	-	12,728	123
Total	**484,271**	**12,567**	**74,165**	**5,343**

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

	Year ended 31 December 2008 Post-employment benefits	Other benefits	Year ended 31 December 2007 Post-employment benefits	Other benefits
Benefit obligations				
Benefit obligations as at the beginning of the period	543,511	11,673	454,105	9,067
Current service cost	96,146	1,274	27,928	879
Interest cost	37,546	738	30,743	614
Actuarial losses	(1,150)	10,555	71,477	3,727
Benefits paid	(77,254)	(2,888)	(74,176)	(2,737)
Past service cost	1,118,074	-	33,434	123
Benefit obligations as at the end of the period	**1,716,873**	**21,352**	**543,511**	**11,673**

During the year ended 31 December 2008 the Company signed an amended agreement with Non-State Pension Fund to unify the pension plans of the merged entities. This amended agreement increased pension benefit terms from fixed periods (an average of 5 years) to life time periods and also increased monthly pension payments to the plan participants. This resulted in an increased defined benefit obligation recognised in the Financial statements.

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

	Year ended 31 December 2008 Post-employment benefits	Other benefits	Year ended 31 December 2007 Post-employment benefits	Other benefits
Net benefit obligations				
Net benefit obligations as at the beginning of the period	395,418	11,673	395,429	9,067
Net costs for the period	484,271	12,567	74,165	5,343
Benefits paid	(77,254)	(2,888)	(74,176)	(2,737)
Net benefit obligations as at the end of the period	**802,435**	**21,352**	**395,418**	**11,673**

(in thousands of Russian Roubles, unless otherwise stated)

Principal actuarial estimations are as follows:

	Year ended 31 December 2008 Post-employment benefits	Year ended 31 December 2008 Other benefits	Year ended 31 December 2007 Post-employment benefits	Year ended 31 December 2007 Other benefits
Discount rate	8.85%	8.85%	6.79%	6.79%
Future Salary increase	5.81%	5.81%	6.15%	6.15%
Future inflation rate	5.81%	5.81%	6.15%	6.15%
Mortality table	Russian 2002	Russian 2002	Russian 2002	Russian 2002
Average working life (in years)	11	11	13	13

Note 18. Loans and borrowings

Non-current borrowings

	Effective interest rate,%	Currency	Year of maturity	31 December 2008	31 December 2007
Loans and borrowings					
including:					
OJSC Sberbank	9-11	RUR	2010-2011	2,645,000	1,717,485
OJSC Gazprombank	8,8-9,8	RUR	2012-2014	4,300,500	303,451
OJSC Eurofinance	9,45-12	RUR	2008-2010	174,548	274,548
OJSC TransCreditBank	13	RUR	2013	784,000	-
OJSC Agropromcredit	11,4-14	RUR	2007-2008	-	69,159
OJSC Rosselkhozbank	16	RUR	2010-2013	4,915	-
Promissory notes	10	RUR	2010-2013	1,772,051	-
Non-current finance lease liability				78,592	136,557
Total non-current debt				**9,759,606**	**2,501,200**
Less current portion of non-current loans				(100,000)	(164,773)
Total				**9, 659,606**	**2,336,427**

Current borrowings

Creditor	Effective interest rate,%	Currency	31 December 2008	31 December 2007
Current borrowings				
including:				
OJSC Sberbank	7,2-12,4	RUR	7,676	307,761
OJSC Agropromcredit	8,3-14	RUR	-	79,279
OJSC Gazprombank	11	RUR	61,923	95,535
OJSC VTB Bank	11,5-13	RUR	-	25,107
OJSC Eurofinance	9,5-12,5	RUR	-	30,000
OJSC Prio-Vneshtorgbank	11	RUR	-	25,000
OJSC Sviaz-Bank	12,5	RUR	100,129	-
Promissory notes	10,0	RUR	705,485	
Other current borrowings		RUR	1,639	541
Current portion of non-current loans	12,5	RUR	100,000	164,773
Current Finance lease liability			76,467	108,019
Total			**1,053,319**	**836,015**

All loans and borrowings listed above are bank loans with fixed interest rate.

The effective interest rate is the market interest rate applicable to the loan at the date of its receipt.

The Group has not entered into any hedging arrangements in respect of its fair value exposure.

(in thousands of Russian Roubles, unless otherwise stated)

As at 31 December 2008 the bank loans in the amount of RUR 385,000 thousand (as at 31 December 2007: RUR 335,000 thousand) are secured by cash flows on certain power supply contracts in the amount of RUR 559,704 thousand (as at 31 December 2007: RUR 399,561 thousand).

The Group leases production equipment and transport under a number of finance lease agreements. Finance lease liabilities are payable as follows:

	31 December 2008			31 December 2007		
	Minimum lease payments	Interest	Principal	Minimum lease payments	Interest	Principal
Less than one year	75,811	11,472	64,339	123,772	17,175	106,597
Between one and five years	107,155	28,563	78,592	184,299	61,256	123,043
More than five years	-	-	-	774	483	291
	182,966	**40,035**	**142,931**	**308,845**	**78,914**	**229,931**

The finance lease liabilities are secured by leased assets.

The Group's exposure to currency, liquidity and interest rate risk related to borrowings and finance lease liabilities is disclosed in Note 31.

Note 19. Trade and other payables

Non-current payables

As at 31 December 2008 non-current payables are represented by other payables in the amount of RUR 601,642 thousand (as at 31 December 2007: RUR 103,915 thousand).

Current payables

	31 December 2008	31 December 2007
Trade payables	3,598,486	1,704,355
Advances from customers	2,440,817	1,405,044
Payables to employees	349,902	375,678
Dividends payable	72,504	193,798
Other payables	228,156	329,547
Total	**6,689,865**	**4,008,422**

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 31.

Note 20. Other taxes payable

	31 December 2008	31 December 2007
Unified social tax payable	106,892	74,614
Other taxes payable	79,087	64,028
Property tax payable	33,637	16,442
Fines and other penalties payable	16,166	28,794
Value added tax payable	11,832	202,749
Total	**247,614**	**386,627**

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 31.

Note 21. Revenue

	Year ended 31 December 2008	Year ended 31 December 2007
Electricity transmission	35,770,699	24,512,672
Connection services	1,924,622	1,260,357
Other revenue	606,924	905,662
Total	**38,302,245**	**26,678,691**

Other revenues are comprised of repair, construction, maintenance services, rent services and transport services.

(in thousands of Russian Roubles, unless otherwise stated)

Note 22. Operating expenses

	Year ended 31 December 2008	Year ended 31 December 2007
Electricity transmission	11,037,959	4,667,582
Purchased electricity	8,325,835	6,489,736
Personnel costs	6,887,007	5,420,009
Depreciation and amortisation	3,098,090	2,563,510
Electricity metering services	1,637,904	1,172,888
Materials	1,270,605	693,033
Repair and maintenance	1,123,910	1,083,498
Consulting, legal and audit services	648,014	310,265
Electricity and heat power for own needs	279,880	204,723
Insurance	200,882	293,151
Taxes other than income tax	174,456	175,504
Rent	160,902	172,484
Transportation expenses	116,449	137,940
Communication services	109,315	74,037
Loss on the disposal of property, plant and equipment	109,039	68,022
Security services	108,635	90,320
Social expenditures and charity expenses	78,407	61,844
Allowance for impairment of debts	78,072	74,811
Management fee	64,374	344,189
Bank commission	21,588	41,426
Other expenses	641 906	778,821
Total	**36,173,229**	**24,917,793**

Note 23. Personnel costs

	Year ended 31 December 2008	Year ended 31 December 2007
Wages and salaries	5,272,045	4,438,482
Unified social tax	1,198,266	978,932
Expense in respect of post-employment defined benefit plan	416,696	2,595
Total	**6,887,007**	**5,420,009**

The average number of employees (including production and non-production staff) was 20,150 in 2008 (2007:19,267)

Note 24. Other income and expenses, net

	Year ended 31 December 2008	Year ended 31 December 2007
Tax and other penalties	139,103	73,954
Surplus of assets	83,653	130,799
Accounts payable written-off	17,537	78,637
Other income and expenses, net	137,389	90,015
Total	**377,682**	**373,405**

Surplus of assets is represented by ownerless transfer facilities identified by the Group during the stock take. The Group used services of independent appraisers to determine the fair value of the identified assets recognized in the balance sheet.

(in thousands of Russian Roubles, unless otherwise stated)

Note 25. Financial income and expenses

	Year ended 31 December 2008	Year ended 31 December 2007
Financial income		
Interest income	58,953	75,312
Interest income on financial assets related to employee benefit fund	12,189	10,433
	71,142	**85 745**
Financial expenses		
Interest expense	(372,606)	(68,213)
Interest expense of finance lease liabilities	(45,410)	(43,981)
	(418,016)	**(112,194)**
Net financial expenses recognised in profit or loss	**(346,874)**	**(26,449)**

Note 26. Income tax expense

	Year ended 31 December 2008	Year ended 31 December 2007
Current income tax charge	887,874	884,679
(Over)/under provided in prior years	62,557	(74,021)
Deferred income charge	(179,822)	(56,258)
Change in tax rate	(489,704)	-
Income tax charge	**280,905**	**754,400**

The Group's applicable tax rate in the Russian Federation is the income tax rate of 24%.

From 1 January 2009 the income tax rate for Russian companies has been reduced to 20%. This rate has been used for the calculation of the deferred tax assets and liabilities as at 31 December 2008.

Reconciliation of effective tax rate :

	Year ended 31 December 2008	%	Year ended 31 December 2007	%
Profit before income tax	**2,154,179**	**100**	**2,095,206**	**100**
Income tax at applicable tax rate	517,003	(24)	502,849	(24)
Effect of reduction in tax rate	(489,704)	23	-	-
Under/(over) provided in prior years	62,557	(3)	(74,021)	4
Tax effect of items which are not deductible or taxable for taxation purposes	191,049	(9)	325,572	(16)
Welfare, social and discretionary payments to employees	*82,441*	*(4)*	*77,429*	*(4)*
Written-off receivables	*16,590*	*(1)*	*39,950*	*(2)*
Non-refundable VAT	*5,082*	*0*	*9,420*	*(1)*
Other	*86,936*	*(4)*	*198,773*	*(9)*
Total	**280,905**	**(13)**	**754,400**	**(36)**

Deferred tax assets and liabilities

For the year ended 31 December 2007 deferred tax assets and liabilities are attributable to the following items:

	31 December 2007	Recognised in income	Recognised in equity	1 January 2007
Trade and other receivables	222,133	44,387	-	266,520
Inventories	33,111	(10,769)	-	22,342
Trade and other payables	143,663	(55,883)	-	87,780
Employee benefit obligation	97,702	(623)	-	97,079
Other	37,160	17,229	-	54,389
Deferred tax assets	**533,769**	**(5,659)**	-	**528,110**

(in thousands of Russian Roubles, unless otherwise stated)

	31 December 2007	Recognised in income	Recognised in equity	1 January 2007
Property, plant and equipment	(3,514,850)	(96,204)	-	(3,611,054)
Trade and other receivables	(21,649)	(9,313)	-	(30,962)
Trade and other payables	(37,891)	8,980	-	(28,911)
Employee benefit fund	(78,610)	45,938	-	(32,672)
Available-for-sale investments	(15,634)	-	1,612	(14,022)
Deferred tax liabilities	**(3,668,634)**	**(50,599)**	**1,612**	**(3,717,621)**
Net deferred tax liabilities	**(3,134,865)**	**(56,258)**	**1,612**	**(3,189,511)**

For the year ended 31 December 2008 deferred tax assets and liabilities are attributable to the following items:

	31 December 2008	Effect of tax rate changes	Disposed of	Recognised in income	Recognised in equity	1 January 2008
Trade and other receivables	123,637	24,724	-	73,772	-	222,133
Inventories	90,931	18,185	157	(76,162)	-	33,111
Trade and other payables	27,566	5,508	21	110,568	-	143,663
Employee benefit obligation	164,757	32,951	-	(100,006)	-	97,702
Other	11,019	2,205	4	23,932	-	37,160
Deferred tax assets	**417,910**	**83,573**	**182**	**32,104**	**-**	**533,769**
Property, plant and equipment	(2,685,336)	(537,240)	(2,254)	(290,020)	-	(3,514,850)
Trade and other receivables	(203)	(41)	(6)	(21,399)	-	(21,649)
Trade and other payables	(74,667)	(14,930)	-	51,706	-	(37,891)
Employee benefit fund	(105,331)	(21,066)	-	47,787	-	(78,610)
Available-for-sale investments	(3,275)	(655)	-	-	(11,704)	(15,634)
Deferred tax liabilities	**(2,868,812)**	**(573,932)**	**2,260**	**(211,926)**	**(11,704)**	**(3,668,634)**
Net deferred tax liabilities	**(2,450,902)**	**(490,359)**	**(2,078)**	**(179,822)**	**(11,704)**	**(3,134,865)**

Note 27. Related parties

(a) Control relationships

As at 31 December 2008, IDGC Holding was the parent company of the Company. As at 31 December 2007, RAO UES was the parent company of the Company.

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 RAO UES and IDGC Holding.

(b) Transactions with entities under common control of the parent

Transactions with the Parent's subsidiaries and associates were as follows:

	Year ended 31 December 2008	Year ended 31 December 2007
Revenue		
Electricity transmission	1,828,595	18,183,290
Other sales	77,075	57,764
Expenses		
Electricity transmission fee	(2,453,621)	(4,628,546)
Purchased electricity	(380,799)	(4,726,624)
Other expenses	(20,673)	(148,158)

All outstanding balances with related parties are to be settled in cash within a year of the balance sheet date. None of the balances are secured.

(in thousands of Russian Roubles, unless otherwise stated)

Balances on settlements were as follows:

	31 December 2008	31 December 2007
Accounts receivable and prepayments	-	941,241
Less: Allowance for impairment of debts	-	(11,946)
Accounts payable and accrued liabilities	-	(139,254)

Related party revenue for electricity transmission is based on the tariffs determined by the Government; other related party transmissions are based on normal market prices.

(c) Transactions with other state controlled entities

In the normal course of business the Group enters into transactions with other entities under Government control. Prices for electricity and heat are based on tariffs set by the Federal Service on Tariffs and the regional services on tariffs. Bank loans are provided on the basis of market rates.

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

	Year ended 31 December 2008	Year ended 31 December 2007
Revenue		
Electricity transmission	872,582	-
Connection services	536,737	316,556
Other sales	49,451	47,790
Expenses		
Electricity transmission fee	(4,171,205)	(9,197)
Other expenses	(141,946)	(103,045)
Interest expenses	(272,419)	(17,139)

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

	31 December 2008	31 December 2007
Accounts receivable and prepayments	2,429,833	991,496
Allowance for impairment of debts	(605,081)	(696,018)
Loans and borrowings	(2,652,676)	(2,050,353)
Accounts payable and accrued liabilities	(745,248)	(373,320)

(d) Transactions with management and close family members

There are no transactions or balances with key management and their close family members, except for remuneration in the form of salary and bonuses.

Compensation is paid to members of the Board of Directors and Top management for their services in full time management positions. The compensation is made up of a contractual salary, non-cash benefits, and performance bonuses depending on results for the period according to Russian statutory financial statements.

Members of the Board of Directors and the Top management of the Group received the following remuneration:

	Year ended 31 December 2008		Year ended 31 December 2007	
	Members of Board of Directors	Top management	Members of Board of Directors	Top management
Salaries and bonuses	15,038	272,665	25,754	189,565

(in thousands of Russian Roubles, unless otherwise stated)

Note 28. Operating leases

The Group leases a number of land plots owned by local governments under operating lease.

Land lease payments are determined by lease agreements and are as follows:

	31 December 2008	31 December 2007
Less than one year	214,505	51,448
Between one year and five years	462,831	178,224
After five years	1,182,176	1,277,842
Total	**1,859,512**	**1,507,514**

The land areas leased by the Group are the territories on which the Group electricity grids, substations and other assets are located. Some contracts for land lease are concluded for 49 years, other contracts are concluded for one year with prolongation. Lease payments are reviewed regularly to reflect market rentals.

During the year ended 31 December 2008 RUR 160,902 thousand (2007: RUR 172,484 thousand) was recognised in the income statement in respect of operating lease.

Lease payments of contractors when the Company acts as a lessor are as follows:

	31 December 2008	31 December 2007
Less than one year	50,310	34,958
Between one year and five years	52,300	30,027
After five years	194,443	103,636
Total	**297,053**	**168,621**

Note 29. Commitments

Capital commitments

As at 31 December 2008 the Group has outstanding commitments under the contracts for the purchase and construction of property, plant and equipment for RUR 11,315,401 thousand (as at 31 December 2007: RUR 1,249,709 thousand).

Note 30. 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 yet 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.

Legal proceedings

The Group is a party to certain legal proceedings arising in the ordinary course of business.

In the opinion of management, there are no current legal proceedings or other claims outstanding, which, upon final disposition, will have a material adverse effect on the financial position of the Group.

One of the Group's customers is proceeding with litigation against the Company for breach of tariff policies in the period from May till December 2006 and is seeking the reimbursement of RUR 1,066,429 thousand. In the opinion of management, after taking appropriate legal advice, this case will be resolved in the Group's favour.

(in thousands of Russian Roubles, unless otherwise stated)

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.

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.

Note 31. Financial instruments

(a) Credit risk

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

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk as of reporting date is represented in the table below:

	31 December 2008	31 December 2007
Cash and cash equivalents	2,460,842	461,523
Available-for-sale investments	27,095	81,547
Accounts receivables (net of allowance for impairment)	3,577,702	2,327,481
Other non-current assets (net of allowance for impairment)	90,405	96,602
Financial assets related to employee benefit fund	526,657	327,541
Total	**6,682,701**	**3,294,694**

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

	31 December 2008	31 December 2007
Electricity transmission	2,046,317	1,503,735
Connection services	144,740	93,292
Electricity and heat power	838,463	1,052,254
Other sales	238,479	149,885
Less: Allowance for impairment of accounts receivable	(674,045)	(911,975)
Total	**2,593,954**	**1,887,191**

(in thousands of Russian Roubles, unless otherwise stated)

The aging of trade and other receivables not impaired at the reporting date was:

	31 December 2008	31 December 2007
Not past due	3,297,898	2,136,772
Past due not more 3 months	53,663	83,191
Past due more than 3 months and not more than 6 months	35,072	11,981
Past due more than 6 months and not more than 1 year	163,901	11,075
Past due more than one year	117,573	181,064
Total	**3,668,107**	**2,424,083**

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

	31 December 2008	31 December 2007
Opening balance	**1,139,500**	**1,243,603**
Charge of additional allowance for doubtful debtors	97,284	78,968
Reversal of the allowance for doubtful debtors	(19,212)	(4,157)
Accounts receivable written off through allowance for bad debts	(391,060)	(178,914)
Closing balance	**826,512**	**1,139,500**

The allowance accounts in respect of trade and other receivables are used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amounts considered irrecoverable and is written off against the financial asset directly.

(b) 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 monitors the risk of cash shortfalls by means of current liquidity planning. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. This approach is used to analyze payment dates associated with financial assets, and also to forecast cash flows from operating activities.

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

As at 31 December 2008:

	Carrying amount	Forecast cash flows	12 months	1-2 years	2-5 years	Over 5 years
Financial liabilities:						
Loans and borrowings	10,557,866	16,196,064	1,030,526	4,418,647	5,673,795	5,073,096
Finance lease liabilities	155,059	177,414	92,658	45,273	39,483	-
Trade and other payables	4,269,538	4,369,896	3,667,896	472,873	43,951	185,176
Total	**14,982,463**	**20,743,374**	**4,791,080**	**4,936,793**	**5,757,229**	**5,258,272**

As at 31 December 2007:

	Carrying amount	Forecast cash flows	12 months	1-2 years	2-5 years	Over 5 years
Financial liabilities:						
Loans and borrowings	2,927,866	3,674,723	942,315	517,623	2,214,785	-
Finance lease liabilities	244,576	308,845	123,772	107,804	76,495	774
Trade and other payables	1,919,167	1,993,301	1,815,252	28,127	-	149,922
Total	**5,091,609**	**5,976,869**	**2,881,339**	**653,554**	**2,291,280**	**150,696**

(c) Foreign exchange risk

The Group primarily operates within the Russian Federation. The majority of the Group's operations are denominated in RUR.

(d) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group is exposed to interest rate risk through market value fluctuations of interest-bearing long-term borrowings. The majority of interest rates on long term and short term borrowings are fixed, these are disclosed in Note 18. The Group has no significant interest-bearing assets. Currently the Group does not operate a formal management program focusing on the unpredictability of financial markets or seeking to minimise potential adverse effects on the financial performance of the Group.

Fair values sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit and loss, and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss.

The ongoing global liquidity crisis which commenced in the middle of 2008 has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the Russian banking sector, and higher interbank lending rates. The uncertainties in the global financial market have also led to bank failures and bank rescues in the US, Western Europe and Russia. Such circumstances could affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions.

(e) Capital management

Management's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Management monitors the return on capital, which the Group defines as net profit after tax divided by total shareholders' equity.

Management seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

There were no changes in the Group's approach to capital management during the year.

No Group's entity is subject to externally imposed capital requirements.

(f) Fair values

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