JSC "IDGC of Centre"

Consolidated Financial Statements
for the year ended 31 December 2009

Contents

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Independent Auditors' Report

To the Board of Directors of Joint-Stock Company "IDGC of Centre"

We have audited the accompanying consolidated financial statements of Joint-Stock Company "IDGC of Centre" (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

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 audit. 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 consolidated financial statements are free of material misstatement.

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 1,189,256 thousand as at 1 January 2008 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 operating expenses, income tax expense and profit for the year ended 31 December 2008.

Qualified Opinion

In our opinion, except for the effects on the corresponding figures 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 2009, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO KPMG
30 April 2010

Thousands of Russian Roubles, unless otherwise stated

	Note	Year ended 31 December 2009	Year ended 31 December 2008
Revenue	7	49,313,709	43,726,639
Operating expenses	8	(45,266,019)	(38,841,920)
Other operating income		722,325	1,050,979
Results from operating activities		**4,770,015**	**5,935,698**
Finance income	10	98,748	10,903
Finance costs	10	(2,123,278)	(1,570 147)
Net finance costs		**(2,024,530)**	**(1,559,244)**
Profit before income tax		**2,745,485**	**4,376,454**
Income tax expense	11	(639,478)	(1,590,734)
Profit and total comprehensive income for the year		**2,106,007**	**2,785,720**
Profit and total comprehensive income attributable to:			
Owners of the Company		2,105,390	2,785,720
Minority interest		617	-
Profit and total comprehensive income for the year		**2,106,007**	**2,785,720**
Earnings per share – basic and diluted (in Russian Roubles)	21	0.050	0.066

These consolidated financial statements were approved on 30 April 2010:

General Director

E.F. Makarov

Accounting Policy Director

S. U. Puzenko

The consolidated statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 – 41.

Thousands of Russian Roubles, unless otherwise stated

	Note	31 December 2009	31 December 2008
ASSETS			
Non-current assets			
Property, plant and equipment	12	43,395,105	41,344,634
Intangible assets	13	1,262,685	900,749
Investments and financial assets	15	755,261	34,271
Other non-current assets	16	106,095	124,505
Total non-current assets		**45,519,146**	**42,404,159**
Current assets			
Cash and cash equivalents	17	368,171	74,672
Trade and other receivables	18	5,035,467	5,193,726
Income tax receivable		79,743	47,921
Inventories	19	1,232,130	1,363,067
Other current assets		91,635	80,439
Total current assets		**6,807,146**	**6,759,825**
Total assets		**52,326,292**	**49,163,984**
EQUITY AND LIABILITIES			
Equity	20		
Share capital		4,221,794	4,221,794
Additional paid-in capital		88,660	88,660
Retained earnings		24,238,902	21,777,436
Total equity attributable to equity holders of the Company		**28,549,356**	**26,087,890**
Minority interest		3,824	-
Total equity		**28,553,180**	**26,087,890**
Non-current liabilities			
Loans and borrowings	22	5,163,144	3,979,557
Finance lease liability	23	1,447,002	2,078,361
Employee benefits	24	1,447,817	1,146,076
Deferred tax liabilities	14	1,888,303	1,874,285
Other non-current liabilities		93,098	43,380
Total non-current liabilities		**10,039,364**	**9,121,659**
Current liabilities			
Loans and borrowings	22	5,963,106	5,401,751
Finance lease liability	23	762,393	1,047,926
Trade and other payables	26	5,877,949	6,500,383
Employee payables	25	480,874	473,803
Income tax payable		5,003	17,104
Other taxes payable	27	644,423	513,468
Total current liabilities		**13,733,748**	**13,954,435**
Total liabilities		**23,773,112**	**23,076,094**
Total equity and liabilities		**52,326,292**	**49,163,984**

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 – 41.

Thousands of Russian Roubles, unless otherwise stated

CASH FLOWS FROM OPERATING ACTIVITIES	Note	Year ended 31 December 2009	Year ended 31 December 2008
Profit before income tax		**2,745,485**	**4,376,454**
Adjustments for:			
Depreciation and amortization	8	4,631,208	3,743,246
Allowance for impairment of accounts receivable	8	768,261	290,786
Net finance costs	10	2,024,530	1,559,244
Provision for inventory obsolescence	8	130,860	37,306
Loss on disposal of property, plant and equipment		183,783	158,081
Gain on disposal of investments		-	(13,784)
Gain on disposal of subsidiaries		-	(12,733)
Bad debts written-off	8	5,478	160,423
Adjustment for other non-cash transactions		(388,369)	(666,592)
Cash flows from operating activities before changes in working capital		**10,101,236**	**9,632,431**
Change in trade and other receivables		(594,521)	(2,153,077)
Change in inventories		4,943	(211,117)
Change in other assets		(164,855)	146,417
Change in trade and other payables		(652,850)	3,360,461
Change in employee payables		7,071	(392,588)
Change in employee benefits		150,688	(626,704)
Change in other liabilities		50,182	31,003
Change in other taxes payable		130,955	30,598
Cash flows from operations before income taxes and interest paid		**9,032,849**	**9,817,424**
Interest paid		(2,174,455)	(1,155,788)
Income tax paid		(758,402)	(1,314,648)
Cash flows from operating activities		**6,099,992**	**7,346,988**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment and intangible assets		(6,593,902)	(9,788,000)
Proceeds from disposal of property, plant and equipment		76,024	52,370
Acquisition of subsidiaries		8,603	-
Proceeds from disposal of subsidiaries		-	55,356
Proceeds from disposal of investments		-	93,466
Interest received		2,823	10,903
Cash flows used in investing activities		**(6,506,452)**	**(9,575,905)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loans and borrowings		16,501,767	12,840,707
Repayment of loans and borrowings		(14,736,144)	(10,013,455)
Repayment of finance lease liabilities		(1,065,664)	(892,340)
Cash flows from financing activities		**699,959**	**1,934,912**
Net increase/ (decrease)in cash and cash equivalents		293,499	(294,005)
Cash and cash equivalents at beginning of year		74,672	368,677
Cash and cash equivalents at end of year		**368,171**	**74,672**

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 – 41.

Thousands of Russian Roubles, unless otherwise stated

	Attributable to shareholders of the Group					
	Ordinary share capital	**Additional paid in capital**	**Retained earnings**	**Total**	**Minority interest**	**Total equity**
At 1 January 2008	**4,221,794**	**88,660**	**18,991,716**	**23,302,170**	**-**	**23,302,170**
Profit for the year	-	-	2,785,720	2,785,720	-	2,785,720
Total comprehensive income	-	-	2,785,720	2,785,720	-	2,785,720
At 31 December 2008	**4,221,794**	**88,660**	**21,777,436**	**26,087,890**	**-**	**26,087,890**
Profit for the year	-	-	2,105,390	2,105,390	617	2,106,007
Total comprehensive income	-	-	2,105,390	2,105,390	617	2,106,007
Acquisition of minority interest	-	-	-	-	3,207	3,207
Other movements	-	-	356,076	356,076	-	356,076
At 31 December 2009	**4,221,794**	**88,660**	**24,238,902**	**28,549,356**	**3,824**	**28,553,180**

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 – 41.

1 BACKGROUND

(a) The Group and its operations

Joint-Stock Company "IDGC of Centre" (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 17 December 2004 based on Resolution no. 154p of 9 December 2004 and pursuant to the Board of Directors' decision (board of directors' meeting minutes no. 178 of 1 October 2004) and Management Board decision (Management Board minute no. 1102 of 15 November 2004) of the Russian Open Joint-Stock Company RAO "United Energy Systems of Russia" (hereafter, "RAO UES").

The Company's registered office is 4/2, Glukharev Lane, Moscow, 129090, Russia.

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

The Group consists of the Company and two subsidiaries – OJSC "Energetic" and OJCS "Yaroslavskaya Setevaya Company"

The reorganisation of the Company was completed on 31 March 2008 as a result of the merger of the following entities with the Company: OJSC "Belgorodenergo"; OJSC "Bryanskenergo";OJSC "Voronezhenergo"; OJSC "Kostromaenergo"; OJSC "Kurskenergo"; OJSC "Lipetskenergo"; OJSC "Orelenergo"; OJSC "Smolenskenergo"; OJSC "Tambovenergo"; OJSC "Tverenergo"; OJSC "Yarenergo".

The merger was effected through the conversion of shares issued by the Company in exchange for shares in the merged entities. As a result of the merger, the above-mentioned companies ceased to exist as separate legal entities and the Company became their legal successor.

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

As at 31 December 2009, the Government of the Russian Federation owned 54.99% shares of JSC IDGC Holding, which in turn owned 50.23% of the Company.

The Government of the Russian Federation influences the Group's activities through setting transmission 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 contraction in the capital and credit markets and its impact on the Russian economy have further increased the level of economic uncertainty in the environment. These 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.

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 for investments at fair value through profit or loss; and property, plant and equipment which was revalued to determine deemed cost as part of the adoption of IFRS as at 1 January 2007.

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble ("RUR"), which is the Company's and its subsidiaries' functional currency and the currency in which these Financial Statements are presented.

All financial information presented in RUR has been rounded to the nearest thousand.

(d) Use of judgements, estimates and assumptions

The preparation of consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. 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.

Information about 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 28 – allowances for impairment of trade and other receivables

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included in the following notes:

- Note 12 – useful lives of property, plant and equipment
- Note 24 – employee benefits
- Note 31 – contingencies.

(e) Changes in accounting policies and presentation

With effect from 1 January 2009, the Group changed its accounting policies in the following areas:

- determination and presentation of operating segments; and
- presentation of financial statements.

(i) Determination and presentation of operating segments

As at 1 January 2009 the Group determines and presents operating segments based on the information that internally is provided to the Board of experts, which is the Group’s operating decision making body. This change in accounting policy is due to the adoption of International Financial Reporting Standard 8 *Operating Segments*. Previously the Group did not disclose information about operating segments.

Comparative segment information has been presented in conformity with the requirements of IFRS 8. Since the change in accounting policy only impacts presentation and disclosure aspects, there is no impact on earnings per share.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group’s other components. An operating segment’s operating results are reviewed regularly by the Board of experts to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Board of experts include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment, and intangible assets.

(ii) Presentation of financial statements

The Group applies revised IAS 1 Presentation of Financial Statements (2007), which became effective as at 1 January 2009. The revised standard requires a presentation of all owner changes in equity to be presented in the consolidated statement of changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income.

Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these Financial Statements, and have been applied consistently by Group entities, except as explained in note 2 (e), which addresses changes in accounting policies.

(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) 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.

(iii) Business combinations involving 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 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. The assets and liabilities acquired are recognised at the carrying amounts recognized previously in the acquired entity’s IFRS financial statements. The components of equity of the acquired entities are added to the same components within Group equity except that any share capital of the acquired entities is recognized as part of retained earnings. Any cash paid for the acquisition is recognised directly in equity.

(b) Financial instruments

(i) Non-derivative financial instruments

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

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial assets: financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets.

Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets 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 profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Loans and receivables comprise trade and other receivables.

Cash and cash equivalents comprise cash balances with original maturities of three months or less.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. The Group's investments in certain equity securities are classified as available-for-sale financial assets. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see note 3(f)(i)), are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised or impaired, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

Investments in equity securities that are not quoted on a stock exchange and where fair value cannot be reliably measured are stated at cost less impairment losses.

(ii) Non-derivative financial liabilities

All financial liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Group has the following non-derivative financial liabilities: loans and borrowings, and trade and other payables.

Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

(c) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

The cost of property, plant and equipment at 1 January 2007, 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 labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, the costs of dismantling and removing of assets and restoring the site on which they are located, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalized 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 recognized net in "other operating income" or "other operating expense" in profit or loss.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognized 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 recognized in profit or loss as incurred.

(iii) Depreciation

Depreciation is recognized in profit or loss 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 of property, plant and equipment by type of facility are as follows:

- Buildings 15 – 50 years
- Transmission networks 5 – 20 years
- Equipment for electricity transformation 5 – 20 years
- Other 1 – 30 years

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(iv) 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 recognized in the Group’s consolidated statement of financial position. Operating lease payments (net of benefits granted by the lessor) are recognized in profit or loss on a straight line basis over the lease term.

(d) Intangible assets

(i) Initial recognition

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

(ii) 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 is recognized in profit or loss as incurred.

(iii) Amortization

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset.

The useful lives of intangible assets are as follows:

- Patents and licenses 1 – 12 years
- Computer software 1 – 10 years

Amortization methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(e) Inventories

Inventories are measured at the lower of cost and net realizable value.

The cost of inventories includes all acquisition costs, production costs and other costs incurred to bring inventories to their existing condition and location. Inventories are written-off to the profit and loss at average cost.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(f) Impairment

(i) Financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

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 asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale equity securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income, and presented in the fair value reserve in equity, to profit or loss. Any subsequent recovery in fair value of an impaired available-for-sale equity securities is recognised in other comprehensive income.

(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.

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 profit or loss. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the 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.

(g) Provisions

A provision is recognized 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. The unwinding of the discount is recognised as finance cost.

(h) Revenue

Revenue from electricity transmission is recognized in the consolidated statement of comprehensive income 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 of each region of the Group's operations.

Revenue from connection services represents a non-refundable fee for connecting the customer to the electricity grid network. The tariffs for connection services are approved by the Federal Tariff Agency and Regional Energy Commission of each region of the Group's operations. The terms, conditions and amounts of these fees are negotiated separately and are independent from fees generated by electricity transmission services. 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 proportion to the stage of completion when an act of acceptance is signed by the customer.

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.

(i) Finance income and costs

Finance income comprises interest income on cash balances and bank deposits, dividend income and changes in the fair value of financial assets at fair value through profit and loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established.

Finance costs comprise interest expense on borrowings, employee benefits, finance leases, changes in the fair value of financial assets at fair value through profit and loss. All borrowing costs are recognised in profit or loss using the effective interest method, except for borrowing costs related to qualifying assets which are recognised as part of the cost of such assets.

(j) Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

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 recognized in respect of 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. 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 recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilized. 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 realized.

(k) 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 as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(ii) Defined benefits plan

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 by 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 profit or loss 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 profit or loss.

The Group recognises all actuarial gains and losses arising from defined benefit plans in profit or loss in the period in which they arise.

(iii) 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 as at reporting date and that are denominated in the same currency in which the benefits are expected to be paid.

The Group calculates obligation in respect of other long-term employee benefits using the projected-unit method.

Interest cost as a result of discount release is recognized as finance costs in profit or loss.

Actuarial gain and losses and past benefit costs that are measured because of introduction of new or changes in existing social programs, are recognized in full amount in profit or loss in the period in which they occur.

(iv) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed in profit or loss as the employees perform their duties.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and if the obligation can be estimated reliably.

(l) Share capital

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

(m) 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 Group by the weighted average number of ordinary shares outstanding during the period.

(n) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the board of experts to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available (see note 2 (e) (i)).

(o) 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 2009, and have not been applied in preparing 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.

- Revised IAS 24 *Related Party Disclosures (2009)* introduces an exemption from the basic disclosure requirements in relation to related party disclosures and outstanding balances, including commitments, for government-related entities. Additionally, the standard has been revised to simplify some of the presentation guidance that was previously non-reciprocal. The revised standard is to be applied retrospectively for annual periods beginning on or after 1 January 2011. The Group has not yet determined the potential effect of the amendment.
- Revised IFRS 3 *Business Combinations* (2008) and amended IAS 27 (2008) *Consolidated and Separate Financial Statements* came into effect on 1 July 2009 (i.e. they become mandatory for the Group’s 2010 consolidated financial statements). The revisions address, among other things, accounting for step acquisitions, require acquisition-related costs to be recognised as expenses and remove the 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 the effects of transactions with non-controlling interests to be recognised directly in equity. The Group has not yet determined the potential effect of the amendment.
- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in several phases and is intended to replace International Financial Reporting Standard IAS 39 Financial Instruments: Recognition and Measurement once the project is completed by the end of 2010. The first phase of IFRS 9 was issued in November 2009 and relates to the recognition and measurement of financial assets. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group’s consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued.

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 purposes, will come into effect not earlier than 1 January 2010. The Group has not yet analys***e***d the likely impact of the improvements on its financial position or performance.

4 DETERMINATION OF FAIR VALUES

A number of the Group’s accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and for disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Investments in equity

The fair value of financial assets at fair value through profit or loss and available-for-sale financial assets is determined by reference to their quoted bid price at the reporting date.

(b) Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

(c) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

Thousands of Russian Roubles, unless otherwise stated

5 DISPOSALS OF SUBSIDIARIES

In 2008 the Company disposed of its investment in OJSC "Haulage contractor Lipetskenergo". The subsidiary contributed RUR 11,679 thousand to the net profit for the year, including the gain on disposal of RUR 12,733 thousand.

The disposal of the subsidiary had the following effect on the Group's assets and liabilities at the date of disposal:

	Carrying amount at date of disposal
Non-current assets	
Property, plant and equipment	35,792
Deferred tax assets	113
Total non-current assets	**35,905**
Current assets	
Inventories	1,408
Income tax receivable	297
Trade and other receivables	8,671
Cash and cash equivalents	1,254
Other current assets	243
Total current assets	**11,873**
Total assets	**47,778**
Non-current liabilities	
Deferred tax liabilities	254
Total non-current liabilities	**254**
Current liabilities	
Trade and other payables	3,647
Total current liabilities	**3,647**
Total liabilities	**3,901**
Net assets and liabilities	**43,877**
Consideration received, satisfied in cash	56,610
Cash disposed of	1,254
Net cash inflow	55,356

6 OPERATING SEGMENTS

The Group has eleven reportable segments representing branches of the Company, as described below, which are the Group's strategic business units. The strategic business units offer similar services representing transmission of electric power and connection services, and are managed separately. For each of the strategic business units, the Board of experts, the Group's operating decision making body, reviews internal management reports on at least a quarterly basis.

"Others" include operations of subsidiaries and the head office branch. None of them meets any of the quantitative thresholds for determining reportable segments in 2009 or 2008.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the Board of experts. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

Segment reports are based on the information reported in statutory accounts, which differ significantly from the consolidated financial statements prepared under IFRS. Reconciliation of items measured as reported to the Board of experts with similar in these Financial statements includes those reclassifications and adjustments that are necessary for financial statements to be presented in accordance with IFRS.

Thousands of Russian Roubles, unless otherwise stated

(i) Information about reportable segments

As at and for the year ended 31 December 2009:

	Belgorod-energo	Bryansk-energo	Voronezh-energo	Kostroma-energo	Kurskenergo	Lipetsk-energo	Orelenergo	Smolensk-energo	Tambov-energo	Tverenergo	Yarenergo	Others	Total
Revenue from electricity transmission	7,536,615	3,496,307	5,960,673	2,668,654	3,647,160	5,063,352	2,284,146	3,457,572	2,731,409	5,363,316	4,660,730	11,897	**46,881,831**
Revenue from connection services	231,497	83,678	360,556	88,696	115,000	97,836	21,473	55,247	30,684	246,231	315,796	59	**1,646,753**
Other revenue	220,876	22,027	7,744	10,609	29,701	28,089	6,861	160,997	12,828	14,296	22,620	32,730	**569,378**
Total external revenues	**7,988,988**	**3,602,012**	**6,328,973**	**2,767,959**	**3,791,861**	**5,189,277**	**2,312,480**	**3,673,816**	**2,774,921**	**5,623,843**	**4,999,146**	**44,686**	**49,097,962**
Results from operating activities	**1,151,886**	**117,663**	**572,039**	**73,995**	**163,538**	**245,856**	**22,098**	**87,441**	**(108,913)**	**630,134**	**555,510**	**111,576**	**3,622,823**
Finance income	44	1	-	307	2	-	-	4	-	-	13	2,750	**3,121**
Finance costs	(138,848)	(43,462)	(72,607)	(105,880)	(69,819)	(99,571)	(144,585)	(155,437)	(108,808)	(204,988)	(84,386)	(4)	**(1,228,395)**
Reportable segment profit/(loss) before income tax	**1,013,082**	**74,202**	**499,432**	**(31,578)**	**93,721**	**146,285**	**(122,487)**	**(67,992)**	**(217,721)**	**425,146**	**471,137**	**114,322**	**2,397,549**
Depreciation and amortization	1,057,735	181,557	318,777	201,409	430,976	505,000	139,457	371,296	188,391	310,741	290,689	11,460	**4,007,488**
Reportable segment assets	**12,997,598**	**3,387,491**	**6,083,090**	**3,159,800**	**5,580,320**	**8,826,623**	**2,495,025**	**4,110,094**	**2,951,214**	**5,606,942**	**4,914,660**	**996,937**	**61,109,794**
Property, plant and equipment	12,130,101	2,437,699	5,224,500	2,620,583	4,260,733	7,381,976	1,876,184	3,173,060	2,573,951	3,671,534	3,740,003	31,140	**49,121,464**
Reportable segment liabilities	**1,842,165**	**771,365**	**1,035,939**	**719,902**	**552,921**	**532,104**	**867,262**	**921,706**	**383,835**	**1,308,372**	**1,532,339**	**9,382,688**	**19,850,598**
Capital expenditure	2,466,632	323,769	603,017	229,695	490,877	654,901	266,388	304,472	169,936	536,083	473,074	11,717	**6,530,561**

Thousands of Russian Roubles, unless otherwise stated

As at and for the year ended 31 December 2008:

	Belgorod-energo	**Bryanskenergo**	**Voronezhenergo**	**Kostromaenergo**	**Kurskenergo**	**Lipetskenergo**	**Orelenergo**	**Smolenskenergo**	**Tambovenergo**	**Tverenergo**	**Yarenergo**	**Others**	**Total**
Revenue from electricity transmission	6,520,443	3,015,936	5,213,215	2,304,066	2,922,767	4,484,520	2,108,348	2,952,636	2,512,683	4,423,068	3,693,118	-	**40,150,800**
Revenue from connection services	1,215,862	143,482	337,029	60,636	176,690	132,708	54,089	204,109	16,868	114,628	345,990	-	**2,802,091**
Other revenue	249,995	4,168	4,880	4,513	10,382	9,919	16,072	88,635	16,950	10,834	9,736	220,139	**646,223**
Total external revenues	**7,986,300**	**3,163,586**	**5,555,124**	**2,369,215**	**3,109,839**	**4,627,147**	**2,178,509**	**3,245,380**	**2,546,501**	**4,548,530**	**4 048,844**	**220,139**	**43,599,114**
Results from operating activities	**1,679,145**	**28,645**	**220,155**	**180,885**	**256,214**	**373,759**	**(112,575)**	**221,999**	**(186,812)**	**10,563**	**276,767**	**158,463**	**3,107,208**
Finance income	563	-	103	434	11	10	13	6,054	14	1	92	3,627	**10,922**
Finance costs	(92,938)	(25,647)	(66,492)	(74,198)	(51,672)	(34,577)	(89,304)	(46,205)	(54,867)	(96,581)	(71,379)	(1,227)	**(705,087)**
Reportable segment profit/(loss) before income tax	**1,586,770**	**2,998**	**153,766**	**107,121**	**204,553**	**339,192**	**(201,866)**	**181,848**	**(241,665)**	**(86,017)**	**205,480**	**160,863**	**2,413,043**
Depreciation and amortization	903,134	191,341	260,659	180,430	383,358	449,785	142,612	307,428	182,795	267,101	256,300	1,360	**3,526,303**
Reportable segment assets	**11,753,638**	**3,245,388**	**5,844,167**	**3,217,931**	**5,275,177**	**8,764,724**	**2,471,976**	**3,967,802**	**2,960,121**	**5,507,434**	**4,832,310**	**276,927**	**58,117,595**
Property, plant and equipment	10,723,398	2,376,865	4,759,166	2,347,611	4,335,023	6,830,787	1,571,143	2,912,005	2,509,590	3,329,745	3,507,412	34,143	**45,236,888**
Reportable segment liabilities	**1,957,781**	**650,706**	**1,571,209**	**665,335**	**607,878**	**1,087,151**	**1,115,484**	**757,646**	**584,617**	**1,979,019**	**1,884,790**	**5,583,232**	**18,444,848**
Capital expenditure	2,352,568	397,185	890,736	435,992	562,181	1,098,535	381,148	624,455	276,280	648,837	526,085	10,098	**8,204,100**

Thousands of Russian Roubles, unless otherwise stated

(ii) Major customer

In 2009 revenue from one customer of the Group’s segment (Belgorodenergo) represented approximately 13% (RUR 6,450,482 thousand) of the Group’s total revenue. In 2008 no customer represented more than 10% of the Group’s total revenue.

(iii) Reconciliations of reportable segment revenues, profit or loss and assets and liabilities

Reconciliation of key segment items measured as reported to the board of experts with similar items in these Financial statements is presented in the tables below.

Revenues	**Year ended 31 December 2009**	**Year ended 31 December 2008**
Total revenue for reportable segments	49,097,962	43,599,114
Elimination of inter-segment revenue	(12,271)	(170,483)
Reclassification	228,018	298,008
Consolidated revenue	**49,313,709**	**43,726,639**

Profit before income tax	**Year ended 31 December 2009**	**Year ended 31 December 2008**
Total profit before income tax for reportable segments	2,397,549	2,413,043
Adjustments for depreciation of property, plant and equipment	(179,378)	38,653
Recognition of financial assets related to employee benefit fund	179,970	-
Unused vacation and annual bonus provision	(13,265)	76,460
Recognition of employee benefit obligations	(301,741)	475,897
Adjustment for finance lease	718,190	686,130
Adjustment for allowance for impairment of account receivables	57,303	687,632
Provision for inventory obsolescence	(130,860)	(37,306)
Other adjustments	17,717	35,945
Consolidated profit before income tax	**2,745,485**	**4,376,454**

Assets	**31 December 2009**	**31 December 2008**
Total assets for reportable segments	61,109,794	58,117,595
Elimination of inter-segment assets	(42,268)	(22,444)
Adjustments for property, plant and equipment	(8,634,258)	(8,334,523)
Recognition of financial assets related to employee benefit fund	625,065	-
Adjustment for allowance for impairment of account receivables	(307,134)	(364,438)
Provision for inventory obsolescence	(275,607)	(144,747)
Adjustment for deferred tax	(136,000)	(129,994)
Other adjustments	(13,300)	42,535
Consolidated total assets	**52,326,292**	**49,163,984**

Thousands of Russian Roubles, unless otherwise stated

Liabilities	**31 December 2009**	**31 December 2008**
Total liabilities for reportable segments	19,850,598	18,444,848
Elimination of inter-segment liabilities	(25,973)	(7,089)
Adjustment for finance lease	2,209,395	3,126,286
Unused vacation and annual bonus provision	190,919	184,440
Recognition of employee benefit obligations	1,447,817	1,146,076
Adjustment for deferred tax	138,993	225,661
Other adjustments	(38,637)	(44,128)
Consolidated total liabilities	**23,773,112**	**23,076,094**

7 REVENUE

	Year ended 31 December 2009	**Year ended 31 December 2008**
Electricity transmission	46,777,977	40,150,828
Connection services	1,646,753	2,801,648
Rent	293,767	275,092
Repairs and maintenance	159,753	230,215
Other	435,459	268,856
	49,313,709	**43,726,639**

Revenue from connection services represents a non-refundable fee for connecting the customer to the electricity grid network.

8 OPERATING EXPENSES

	Year ended 31 December 2009	**Year ended 31 December 2008**
Electricity transmission	12,853,883	10,980,122
Purchased electricity	9,767,839	7,528,255
Personnel costs (Note 9)	8,687,723	6,984,251
Depreciation and amortization	4,631,208	3,743,246
Raw materials and supplies	1,471,110	1,508,331
Accounting outsourcing services	1,300,180	927,218
Electricity metering services	864,177	1,846,966
Allowance for impairment of accounts receivable	768,261	290,786
Repairs, maintenance and installation services	567,494	573,808
Electricity for own needs	420,871	354,550
Rent	413,622	260,521
Transportation costs	405,700	236,416
Consulting, legal and audit services	353,618	396,305
Insurance	239,072	245,050
Taxes other than income tax	214,519	252,804
Security	194,027	163,822
Provision for inventory obsolescence	130,860	37,306
Telecommunication services	120,008	339,892
Agent's fees on purchases	16,353	63,739

Thousands of Russian Roubles, unless otherwise stated

Membership fee	14,227	107,124
Bad debt written-off	5,478	160,423
Other	1,825,789	1,840,985
	45,266,019	**38,841,920**

9 PERSONNEL COSTS

	Year ended 31 December 2009	**Year ended 31 December 2008**
Salaries and wages	6,381,304	5,312,288
Contribution to the state pension fund	1,066,215	997,059
Recognized actuarial loss/(gain)	495,127	(765,030)
Unified Social Tax	389,051	320,578
Finance aid to employees and pensioners	236,072	323,554
Current service cost	61,902	66,659
Unused vacation provision	56,508	18,982
Annual bonus provision	(43,243)	43,243
Past service cost	(188,703)	191,616
Other personnel costs	233,490	475,302
	8,687,723	**6,984,251**

The average number of employees (including production and non production staff) was 25,412 in 2009 (2008: 24,199 employees).

10 FINANCE INCOME AND COSTS

Finance income	**Year ended 31 December 2009**	**Year ended 31 December 2008**
Net change in fair value of financial investments at fair value through profit and loss	95,925	-
Interest income	2,823	10,903
	98,748	**10,903**
Finance costs		
Interest expense	1,228,395	705,087
Interest on finance lease liabilities	743,828	487,820
Net change in fair value of financial investments at fair value through profit and loss	-	226,433
Interest expense on employee benefits obligation	151,055	150,807
	2,123,278	**1,570,147**

Thousands of Russian Roubles, unless otherwise stated

11 INCOME TAX EXPENSE

The Group's applicable tax rate is the income tax rate of 20% (2008: 24%). With effect from 1 January 2009, the income tax rate has been reduced to 20%.

	Year ended 31 December 2009	**Year ended 31 December 2008**
Current tax expense		
Current year	(773,309)	(1,176,644)
Adjustment for prior years	58,830	-
	(714,479)	(1,176,644)
Deferred tax expense		
Origination and reversal of temporary differences	75,001	(326,019)
Change in tax rate	-	(88,071)
	75,001	(414,090)
	(639,478)	**(1,590,734)**

Reconciliation of effective tax rate:

	Year ended 31 December 2009	**%**	**Year ended 31 December 2008**	**%**
Profit before income tax	2,745,485	100	4,376,454	100
Income tax expense at applicable tax rate	(549,097)	(20)	(1,050,349)	(24)
Change in tax rate	-	-	(88,071)	(2)
Adjustment for prior years	58,830	2	-	-
Non-deductible items	(149,211)	(5)	(452,314)	(10)
Allowance for impairment of accounts receivable	-	-	*(145,931)*	*(3)*
Welfare, social and discretionary payments to employees	*(109,014)*	*(4)*	*(119,353)*	*(3)*
Charitable contributions	-	-	*(18,997)*	*(0)*
Other	*(40,197)*	*(1)*	*(168,033)*	*(4)*
	(639,478)	**(23)**	**(1,590,734)**	**(36)**

Thousands of Russian Roubles, unless otherwise stated

12 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Transmission networks	Equipment for electricity transformation	Other	Construction in progress	Total
Deemed cost						
At 1 January 2008	5,666,879	18,998,517	5,898,723	2,879,000	2,483,666	35,926,785
Additions	198,811	364,121	1,463,978	660,322	9,261,797	11,949,029
Transfers	2,061,126	2,672,200	1,744,269	1,082,974	(7,560,569)	-
Disposals	(21,590)	(61,229)	(17,048)	(212,636)	(37,929)	(350,432)
Balance as at 31 December 2008	**7,905,226**	**21,973,609**	**9,089,922**	**4,409,660**	**4,146,965**	**47,525,382**
At 1 January 2009	7,905,226	21,973,609	9,089,922	4,409,660	4,146,965	47,525,382
Additions	72,745	202,302	242,507	29,487	6,107,348	6,654,389
Transfers	2,021,709	1,919,576	2,496,963	1,044,981	(7,483,229)	-
Disposals	(29,433)	(61,563)	(39,683)	(149,185)	(44,336)	(324,200)
Balance as at 31 December 2009	**9,970,247**	**24,033,924**	**11,789,709**	**5,334,943**	**2,726,748**	**53,855,571**
Accumulated depreciation						
At 1 January 2008	(268,515)	(1,590,045)	(450,470)	(371,603)	-	(2,680,633)
Depreciation for the year	(439,658)	(1,827,766)	(774,805)	(562,486)	-	(3,604,715)
Disposals	2,774	14,651	6,356	80,819	-	104,600
At 31 December 2008	**(705,399)**	**(3,403,160)**	**(1,218,919)**	**(853,270)**	**-**	**(6,180,748)**
At 1 January 2009	(705,399)	(3,403,160)	(1,218,919)	(853,270)	-	(6,180,748)
Depreciation for the year	(574,860)	(2,131,305)	(976,890)	(679,553)	-	(4,362,608)
Disposals	4,068	23,814	14,901	40,107	-	82,890
At 31 December 2009	**(1,276,191)**	**(5,510,651)**	**(2,180,908)**	**(1,492,716)**	**-**	**(10,460,466)**
Net book value						
At 1 January 2008	**5,398,364**	**17,408,472**	**5,448,253**	**2,507,397**	**2,483,666**	**33,246,152**
At 31 December 2008	**7,199,827**	**18,570,449**	**7,871,003**	**3,556,390**	**4,146,965**	**41,344,634**
At 31 December 2009	**8,694,056**	**18,523,273**	**9,608,801**	**3,842,227**	**2,726,748**	**43,395,105**

As at 31 December 2009 construction in progress includes advance payments for property, plant and equipment of RUR 54,898 thousand (as at 31 December 2008: RUR 453,204 thousand).

The amount of capitalized interest in 2009 was RUR 183,103 thousand (in 2008: RUR 161,028 thousand).

Leased property, plant and equipment

The Group leases production equipment and transportation vehicles under a number of finance lease agreements. Title to the leased assets transfers to the Group at the end of each lease.

Thousands of Russian Roubles, unless otherwise stated

As at 31 December 2009 and 31 December 2008 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:

	Land and Buildings	Transmission networks	Equipment for electricity transformation	Other	Total
Cost	124,734	371,522	2,651,239	1,202,598	4,350,093
Accumulated depreciation	(8,534)	(24,097)	(123,398)	(176,158)	(332,187)
Net book value at 31 December 2008	**116,200**	**347,425**	**2,527,841**	**1,026,440**	**4,017,906**
Cost	111,551	363,915	2,821,671	638,248	3,935,385
Accumulated depreciation	(14,607)	(37,953)	(299,960)	(149,519)	(502,039)
Net book value at 31 December 2009	**96,944**	**325,962**	**2,521,711**	**488,729**	**3,433,346**

13 INTANGIBLE ASSETS

	Software	Licenses	Other intangible assets	Total
Cost				
At 1 January 2008	392,870	47,936	89,736	530,542
Reclassification	(222,547)	95,713	126,834	-
Additions	185,968	60,775	359,857	606,600
Disposals	(22,649)	(6,336)	(17,958)	(46,943)
At 31 December 2008	**333,642**	**198,088**	**558,469**	**1,090,199**
At 1 January 2009	333,642	198,088	558,469	1,090,199
Reclassification	(56,622)	(4,716)	61,338	-
Additions	182,714	2,277	464,044	649,035
Disposals	(35,097)	(37,616)	(8,307)	(81,020)
At 31 December 2009	**424,637**	**158,033**	**1,075,544**	**1,658,214**
Accumulated amortization				
At 1 January 2008	(64,907)	(9,050)	(23,493)	(97,450)
Reclassification	11,789	(14,358)	2,569	-
Amortization for the year	(6,858)	(69,448)	(62,225)	(138,531)
Disposals	22,343	6,333	17,855	46,531
At 31 December 2008	**(37,633)**	**(86,523)**	**(65,294)**	**(189,450)**
At 1 January 2009	(37,633)	(86,523)	(65,294)	(189,450)
Reclassification	5,379	392	(5,771)	-
Amortization for the year	(100,498)	(54,014)	(114,088)	(268,600)
Disposals	35,097	19,117	8,307	62,521
At 31 December 2009	**(97,655)**	**(121,028)**	**(176,846)**	**(395,529)**
Net book value				
At 1 January 2008	**327,963**	**38,886**	**66,243**	**433,092**
At 31 December 2008	**296,009**	**111,565**	**493,175**	**900,749**
At 31 December 2009	**326,982**	**37,005**	**898,698**	**1,262,685**

Thousands of Russian Roubles, unless otherwise stated

14 DEFERRED TAX ASSETS AND LIABILITIES

(a) Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following items:

	Assets		**Liabilities**		**Net**	
	2009	**2008**	**2009**	**2008**	**2009**	**2008**
Property, plant and equipment	23,186	28,321	(2,751,091)	(2,695,924)	(2,727,905)	(2,667,603)
Other non-current assets	1,158	1,236	-	-	1,158	1,236
Inventories	55,171	31,770	-	-	55,171	31,770
Trade and other receivables	270,852	79,393	-	-	270,852	79,393
Other current assets	66	79	-	-	66	79
Finance lease liabilities	441,879	625,257	-	-	441,879	625,257
Post employment benefit liability	155,172	19,057	-	-	155,172	19,057
Employee payables	39,541	36,888	-	-	39,541	36,888
Other	776	-	(125,013)	(362)	(124,237)	(362)
Deferred tax assets/(liabilities)	**987,801**	**822,001**	**(2,876,104)**	**(2,696,286)**	**(1,888,303)**	**(1,874,285)**

(b) Movements in temporary differences during the year

	1 January 2009	**Recognised in profit or loss**	**Recognised directly in equity**	**31 December 2009**
Property, plant and equipment	(2,667,603)	(60,302)	-	(2,727,905)
Other non-current assets	1,236	(78)	-	1,158
Inventories	31,770	23,401	-	55,171
Trade and other receivables	79,393	191,459	-	270,852
Other current assets	79	(13)	-	66
Finance lease liabilities	625,257	(183,378)	-	441,879
Post employment benefit liability	19,057	136,115	-	155,172
Employee payables	36,888	2,653	-	39,541
Other	(362)	(34,856)	(89,019)	(124,237)
	(1,874,285)	**75,001**	**(89,019)**	**(1,888,303)**

Thousands of Russian Roubles, unless otherwise stated

	1 January 2008	Recognised in profit or loss	31 December 2008
Property, plant and equipment	(2,349,920)	(317,683)	(2,667,603)
Other non-current assets	7,328	(6,092)	1,236
Inventories	29,220	2,550	31,770
Trade and other receivables	259,750	(180,357)	79,393
Other current assets	12,109	(12,030)	79
Finance lease liabilities	409,694	215,563	625,257
Post employment benefit liability	63,516	(44,459)	19,057
Employee payables	135,879	(98,991)	36,888
Other	(27,771)	27,409	(362)
	(1,460,195)	**(414,090)**	**(1,874,285)**

15 INVESTMENTS AND FINANCIAL ASSETS

	31 December 2009	31 December 2008
Financial assets related to employee benefit fund	625,065	-
Investments designates at fair value through profit and loss	128,191	32,266
Available-for-sale financial assets	2,005	2,005
	755,261	**34,271**

All investments and financial assets are stated at fair value and belong to Level 1 and Level 2 in the fair value hierarchy.

Financial assets related to employee benefit fund

Financial assets related to the employee benefit fund relate to the Group contributions accumulated in the 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.

The Group's exposure related to credit risks and impairment losses related to other investments and financial assets is disclosed in Note 28.

16 OTHER NON-CURRENT ASSETS

	31 December 2009	31 December 2008
Other accounts receivable	61,858	66,641
Less: Other accounts receivable impairment allowance	(3,854)	(1,947)
Other assets	47,036	59,811
Trade accounts receivable	1,055	2,977
Less: Trade accounts receivable impairment allowance	-	(2,977)
	106,095	**124,505**

Thousands of Russian Roubles, unless otherwise stated

17 CASH AND CASH EQUIVALENTS

Cash and cash equivalents mainly represent cash in bank accounts amounted to RUR 368,171 thousand denominated in rubles (31 December 2008: RUR 74,672 thousand).

18 TRADE AND OTHER RECEIVABLES

	31 December 2009	31 December 2008
Trade receivables	5,339,951	4,558,151
Trade receivables impairment allowance	(1,387,140)	(745,928)
Advances issued	378,600	677,797
Advances issued impairment allowance	(62,295)	(61,498)
VAT recoverable	327,055	464,870
Taxes receivable	14,812	45,401
Other receivables	470,721	278,657
Other receivables impairment allowance	(46,237)	(23,724)
	5,035,467	**5,193,726**

For more detailed information concerning the Group’s exposure to credit risks and impairment losses related to trade and other receivables refer to Note 28.

19 INVENTORIES

	31 December 2009	31 December 2008
Materials and supplies	1,505,427	1,504,963
Inventory for resale	2,310	2,851
Total inventories	**1,507,737**	**1,507,814**
Less: provision for inventory obsolescence	(275,607)	(144,747)
Total	**1,232,130**	**1,363,067**

At 31 December 2009 inventories with a carrying amount of RUR 964,108 thousand were pledged as collateral for bank loans (31 December 2008: RUR 611,123 thousand) (refer to Note 22).

20 EQUITY

(a) Share capital

	Ordinary shares	
	31 December 2009	31 December 2008
Issued shares, fully paid	42,217,941,468	42,217,941,468
Par value (in RUR)	0.10	0.10

Thousands of Russian Roubles, unless otherwise stated

Prior to the reorganization that occurred on 31 March 2008, the Company’s share capital consisted of 100,000,000 ordinary shares of 0.10 RUR par value. The share capital of 42,217,941,468 shares of the Company was formed through the issuance of shares of the Company and conversion of these newly issued shares into the shares of the merged entities (refer to Note 1).

(b) Dividends

In accordance with Russian legislation the Company’s distributable reserves are limited to the balance of accumulated retained earnings as recorded in the Company’s statutory financial statements prepared in accordance with Russian Accounting Principles. The Company had retained earnings, including profit for the current year, of RUR 3,634,541 thousand for the year ended 31 December 2009 (31 December 2008: RUR 2,164,904 thousand).

At the annual shareholders meeting held on 11 June 2009 the decision was made not to declare dividends for the year 2008.

21 EARNINGS PER SHARE

The calculation of earnings per share was based on the net profit for the year attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding during the year. The Company has no dilutive potential ordinary shares. The number of shares is taken as the number of shares issued as part of the reorganization.

Number of shares unless otherwise stated	**Ordinary shares 31 December 2009**	**Ordinary shares 31 December 2008**
Authorized shares	42,217,941,468	42,217,941,468
Par value (in RUR)	0.10	0.10
On issue at beginning of year	42,217,941,468	42,217,941,468
On issue at end of year	42,217,941,468	42,217,941,468
Weighted average number of shares	42,217,941,468	42,217,941,468
Profit for the year	**2,105,390**	**2,785,720**
Earning per share (in RUR)	**0.050**	**0.066**

Thousands of Russian Roubles, unless otherwise stated

22 LOANS AND BORROWINGS

This 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 28.

Long-term loans and borrowings

Name of lender		Effective interest rate	Maturity	31 December 2009	31 December 2008
Finance department of Belgorodskaya oblast	Secured	9.45%	2011	345,738	345,722
OJSC "Bank of Moscow"	Unsecured	12-12.50%	2010	109,816	218,061
OJSC "Bank VTB"	Unsecured	9.70%	2010	380,606	380,604
OJSC "Gazprombank"	Unsecured	11-17%	2012	1,227,098	1,729,456
OJSC "Ogresbank"(OJSC "Nordeabank")	Unsecured	11.10-19.50%	2011	410,000	400,000
OJSC "Rosbank"	Unsecured	10.90–18%	2012	1,508,637	1,105,377
OJSC "Sberbank"	Secured	13.50-18%	2014	1,428,295	587,514
OJSC "Sberbank"	Unsecured	13.50-18%	2014	4,254,684	-
OJSC "Svyazbank"	Unsecured	11.45%	2011	228,082	452,643
OJSC "Transcreditbank"	Unsecured	11-17.95%	2011	833,294	251,305
				10,726,250	**5,470,682**
Less: current portion					
Finance department of Belgorodskaya oblast	Secured	9.45%	2009-2010	5,738	5,722
OJSC "Bank of Moscow"	Unsecured	12-12.50%	2009-2010	109,816	108,245
OJSC "Bank VTB"	Unsecured	9.70%	2009-2010	380,606	604
OJSC "Gazprombank"	Unsecured	11-17%	2009-2010	402,099	515,656
OJSC "Ogresbank"(OJSC "Nordeabank")	Unsecured	11.10-19.50%	2010	-	200,000
OJSC "Rosbank"	Unsecured	10.90–18%	2009-2010	1,395,895	417,645
OJSC "Sberbank"	Secured	13.50-18%	2009-2010	1,428,295	685
OJSC "Sberbank"	Unsecured	13.50-18%	2009-2010	899,420	-
OJSC "Svyazbank"	Unsecured	11.45%	2009-2010	224,561	224,556
OJSC "Transcreditbank"	Unsecured	11-17.95%	2009-2010	716,676	18,012
				5,563,106	**1,491,125**
Total long-term borrowings				**5,163,144**	**3,979,557**

All the Group's borrowings are denominated in RUR and bear a fixed interest rate. The effective interest rate is the market interest rate applicable to the loan on the date of its receipt.

The carrying value of borrowings approximates their fair value.

Thousands of Russian Roubles, unless otherwise stated

Current borrowings and current portion of long-term borrowings

Name of lender		Effective interest rate	31 December 2009	31 December 2008
Finance department of Belgorodskaya oblast	Secured	9.45%	5,738	5,722
OJSC "Bank of Moscow"	Unsecured	12-12.50%	109,816	108,245
OJSC "Bank VTB"	Unsecured	9.70%	380,606	604
OJSC "Gazprombank"	Unsecured	11-17%	802,099	2,114,101
OJSC "Ogresbank"(OJSC "Nordeabank")	Unsecured	11.10-19.50%	-	1,800,000
CJSC "Raiffeisenbank"	Unsecured	23.38%	-	712,181
OJSC "Rosbank"	Unsecured	10.90-18%	1,395,895	417,645
OJSC "Sberbank"	Secured	13.5-18%	1,428,295	685
OJSC "Sberbank"	Unsecured	13.5-18%	899,420	-
OJSC "Svyazbank"	Unsecured	11.45%	224,561	224,556
OJSC "Transcreditbank"	Unsecured	11-17.95%	716,676	18,012
			5,963,106	**5,401,751**

As at 31 December 2009 the bank loans are secured over inventories in the amount of RUR 964,108 thousand (31 December 2007: RUR 611,123 thousand) (refer to Note 19).

23 FINANCE LEASE

The finance lease liabilities are secured by the leased assets.

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

	At 31 December 2008		
	Future minimum lease payments	**Present value of minimum lease payments**	**Interest**
Less than one year	1,692,110	1,047,926	644,184
Between one and five years	2,589,350	1,724,642	864,708
After five years	408,729	353,719	55,010
	4,690,189	**3,126,287**	**1,563,902**

	At 31 December 2009		
	Minimum lease payments	**Present value of minimum lease payments**	**Interest**
Less than one year	1,261,347	762,393	498,954
Between one and five years	1,994,176	1,421,554	572,622
After five years	26,099	25,448	651
	3,281,622	**2,209,395**	**1,072,227**

Thousands of Russian Roubles, unless otherwise stated

24 EMPLOYEE BENEFITS

The tables below provide information about the employee benefit obligations and actuarial assumptions used for the years ended 31 December 2008 and 31 December 2009.

The defined benefits obligations arise from unfunded plans. Other benefits include jubilee benefits and funeral compensations in the case of death in the employee's immediate family.

(a) Movements in net liability of the defined benefit obligations

	31 December 2009	31 December 2008
Present value of defined benefit obligation	1,815,215	1,756,253
Unrecognized past service cost	(367,398)	(610,177)
	1,447,817	**1,146,076**

(b) Amounts recognized in profit or loss

	Year ended 31 December 2009	Year ended 31 December 2008
Current service cost	61,902	66,659
Interest expense	151,055	150,807
Past service cost	(188,703)	191,616
Recognized actuarial loss/(gain)	495,127	(765,030)
Net expense/(benefit)	**519,381**	**(355,948)**

(c) Movements in the present value of the defined benefit obligations

	31 December 2009	31 December 2008
Present value of defined benefit obligation at 1 January	1,756,253	2,234,181
Current service cost	61,902	66,659
Interest expense	151,055	150,807
Actuarial losses/(gains)	495,127	(765,030)
Benefits paid	(217,638)	(119,949)
Past service cost	(431,484)	189,585
Present value of defined benefit obligation at 31 December	**1,815,215**	**1,756,253**

Actuarial losses arising during the year ended 31 December 2009 resulted from changes in actuarial assumptions and experience adjustments: decrease of staff turnover level (RUR 267,668 thousand), higher than expected increase in membership since previous year (RUR 282,973 thousand), that was offset by actuarial gains resulting from an increase in average annual salary (RUR 55,514 thousand).

Actuarial gains arising during the year ended 31 December 2008 resulted from changes in actuarial assumptions and experience adjustments: increase of discount rate (RUR 308,009 thousand), increase in expected retirement ages (RUR 300,081 thousand) and a higher than expected decrease in membership since the previous year (RUR 156,940 thousand).

Thousands of Russian Roubles, unless otherwise stated

(d) Actuarial assumptions

Principal actuarial assumptions are as follows:

	2009	**2008**
Discount rate, annual	8.70%	9.00%
Future salary increase, per year	5.50%	7.00%
Inflation rate, per year	5.50%	6.60%

(e) Expense recognised in profit or loss

	Year ended 31 December 2009	**Year ended 31 December 2008**
Operating expenses	368,326	(506,755)
Finance costs	151,055	150,807
	519,381	**(355,948)**

25 EMPLOYEE PAYABLES

	31 December 2009	**31 December 2008**
Salaries and wages payable	289,955	296,184
Unused vacation provision	190,919	134,376
Annual bonus provision	-	43,243
	480,874	**473,803**

Provision for annual bonuses includes bonuses and other similar payments accrued (including unified social tax) based on employees' performance.

26 TRADE AND OTHER PAYABLES

	31 December 2009	**31 December 2008**
Trade accounts payable	3,887,181	3,851,035
Advances received	1,634,660	2,182,860
Other payables and accrued expenses	356,108	466,488
	5,877,949	**6,500,383**

27 OTHER TAXES PAYABLE

	31 December 2009	**31 December 2008**
Value added tax	440,903	255,735
Employee taxes	66,242	93,765
Property tax	42,876	56,102
Other taxes	94,402	107,866
	644,423	**513,468**

28 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.

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

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 principal objective when managing capital risk is to sustain its creditworthiness and a normal level of capital adequacy for doing business as a going concern, in order to ensure returns for shareholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of borrowed capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

(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 and investment securities.

(i) Trade and other receivables

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

To manage the credit risk the Group attempts, to the extent possible, to demand prepayments from customers. As a rule, prepayment for connection services is set in a contract and depends on the amount of capacity to be connected.

The customer base for electricity transmission services is limited to several distribution companies and a small number of large manufacturing/extraction enterprises. Payments are tracked weekly and electricity transmission customers are advised of any failures to submit timely payments. For quick collection and complete control of accounts receivable collection a working team was formed to reduce the Company's finance losses, caused by non-fulfilment or insufficient fulfilment by some contractors of their contractual obligations.

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

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.

Thousands of Russian Roubles, unless otherwise stated

(ii) Exposure to credit risk

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

	31 December 2009	31 December 2008
Trade and other receivables	4,436,354	4,131,850
Investments and financial assets	755,261	34,271
Cash and cash equivalents	368,171	74,672
	5,559,786	**4,240,793**

Financial guarantees are disclosed in Note 31.

The Group's two most significant customers, regional distribution entities, account for RUR 1,482,111 thousand of the trade receivables carrying amount at 31 December 2009 (31 December 2008: RUR 1,545,362 thousand).

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

	Carrying amount at 31 December 2009	Carrying amount at 31 December 2008
Electricity transmission customers	3,735,659	2,563,694
Connection services customers	150,701	378,847
Other customers	67,506	869,682
	3,953,866	**3,812,223**

Impairment losses

The tables below analyze the Group's trade and other receivables into relevant groups based on the past due periods:

	At 31 December 2009		At 31 December 2008	
	Gross	**Allowance**	**Gross**	**Allowance**
Not past due	2,526,250	(49,674)	3,053,255	(350,758)
Past due 0-3 months	35,790	(11,511)	159,255	-
Past due 3-12 months	2,397,468	(528,310)	1,287,695	(22,820)
Past due more than 12 months	914,077	(847,736)	406,221	(400,998)
	5,873,585	**(1,437,231)**	**4,906,426**	**(774,576)**

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

	Year ended 31 December 2009	Year ended 31 December 2008
Balance at 1 January	774,576	1,204,634
Increase during the period	1,069,338	417,357
Amounts written-off against receivables	(94,146)	(729,653)
Decrease due to reversal	(312,537)	(117,762)
Balance at 31 December	**1,437,231**	**774,576**

Thousands of Russian Roubles, unless otherwise stated

(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 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.

To manage the liquidity risk, the Group has negotiated long-term and short-term credit lines with a pool of commercial banks, designated as highly rated banks. Long-term and short-term credit facilities were obtained from each of the highly rated banks.

As at 31 December 2009 the Group’s unused portion of long-term and short-term credit line facilities amounted to RUR 5,495,768 thousand (31 December 2008: RUR 4,615,343 thousand).

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

	Carrying amount	Contractual cash flows	12 months or less	Between 1 and 5 years	More than 5 years
Liabilities as at 31 December 2009					
Long-term municipal loans	345,738	388,587	27,200	361,387	-
Long-term bank loans including current portion	10,380,512	13,078,384	5,825,617	7,252,767	-
Short-term bank loans	400,000	404,734	404,734	-	-
Finance lease liabilities	2,209,395	3,281,622	1,261,347	1,994,176	26,099
Trade and other payables	4,039,055	4,039,055	4,029,470	-	9,585
	17,374,700	**21,192,382**	**11,548,368**	**9,608,330**	**35,684**

	Carrying amount	Contractual cash flows	12 months or less	Between 1 and 5 years	More than 5 years
Liabilities as at 31 December 2008					
Long-term municipal loans	345,722	415,787	27,200	388,587	-
Long-term bank loans including current portion	5,124,960	6,292,973	2,086,241	4,206,732	-
Short-term bank loans	3,910,626	4,235,816	4,235,816	-	-
Finance lease liabilities	3,126,287	4,690,189	1,692,110	2,589,350	408,729
Trade and other payables	4,067,461	4,067,461	4,067,461	-	-
	16,575,056	**19,702,226**	**12,108,828**	**7,184,669**	**408,729**

Financial guarantees are disclosed in Note 31.

(d) Market risk

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

(i) Interest rate risk

The Group’s income and operating cash flows are largely independent of changes in market interest rates. The Group is exposed to interest rate risk only through market value fluctuations of loans and borrowings. The interest rates on most long- and short-term loans and borrowings are fixed. Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt).

Thousands of Russian Roubles, unless otherwise stated

Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

Fixed rate instruments	Carrying amount 31 December 2009	Carrying amount 31 December 2008
Financial liabilities	13,335,645	12,507,595

Fair value 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.

(e) Fair values

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

(f) 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.

The Company and its subsidiaries are subject to external capital requirements that require that their net assets as determined in accordance with Russian Accounting Principles must exceed their charter capital at all times.

29 OPERATING LEASES

The Group leases a number of land plots owned by local governments under operating leases. In addition, the Group leases non-residential premises and vehicles.

The land plots leased by the Group are the territories on which power lines, equipment for electricity transformation and other assets are located. Lease payments are reviewed regularly to reflect market rentals.

Operating lease rentals under non-cancellable leases are payable as follows:

	31 December 2009	31 December 2008
Less than one year	286,303	280,944
Between one year and five years	601,235	246,023
After five years	2,758,529	662,893
	3,646,067	**1,189,860**

The amount of lease expense under operating leases recognized in profit or loss in 2009 was RUR 413,622 thousand (in 2008: RUR 260,521 thousand).

30 COMMITMENTS

The Group has outstanding commitments under the contracts for the purchase and construction of property, plant and equipment for RUR 2,337,551 thousand as at 31 December 2009 (net of VAT) (as at 31 December 2008: RUR 5,143,008 thousand).

31 CONTINGENCIES

(a) 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 has full insurance coverage for its production facilities and third party liability in respect of property, health and environmental damage arising from operation of dangerous production units. The Group has no insurance coverage against losses caused by business interruption.

(b) Litigation

The Group is a party to certain legal proceedings arising in the ordinary course of business. Management does not believe than these matters will have a material adverse effect on the Group’s financial position and operating results.

(c) Taxation contingencies

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.

(d) Environmental matters

The Company and its predecessors have operated in the electric transmission industry in the Russian Federation for many years. The enforcement of environmental regulations in the Russian Federation is evolving and the enforcement posture of Government authorities is continually being reconsidered. Management periodically evaluates its 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.

Thousands of Russian Roubles, unless otherwise stated

(e) Guarantees

The Group issued financial guarantees for loans received by a lessor of the Group.

	Amount on contract 31 December 2009	Amount on contract 31 December 2008
OJSC "Rosbank"	1,267,130	1,050,000
Belgorodskoe OSB №8582	463,051	767,127
CJSC "Gazenergoprombank"	51,371	90,519
Voronezhskiy branch of OJSC "Alpha Bank"	-	68,840
	1,781,552	**1,976,486**

32 RELATED PARTY TRANSACTIONS

(a) Control relationships

The Company's parent as at 31 December 2009 and 2008 was JSC 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 JSC IDGC Holding.

(b) 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.

(i) Management compensation

Total remuneration paid to the members of the Board of Directors and the Management Board for the year ended 31 December 2009 was RUR 157,929 thousand (2008: RUR 239,860 thousand).

(c) Transactions with other related parties

Entities under common control of the parent for the year 2008 are represented by former RAO UES group companies.

(i) Revenue

	Transaction value 2009	Outstanding balance 31 December 2009	Transaction value 2008	Outstanding balance 31 December 2008
Electricity transmission:				
Entities under common control of the parent	-	-	2,034,666	-
Other state controlled entities	2,165,151	4,257	783,789	61,057
Other revenue:				
Entities under common control of the parent	-	-	10,986	3,304
Other state controlled entities	190,397	17,722	2,156,696	271,472
	2,355,548	**21,979**	**4,986,137**	**335,833**

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

Thousands of Russian Roubles, unless otherwise stated

(ii) Expenses

	Transaction value 2009	Outstanding balance 31 December 2009	Transaction value 2008	Outstanding balance 31 December 2008
Electricity transmission:				
Entities under common control of the parent	-	-	384,746	-
Other state controlled entities	8,795,964	576,206	7,223,757	211,568
Other expenses:				
Entities under common control of the parent	1,269	9,585	4,108	-
Parent company	441,000	26,019	-	-
Other state controlled entities	532,683	145,905	2,885,950	264,748
Related party lessors	541	13	7,139	-
	9,771,457	**757,728**	**10,505,700**	**476,316**

(iii) Advances received

	Outstanding balance 31 December 2009	Outstanding balance 31 December 2008
Other state controlled entities	283,831	73,053
	283,831	**73,053**

(iv) Advances issued

	Outstanding balance 31 December 2009	Outstanding balance 31 December 2008
Other state controlled entities	48,826	67,020
	48,826	**67,020**

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

(v) Loans and borrowings

	Amount loaned 2009	Outstanding balance 31 December 2009	Amount loaned 2008	Outstanding balance 31 December 2008
Loans received:				
State controlled entities	5,690,000	7,580,514	1,385,009	2,235,849
	5,690,000	**7,580,514**	**1,385,009**	**2,235,849**

Loans are received at market interest rates (refer to Note 28).