

JSC “IDGC of Centre”

Consolidated
Financial Statements
for the year ended 31 December 2008

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Independent Auditors' Report

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Joint Stock Company "IDGC of Centre" and its subsidiary (the "Group"), which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the 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 1 189 256 thousand roubles as at 31 December 2007 because we were engaged as auditors of the Group only after that date. It was impracticable to satisfy ourselves as to those inventory quantities by other audit procedures. Accordingly, we were unable to determine whether any adjustments might be necessary to operating expenses, income tax expense and profit for the year ended 31 December 2008 and to operating expenses, income tax expense, profit for the year, inventories and retained earnings for the year ended 31 December 2007.

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

ZAO KPMG

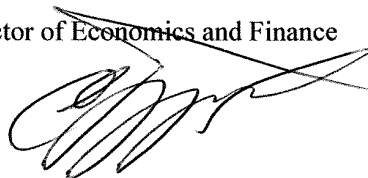
ZAO KPMG
11 August 2009

JSC "IDGC of Centre"
Consolidated Income Statement for the year ended 31 December 2008
Thousands of Russian Roubles, unless otherwise stated

		Year ended	Year ended
	Note	31 December 2008	31 December 2007
Revenue	7	43,726,639	33,141,164
Operating expenses	8	(38,841,920)	(29,159,435)
Other operating income	7	1,050,979	298,188
Operating income		5,935,698	4,279,917
Financial income	10	10,903	165,293
Financial expenses	10	(1,570,147)	(847,043)
Profit before income tax		4,376,454	3,598,167
Income tax expense	11	(1,590,734)	(1,340,237)
Profit for the year		2,785,720	2,257,930
Earnings per share – basic and diluted (in Russian Roubles)	21	0.066	0.053

These consolidated financial statements were approved on 11 August 2009:

Deputy General Director of Economics and Finance
E.A. Bronnikov



Accounting Policy Director
S. U. Puzenko



JSC "IDGC of Centre"
Consolidated Balance Sheet as at 31 December 2008
Thousands of Russian Roubles, unless otherwise stated

	Note	31 December 2008	31 December 2007 (restated)
ASSETS			
Non-current assets			
Property, plant and equipment	12	41,344,634	33,246,152
Intangible assets	13	900,749	433,092
Deferred tax assets	14	822,001	948,687
Investments	15	34,271	341,097
Other non-current assets	16	124,505	207,329
Total non-current assets		43,226,160	35,176,357
Current assets			
Cash and cash equivalents	17	74,672	368,677
Trade and other receivables	18	5,193,726	3,496,224
Income tax receivable		47,921	43,952
Inventories	19	1,363,067	1,189,256
Other current assets		80,439	139,666
Total current assets		6,759,825	5,237,775
Total assets		49,985,985	40,414,132
EQUITY AND LIABILITIES			
Equity			
Share capital	20	4,221,794	4,221,794
Additional paid-in capital		88,660	88,660
Retained earnings		21,777,436	18,991,716
Total equity		26,087,890	23,302,170
Non-current liabilities			
Loans and borrowings	22	3,979,557	3,312,444
Finance lease liability	23	2,078,361	1,180,169
Employee benefits	24	1,146,076	1,621,973
Deferred tax liabilities	14	2,696,286	2,408,882
Other non-current liabilities		43,380	15,143
Total non-current liabilities		9,943,660	8,538,611
Current liabilities			
Loans and borrowings	22	5,401,751	3,204,721
Finance lease liability	23	1,047,926	728,307
Trade and other payables	26	6,500,383	3,139,922
Employee payables	25	473,803	866,391
Income tax payable		17,104	151,140
Other taxes payable	27	513,468	482,870
Total current liabilities		13,954,435	8,573,351
Total equity and liabilities		49,985,985	40,414,132

	Year ended 31 December 2008	Year ended 31 December 2007
OPERATING ACTIVITIES		
Profit before income tax	4,376,454	3,598,167
<i>Adjustments for:</i>		
Depreciation and amortization	3,743,246	2,764,949
Allowance for impairment of accounts receivable	290,786	177,964
Net financial expenses	1,559,244	681,750
Provision for inventory obsolescence	37,306	35,041
Loss on disposal of property, plant and equipment	158,081	85,315
Gain on disposal of investments	(13,784)	-
Gain on disposal of subsidiaries	(12,733)	-
Gain on disposal of long-term assets held for sale	-	(167,956)
Property, plant and equipment surpluses	(653,133)	-
Bad debts written-off	160,423	174,179
Adjustment for other non-cash transactions	(13,459)	4,049
Operating profit before changes in working capital	9,632,431	7,353,458
Increase in trade and other receivables	(2,153,077)	(1,226,277)
Increase in inventories	(211,117)	(54,505)
Decrease/(Increase) in other assets	146,417	(40,672)
Increase in trade and other payables	3,391,464	1,318,950
(Decrease)/Increase in employee payables	(392,588)	88,353
(Decrease)/Increase in employee benefits	(626,704)	188,328
Increase/(Decrease) in taxes payable other than on income	30,598	(123,783)
Cash flows from operations before income taxes and interest paid	9,817,424	7,503,852
Interest paid	(668,197)	(705,881)
Income tax paid	(1,314,648)	(1,165,461)
Cash flows from operating activities	7,834,579	5,632,510
INVESTING ACTIVITIES		
Acquisition of property, plant and equipment and intangible assets	(9,788,000)	(7,947,039)
Proceeds from disposal of property, plant and equipment	52,370	76,947
Proceeds from disposal of subsidiaries	55,356	478,400
Proceeds from disposal of investments	93,466	-
Interest received	10,903	2,561
Cash flows used in investing activities	(9,575,905)	(7,389,131)
FINANCING ACTIVITIES		
Proceeds from loans and borrowings	12,840,707	12,134,185
Repayment of loans and borrowings	(10,013,455)	(9,003,205)
Dividends paid	-	(387,058)
Repayment of finance lease liabilities	(1,379,931)	(728,307)
Cash flows from financing activities	1,447,321	2,015,615
Net (decrease)/increase in cash and cash equivalents	(294,005)	258,994
Cash and cash equivalents at beginning of year	368,677	109,683
Cash and cash equivalents at end of year	74,672	368,677

	Attributable to shareholders of the Group			Total
	Ordinary share capital	Additional paid in capital	Retained earnings	
At 1 January 2007 (restated)	4,221,794	88,660	17,120,844	21,431,298
Profit for the year	-	-	2,257,930	2,257,930
Total recognized income	-	-	2,257,930	2,257,930
Dividends to shareholders	-	-	(387,058)	(387,058)
At 31 December 2007 (restated)	4,221,794	88,660	18,991,716	23,302,170
Profit for the year	-	-	2,785,720	2,785,720
Total recognized income	-	-	2,785,720	2,785,720
At 31 December 2008	4,221,794	88,660	21,777,436	26,087,890

1 BACKGROUND

(a) The Group and its operations

Joint-Stock Company "IDGC of Centre" (hereafter, the "Company") and its subsidiary (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) as well as 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 and distribution of electricity and connection of customers to the electricity grid.

The Group consists of the Company and its subsidiary – OJSC "Sanatory-Profilactory "Energetic".

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

As part of the reform process, a merger of the Company with the entities listed below was effected on 31 March 2008 in accordance with the Resolution no. 250 of the Board of Directors of RAO UES of 27 April 2007:

- 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 affected through conversion of shares issued by the Company in exchange for shares in the acquired entities (refer to Note 20). As a result of the merger, 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 shares of the Company to JSC IDGC Holding, a newly formed state-controlled entity.

As at 31 December 2008, the Government of the Russian Federation owned 52.7% shares of JSC IDGC Holding, which in turn owned 50.23% of the Company.

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

(b) Russian business environment

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

2 BASIS OF PREPARATION

(a) Statement of compliance

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

(b) Basis of measurement

The Financial Statements are prepared on the historical cost basis except that investments at fair value through profit or loss and investments available-for-sale are stated at fair value; property, plant and equipment was revalued to determine deemed cost as part of the adoption of IFRS as at 1 January 2007.

(c) First-time adoption of IFRS

These Financial Statements are the Group's first consolidated financial statements prepared in accordance with IFRSs.

The accounting policies set out in Note 3 have been applied in preparing the consolidated financial statements for the year ended 31 December 2008, the comparative information presented in these consolidated financial statements for the year ended 31 December 2007 and in the preparation of an opening IFRS balance sheet at 1 January 2007 (the Group's date of transition).

In preparing its opening combined IFRS balance sheet, the Group has adjusted amounts reported in its subsidiaries' financial statements prepared in accordance with Russian Accounting Principles for the purpose of fair presentation in accordance with IFRS.

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

The Group elected to determine the deemed cost of property, plant and equipment as at 1 January 2007 using an independent appraisal at that date (refer to Note 12).

(d) Combined financial statements

Prior to the formation of the Group that was completed on 31 March 2008 (refer to Note 1 (a)), the Group prepared combined preliminary IFRS financial statements for the year ended 31 December 2007, to establish the financial position, financial performance and cash flows of the companies constituting the merged Group. All the companies were under common control of RAO UES. These financial statements are prepared in accordance with the Group accounting policies in respect of business combinations involving entities under common control (refer to Note 3 (a)) as if the formation of the Group was completed as at 1 January 2007. Accordingly, the combined preliminary financial statements form the corresponding figures in these consolidated financial statements.

(e) Functional and presentation currency

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

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

(f) Use of judgements, estimates and assumptions

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

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

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

- Note 12 – Property, plant and equipment;
- Note 18 – Trade and other receivables;
- Note 24 – Employee benefits.

3 SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies have been applied in the preparation of these Financial Statements. To conform to the current year presentation the Group made the following reclassifications to prior year amounts.

Cash flow statement

Cash flow statement line	Before reclassification	Reclassification	After reclassification
	Year ended 31 December 2007		Year ended 31 December 2007
Allowance for impairment of accounts receivable	174,179	3,785	177,964
Net financial expenses	847,043	(165,293)	681,750
Adjustment for other non-cash transactions	(70,330)	74,379	4,049
Operating profit before changes in working capital	7,266,408	87,050	7,353,458
Increase in trade and other receivables	(1,048,313)	(177,964)	(1,226,277)
(Decrease)/Increase in employee payables	-	88,353	88,353
Cash flows from operations before income taxes and interest paid	7,506,413	(2,561)	7,503,852
Cash flows from operating activities	5,635,071	(2,561)	5,632,510
Interest received	-	2,561	2,561
Cash flows used in investing activities	(7,391,692)	2,561	(7,389,131)

Note 7. Revenue and other income

	Before reclassification	Reclassification	After reclassification
	Year ended 31 December 2007		Year ended 31 December 2007
Sale of inventories	154,645	(154,645)	-
Other	293,325	154,645	447,970

Note 8. Operating expense

	Before reclassification Year ended 31 December 2007	Reclassification	After reclassification Year ended 31 December 2007
Allowance for impairment of accounts receivable	-	177,964	177,964
Membership fee	-	25,265	25,265
Provision for inventory obsolescence	-	35,041	35,041
Other	1,254,336	(238,270)	1,016,066

Note 18. Trade and other receivables

	Before reclassification 31 December 2007	Reclassification	After reclassification 31 December 2007
Advances issued	531,725	145,022	676,747
VAT on advances received	-	156,045	156,045
Other receivables	690,944	(301,067)	389,877

Note 28. Financial risk management***Exposure to credit risk***

	Before reclassification 31 December 2007	Reclassification	After reclassification 31 December 2007
Trade and other receivables	2,448,054	(301,067)	2,146,987
Investments	-	341,097	341,097
	2,816,731	40,030	2,856,761

Impairment losses

	Before reclassification 31 December 2007	Reclassification	After reclassification 31 December 2007
Not past due (Gross)	1,384,391	(301,067)	1,083,324
Past due more than 12 months (Gross)	1,195,345	9,289	1,204,634
Past due more than 12 months (Allowance)	(1,195,345)	(9,289)	(1,204,634)

Liquidity risk

	Before reclassification 31 December 2007	Reclassification	After reclassification 31 December 2007
Long-term bank loans (more than 5 years)	506,000	(506,000)	-
Long-term bank loans (between 1 and 5 years)	2,466,444	506,000	2,972,444
Finance lease liabilities (12 months or less)	1,084,872	(356,565)	728,307
Finance lease liabilities (between 1 and 5 years)	1,413,139	(315,181)	1,097,958
Finance lease liabilities (more than 5 years)	90,217	(8,006)	82,211
Trade and other payables (12 months or less)	-	2,025,600	2,025,600

Interest rate risk

	Before reclassification 31 December 2007	Reclassification	After reclassification 31 December 2007
Financial liabilities	9,105,393	(679,752)	8,425,641

(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 acquired entity's IFRS financial statements. The components of equity of the acquired entities are added to the same components within the 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.

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

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

Financial assets at fair value through profit or loss

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

Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses. Investments in equity securities that are not quoted on a stock exchange and where fair value cannot be estimated on a reasonable basis by other means are stated at cost less impairment losses.

(c) Share capital

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

(d) Property, plant and equipment

(i) Recognition and measurement

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

The deemed cost of property, plant and equipment has been determined as the fair value of the assets based on an independent appraisal as at 1 January 2007.

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, and the costs of dismantling and removing of assets and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment. Borrowing costs on qualifying assets are contained as part of the cost of such assets.

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

Gains and losses on disposal of an item of property, plant and equipment are recognized net in "other income" in the income statement.

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

(iii) Depreciation

Depreciation is recognized in the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Depreciation commences on the month following the acquisition or, in respect of internally constructed assets, from the month following the month an asset is completed and ready for use. 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 |

(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 balance sheet. Operating lease payments (net of benefits granted by the lessor) are recognized in the income statement on a straight line basis over the lease term.

(e) 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.

Intangible assets that are acquired by the Group through a business combination are measured on initial recognition at fair value at the acquisition date.

Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any 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 the income statement as incurred.

(iii) Amortization

The amortization charge on all intangible assets with finite useful lives is accrued on a straight-line basis over their useful life starting from the month following the month in which the asset is available for use.

The amortization charge is recognized in the income statement as an operating expense.

The useful lives of intangible assets are as follows:

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

(f) 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.

The cost of inventories does not include the cost of borrowings obtained to acquire such inventories.

The cost of inventories is determined using the weighted average cost method.

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

(g) Impairment

(i) Financial assets

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

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

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

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

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

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

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

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

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

(h) 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.

(i) Revenue

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

(j) Financial income and expenses

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

Financial expenses 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 the income statement using the effective interest method, except for borrowing costs related to qualifying assets which are recognised as part of the cost of such assets.

(k) 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 items recognized directly in equity, in which case it is recognized in equity.

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

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. 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 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.

(l) Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans, including pension fund of the Russian Federation, are recognised in the income statement when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(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. 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 the income statement on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the income statement.

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

(iii) Other long-term employee benefits

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

The Group's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefits that employees have earned in return for their service in the current and prior periods (using actuarial assumptions). That benefit is discounted to determine its present value.

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.

Current service cost is recognized as current activity expenses in the income statement.

Interest cost as a result of discount release is recognized as financial expenses in the income statement.

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 the income statement 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 to the income statement 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.

(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) Guarantees

The Group's policy is to provide financial guarantees only to banks for loans given to a lessor of the Group. The Group considers these instruments as insurance contracts and accounts for them as such.

(o) Segment reporting

The Group operates predominantly in a single geographical area and industry, providing transmission of electric power and connection services in the Central region of the Russian Federation. The transmission of electric power and connection services are related activities and are subject to similar risks and returns, therefore they are reported as one business segment.

(p) New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2008, and have not been applied in preparing 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 1 *Presentation of Financial Statements* (2007) which becomes mandatory for the Group's 2009 consolidated financial statements is expected to have impact on the presentation of the consolidated financial statements. The Standard introduces the concept of total comprehensive income and requires presentation of all owner changes in equity in the statement of changes in equity, separately from non-owner changes in equity.
- Revised IFRS 3 *Business Combinations* (2008) and amended IAS 27 (2008) *Consolidated and Separate Financial Statements*, which come into effect on 1 July 2009 (i.e. become mandatory for the Group's 2010 consolidated financial statements). The revisions address, among others, accounting for step acquisitions, require acquisition-related costs to be recognised as expenses and remove exception for changes in contingent consideration to be accounted by adjusting goodwill. The revisions also address how non-controlling interests in subsidiaries should be measured upon acquisition and require to recognise the effects of transactions with non-controlling interest directly in equity.

- IFRS 8 *Operating Segments* introduces the "management approach" to segment reporting. IFRS 8 *Operating Segments*, which becomes mandatory for the Group's 2009 consolidated financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. The Group does not present segment information in respect of its business and geographical segments.
- Amended IAS 27 *Consolidated and Separate Financial Statements* (2008) requires accounting for changes in ownership interests by the Group in a subsidiary, while maintaining control, to be recognised as an equity transaction. When the Group loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in profit or loss. The amendments to IAS 27, which become mandatory for the Group's 2010 consolidated financial statements, are not expected to have a significant impact on the consolidated financial statements.
- IFRIC 17 *Distributions of Non-cash Assets to Owners* addresses the accounting of non-cash dividend distributions to owners. The interpretation clarifies when and how the non-cash dividend should be recognised and how the differences between the dividend paid and the carrying amount of the net assets distributed should be recognised. IFRIC 17 becomes effective for annual periods beginning on or after 1 July 2009, and is not expected to have a significant impact on the consolidated financial statement.

Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purpose, will come into effect not earlier than 1 January 2009. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

4 RESTATEMENT

During preparation of these Financial Statements management has identified that as at 1 January 2007 and 31 December 2007 the Group recorded deferred tax asset in relation to non-deductible employee benefits. The error has been corrected and the comparative information has been restated. The impact of the restatement is summarized below:

	<u>As reported previously</u>	<u>Adjustment</u>	<u>As restated</u>
Retained earnings as at 1 January 2007	17,381,724	(260,880)	17,120,844
Retained earnings as at 31 December 2007	19,252,596	(260,880)	18,991,716
Deferred tax assets as at 31 December 2007	1,209,567	(260,880)	948,687

There is no impact on the Consolidated Income Statement for the year ended 31 December 2007.

5 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 / or 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 and debt securities

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, excluding construction work in progress, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

(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.

6 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

In 2007 the Company disposed of the following businesses, implementing a strategic decision to streamline its operations:

#	Subsidiary	Date of disposal	Selling price	Gain on disposal	Company's share in the subsidiary, %
1	OJSC Orelenergoremont	28.09.2007	55,000	-	100
2	OJSC Smolenskelekkroset'remont	30.11.2007	18,000	-	100
3	OJSC Vas'kovo	28.04.2007	21,200	14,501	100
4	OJSC Belgorodenergosome	28.12.2007	30,200	32,179	50
5	OJSC Bryanskenergoremont	28.09.2007	35,000	37,786	100
6	OJSC Inzhinerno-proizvodstvennyj Center	31.10.2007	15,000	30,453	100
7	OJSC Kostromaset'remont	30.09.2007	65,000	-	100
8	OJSC Kurskenergosome't'remont	19.07.2007	39,100	13,752	100
9	OJSC Lipetskenergosome	31.12.2007	80,000	2,333	100
10	OJSC Tambovelekkroset'service	16.08.2007	8,500	10,003	100
11	OJSC Tver'elekkroset'remont	14.09.2007	21,000	-	100
12	OJSC Voronezhelekkroset'remont	30.11.2007	13,000	2,586	100
13	OJSC Voronezhenergoproekt	29.06.2007	37,400	11,186	100
14	OJSC Yarelekkroset'remont	14.09.2007	40,000	13,177	100
			478,400	167,956	

These businesses were subsidiaries of the entities merged into the Company, on 31 March 2008, and were classified as held for sale as at 1 January 2007.

7 REVENUE AND OTHER INCOME

Revenue	Year ended 31 December 2008	Year ended 31 December 2007
Electricity transmission	40,150,828	29,343,398
Connection services	2,801,648	2,623,757
Rent	275,092	154,270
Repairs and maintenance	230,215	109,838
Management fees	-	370,151
Consulting	-	91,780
Other	268,856	447,970
	43,726,639	33,141,164

Revenue from connection services represents revenues related to connection of customers' power receivers to Group's owned and operated electricity network.

Other income	Year ended 31 December 2008	Year ended 31 December 2007
Property, plant and equipment surpluses	653,133	-
Gain on disposal of investments	13,784	-
Gain on disposal of subsidiary	12,733	-
Gain on disposal of long-term assets held for sale	-	167,956
Other income	371,329	130,232
	1,050,979	298,188

Fixed assets surpluses represent ownerless transfer facilities identified by the Company during stock take. The Company performed appropriate search for owners but none were identified as previous owners of these fixed assets were mostly agricultural companies gone bankrupt in late 1990s. The Company used services of independent appraisals to determine fair value of the identified assets and then put them on the balance sheet.

8 OPERATING EXPENSES

	Year ended 31 December 2008	Year ended 31 December 2007
Electricity transmission	10,980,122	5,344,660
Purchased electricity	7,528,255	6,540,154
Personnel costs	6,984,251	7,315,036
Depreciation and amortisation	3,743,246	2,764,949
Electricity metering services	1,846,966	1,357,467
Raw materials and supplies	1,508,331	997,711
Accounting outsourcing services	927,218	221,166
Repairs, maintenance and installation services	573,808	1,219,790
Consulting, legal and audit services	396,305	493,890
Electricity for own needs	354,550	150,881
Telecommunication services	339,892	264,992
Allowance for impairment of accounts receivable	290,786	177,964
Rent	260,521	210,340
Taxes other than income tax	252,804	284,252
Insurance	245,050	211,376
Transportation costs	236,416	139,722
Security	163,822	124,502
Bad debts written-off	160,423	174,179
Membership fee	107,124	25,265
Agent's fees on purchases	63,739	90,032
Provision for inventory obsolescence	37,306	35,041
Other	1,840,985	1,016,066
	38,841,920	29,159,435

9 PERSONNEL COSTS

	Year ended 31 December 2008	Year ended 31 December 2007
Salaries and wages	5,312,288	4,784,427
Contribution to the state pension fund	997,059	855,716
Financial aid to employees and pensioners	323,554	354,177
Unified Social Tax	320,578	263,824
Amortization of prior service cost	191,616	100,797
Current service cost	66,659	114,294
Vacation and management remuneration provision	62,225	352,032
Recognized actuarial (gain)/loss	(765,030)	85,508
Other personnel costs	475,302	404,261
	6,984,251	7,315,036

The average number of employees (including production and non production staff) was 24,199 in 2008 (2007: 24,562 employees).

10 FINANCIAL INCOME AND EXPENSES

Financial income	Year ended	Year ended
	31 December 2008	31 December 2007
Net change in fair value of financial investments at fair value through profit and loss	-	162,732
Interest income	10,903	2,561
	10,903	165,293
Financial expenses		
Interest expense	705,087	350,041
Interest on finance lease liabilities	487,820	361,265
Net change in fair value of financial investments at fair value through profit and loss	226,433	-
Interest expense on employee benefits obligation	150,807	135,737
	1,570,147	847,043

11 INCOME TAX EXPENSE

Current tax expense	Year ended	Year ended
	31 December 2008	31 December 2007
Current year	(1,176,644)	(1,317,387)
Deferred tax expense		
Origination and reversal of temporary differences	(326,019)	(22,850)
Change in tax rate	(88,071)	-
	(414,090)	(22,850)
	(1,590,734)	(1,340,237)

The Group's applicable tax rate is the income tax rate of 24% for Russian companies (2007: 24%). With effect from 1 January 2009, the income tax rate for Russian companies has been reduced to 20%. This rate has been used in the calculation of deferred tax assets and liabilities as at 31 December 2008.

Reconciliation of effective tax rate:

	Year ended	%
	31 December 2007	
Profit before income tax	3,598,167	100
Income tax expense at applicable tax rate	(863,560)	(24)
Non-deductible items	(476,677)	(13)
<i>Welfare, social and discretionary payments to employees</i>	(110,685)	(3)
<i>Charitable contributions</i>	(31,184)	(1)
<i>Other</i>	(334,808)	(9)
	(1,340,237)	(37)

	Year ended 31 December 2008	%
Profit before income tax	4,376,454	100
Income tax expense at applicable tax rate	(1,050,349)	(24)
Change in tax rate	(88,071)	(2)
Non-deductible items	(452,314)	(10)
<i>Allowance for impairment of accounts receivable</i>	(145,931)	(3)
<i>Welfare, social and discretionary payments to employees</i>	(119,353)	(3)
<i>Charitable contributions</i>	(18,997)	(0)
<i>Other</i>	(168,033)	(4)
	(1,590,734)	(36)

12 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Transmission networks	Equipment for electricity transformation	Other	Construction in progress	Total
Deemed cost						
At 1 January 2007	4,298,853	16,981,291	3,359,198	1,705,890	470,772	26,816,004
Additions	21,607	29,200	612,355	597,132	8,034,454	9,294,748
Transfers	1,357,424	2,032,765	1,945,136	623,453	(5,958,778)	-
Disposals	(11,005)	(44,739)	(17,966)	(47,475)	(62,782)	(183,967)
Balance as at 31 December 2007	5,666,879	18,998,517	5,898,723	2,879,000	2,483,666	35,926,785
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
Accumulated Depreciation						
At 1 January 2007	-	-	-	-	-	-
Depreciation for the year	(268,973)	(1,594,977)	(453,449)	(384,938)	-	(2,702,337)
Disposals	458	4,932	2,979	13,335	-	21,704
At 31 December 2007	(268,515)	(1,590,045)	(450,470)	(371,603)	-	(2,680,633)
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)
Net book value						
At 1 January 2007	4,298,853	16,981,291	3,359,198	1,705,890	470,772	26,816,004
At 31 December 2007	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

As at 31 December 2008 construction in progress includes advance payments for property, plant and equipment of RUR 453,204 thousand (as at 31 December 2007: RUR 361,398 thousand).

The amount of capitalized interest in 2008 was RUR 161,028 thousand (in 2007: RUR 9,033 thousand).

(a) Determination of deemed cost

The deemed cost of property, plant and equipment of the Group has been determined as the fair value of the assets as at 1 January 2007 based on an independent appraisal.

In 2007 the Company's management commissioned LLC "Institute of the Business Activity Problems", CJSC "Deloitte&Touche" and LLC "AKF "Top-Audit" to independently appraise property, plant and equipment as at 1 January 2007 in order to determine its deemed cost on the date of the Group's adoption of IFRSs. The fair value of property, plant and equipment was determined to be RUR 26,816,004 thousand. The net book value of property, plant and equipment in the financial statements prepared in accordance with the Russian Accounting Principals was RUR 38,339,260 thousand as at 1 January 2007.

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

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

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

In addition to the determination of the depreciated replacement cost, cash flow testing was conducted in order to assess the reasonableness of those values, which resulted in the depreciated replacement cost values being decreased by RUR 88,236,000 thousand in arriving at the above value.

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

- Cash flows were projected based on actual operating results and the ten-year business plan.
- Total revenue of transmission services were projected at RUR 30,423 million in the first year of the business plan. The anticipated annual production growth included in the cash flow projections was 10.77% for the years 2007 to 2016. Management plans to achieve sales of transmission services of RUR 76,368 millions by the tenth year of the business plan.
- The discount rate was calculated based on the weighted average cost of capital (WACC) and was in the range of 10.52% - 11.54% (depending on the actual capital structure of the Company's entity as at the valuation date), 10.52% is WACC based on market average debt to equity ratio of 51.5% which should be reached by 2012.
- A terminal value was derived at the end of a 10 -year interim period. A terminal rate of 2.7 % was considered in estimating the terminal value for the assets.

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

(b) Impairment testing

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

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

- Cash flows were projected based on actual operating results and the most recent business plan approved by the management. The projections incorporate the Group's best estimates of production, tariffs and operating expenses growth. The forecasted period was set till the year 2016;
- A discount rate of 15.71% was applied in determining the recoverable amount. The discount rate was estimated based on weighted average cost of capital.

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

(c) Leased plant and machinery

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.

As at 31 December 2008 and 31 December 2007 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	59,801	307,819	1,136,030	850,757	2,354,407
Accumulated depreciation	(2,859)	(10,615)	(34,359)	(49,185)	(97,018)
Net book value at 31 December 2007	56,942	297,204	1,101,671	801,572	2,257,389
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

13 INTANGIBLE ASSETS

	Software	Licenses	Other intangible assets	Total
<i>Cost</i>				
At 1 January 2007	178,377	10,519	76,282	265,178
Additions	214,493	37,417	13,454	265,364
At 31 December 2007	392,870	47,936	89,736	530,542
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
<i>Accumulated amortization</i>				
At 1 January 2007	(15,378)	(2,511)	(16,949)	(34,838)
Amortization for the year	(49,529)	(6,539)	(6,544)	(62,612)
At 31 December 2007	(64,907)	(9,050)	(23,493)	(97,450)
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)
<i>Net book value</i>				
At 1 January 2007	162,999	8,008	59,333	230,340
At 31 December 2007	327,963	38,886	66,243	433,092
At 31 December 2008	296,009	111,565	493,175	900,749

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	
	2008	2007	2008	2007	2008	2007
Property, plant and equipment	28,321	31,191	(2,695,924)	(2,381,111)	(2,667,603)	(2,349,920)
Other non-current assets	1,236	7,328	-	-	1,236	7,328
Inventories	31,770	29,220	-	-	31,770	29,220
Trade and other receivables	79,393	259,750	-	-	79,393	259,750
Other current assets	79	12,109	-	-	79	12,109
Finance lease liabilities	625,257	409,694	-	-	625,257	409,694
Post employment benefit liability	19,057	63,516	-	-	19,057	63,516
Employee payables	36,888	135,879	-	-	36,888	135,879
Other	-	-	(362)	(27,771)	(362)	(27,771)
Deferred tax assets/(liabilities)	822,001	948,687	(2,696,286)	(2,408,882)	(1,874,285)	(1,460,195)

(b) Movements in temporary differences during the year

Movements in temporary differences during the year were recognized in income or expense.

15 INVESTMENTS

	31 December 2008	31 December 2007
Investments designated at fair value through profit and loss	32,266	329,196
Available-for-sale investments	2,005	11,901
	34,271	341,097

16 OTHER NON-CURRENT ASSETS

	31 December 2008	31 December 2007
Advances issued	-	19,943
Other accounts receivable	66,641	21,653
Less: Other accounts receivable impairment allowance	(1,947)	-
Other assets	59,811	165,733
Trade accounts receivable	2,977	9,289
Less: Trade accounts receivable impairment allowance	(2,977)	(9,289)
	124,505	207,329

17 CASH AND CASH EQUIVALENTS

Cash and cash equivalents mainly represent cash in bank accounts amounted to RUR 74,672 thousand denominated in rubles (31 December 2007: RUR 368,677 thousand).

18 TRADE AND OTHER RECEIVABLES

	<u>31 December 2008</u>	<u>31 December 2007</u>
Trade receivables	4,558,151	2,930,802
Trade receivables impairment allowance	(745,928)	(1,111,483)
Advances issued	677,797	676,747
Advances issued impairment allowance	(61,498)	(82,209)
VAT on advances received	336,320	156,045
VAT recoverable	128,550	251,615
Taxes receivable	45,401	368,692
Other receivables	278,657	389,877
Other receivables impairment allowance	(23,724)	(83,862)
	<u>5,193,726</u>	<u>3,496,224</u>

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

	<u>31 December 2008</u>	<u>31 December 2007</u>
Materials and supplies	1,504,963	1,269,848
Inventory for resale	2,851	26,849
Total inventories	1,507,814	1,296,697
Less: provision for inventory obsolescence	(144,747)	(107,441)
Total	1,363,067	1,189,256

At 31 December 2008 inventories with a carrying amount of RUR 611,123 thousand were pledged as collateral for bank loans (31 December 2007: none) (refer to Note 22).

20 EQUITY**(a) Share capital**

	Ordinary shares	
	<u>31 December 2008</u>	<u>31 December 2007</u>
Issued shares, fully paid	42,217,941,468	42,217,941,468
Par value (in RUR)	0.10	0.10

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) as follows:

- 78,000/738,687,280 of ordinary shares of OJSC "Belgorodenergo" with par value of RUR 3,800.00 were converted into one additionally issued ordinary share of the Company with par value of RUR 0.10;

- 78,000/676,489,811 of privileged shares of A class of OJSC "Belgorodenergo" with par value of RUR 3,800.00 were converted into one additionally issued ordinary share of the Company with par value of RUR 0.10;
- 78,000/18,572,663 ordinary shares of OJSC "Bryanskenergo" with par value of RUR 10.00 were converted into one additionally issued ordinary share of the Company with par value of RUR 0.10;
- 78,000/17,008,845 of privileged shares of A class of OJSC "Bryanskenergo" with par value of RUR 10.00 were converted into one additionally issued ordinary share of the Company with par value of RUR 0.10;
- 78,000/7,453,771 ordinary shares of OJSC "Voronezhenergo" with par value of RUR 10.00 were converted into one additionally issued ordinary share of the Company with par value of RUR 0.10;
- 78,000/6,826,164 of privileged shares of A class of OJSC "Voronezhenergo" with par value of RUR 10.00 were converted into one additionally issued ordinary share of the Company with par value of RUR 0.10;
- 78,000/327,431 ordinary shares of OJSC "Kostromaenergo" with par value of RUR 25.00 were converted into one additionally issued ordinary share of the Company with par value of RUR 0.10;
- 78,000/299,862 of privileged shares of A class of OJSC "Kostromaenergo" with par value of RUR 10.00 were converted into one additionally issued ordinary share of the Company with par value of RUR 0.10;
- 78,000/212,429 ordinary shares of OJSC "Kurskenergo" with par value of RUR 1.00 were converted into one additionally issued ordinary share of the Company with par value of RUR 0.10;
- 78,000/194,542 of privileged shares of A class of OJSC "Kurskenergo" with par value of RUR 1.00 were converted into one additionally issued ordinary share of the Company with par value of RUR 0.10;
- 78,000/1,798,460 ordinary shares of OJSC "Lipetskenergo" with par value of RUR 1.00 were converted into one additionally issued ordinary share of the Company with par value of RUR 0.10;
- 78,000/542,455 ordinary shares of OJSC "Oreleenergo" with par value of RUR 3,5.00 were converted into one additionally issued ordinary share of the Company with par value of RUR 0.10;
- 78,000/496,780 of privileged shares of A class of OJSC "Oreleenergo" with par value of RUR 3,5.00 were converted into one additionally issued ordinary share of the Company with par value of RUR 0.10;
- 78,000/918,754 ordinary shares of OJSC "Smolenskenergo" with par value of RUR 1.00 were converted into one additionally issued ordinary share of the Company with par value of RUR 0.10;
- 78,000/841,395 of privileged shares of A class of OJSC "Smolenskenergo" with par value of RUR 1.00 were converted into one additionally issued ordinary share of the Company of with par value of RUR 0.10;
- 78,000/73,076 ordinary shares of OJSC "Tambovenergo" with par value of RUR 1.00 were converted into one additionally issued ordinary share of the Company with par value of RUR 0.10;
- 78,000/66,923 of privileged shares of A class of OJSC "Tambovenergo" with par value of RUR 1.00 were converted into one additionally issued ordinary share of the Company with par value of RUR 0.10;
- 78,000/371,625 ordinary shares of OJSC "Tverenergo" with par value of RUR 1.00 were converted into one additionally issued ordinary share of the Company with par value of RUR 0.10;
- 78,000/340,334 of privileged shares of A class of OJSC "Tverenergo" with par value of RUR 1.00 were converted into one additionally issued ordinary share of the Company with par value of RUR 0.10;
- 78,000/13,948,314 ordinary shares of OJSC "Yarenergo" with par value of RUR 50.00 were converted into one additionally issued ordinary share of the Company with par value of RUR 0.10;
- 78,000/12,773,866 of privileged shares of A class of OJSC "Yarenergo" with par value of RUR 50.00 were converted into one additionally issued ordinary share of the Company with par value of RUR 0.10.

(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 the profit for the current year, of RUR 2,164,904 thousand for the year ended 31 December 2008 (31 December 2007: RUR 63,878 thousand).

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

In 2007 the Company declared and paid dividends for the year 2006 in the amount of RUR 387,058 thousand.

21 EARNINGS PER SHARE

The calculation of earnings per share is the net profit for the year divided by the weighted average number of ordinary shares outstanding during the year. The Group 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	Ordinary shares
	31 December 2008	31 December 2007
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	2,785,720	2,257,930
Earning per share (in RUR)	0.066	0.053

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 2008	31 December 2007
Finance department of Belgorodskaya oblast	Unsecured	9,45%	2011	345,722	345,738
OJSC "Alpha Bank"	Unsecured	9,70–12,60%	2008	-	74,777
OJSC "Bank of Moscow"	Unsecured	11,89-12,08%	2010	218,061	325,611
OJSC "Bank VTB"	Unsecured	10,79%	2010	380,604	300,261
OJSC "Gazprombank"	Unsecured	9,46–18,48%	2012	1,729,456	1,754,464
OJSC "Kurskprombank"	Unsecured	9,90%	2010	-	86,166
OJSC "Lipetskcombank"	Unsecured	13,00%	2009	-	148,532
OJSC "Ogresbank"	Unsecured	13,07-19,81%	2011	400,000	-
OJSC "Rosbank"	Unsecured	7,88–12,33%	2012	1,105,377	1,074,417
OJSC "Sobinbank"	Unsecured	8,00%	2008	-	7,382
OJSC "Sberbank"	Secured	10,80-14,24%	2010	587,514	-
OJSC "Svyazbank"	Unsecured	12,28%	2011	452,643	397,643
OJSC "Transcreditbank"	Unsecured	9,57–12,64%	2011	251,305	616,651
				5,470,682	5,131,642
Less: current portion					
Finance department of Belgorodskaya oblast	Unsecured	9,45%	2008-2009	5,722	5,738
OJSC "Alpha Bank"	Unsecured	9,70–12,60 %	2008	-	74,777
OJSC "Bank of Moscow"	Unsecured	11,89–12,08%	2008-2009	108,245	108,247
OJSC "Bank VTB"	Unsecured	10,79%	2008-2009	604	478
OJSC "Gazprombank"	Unsecured	9,46–18,48%	2008-2009	515,656	416,719
OJSC "Kurskprombank"	Unsecured	9,90%	2008	-	28,713
OJSC "Lipetskcombank"	Unsecured	13,00%	2008	-	147,766
OJSC "Ogresbank"	Unsecured	13,07-19,81%	2009	200,000	-
OJSC "Rosbank"	Unsecured	7,88–12,33%	2008-2009	417,645	912,699
OJSC "Sobinbank"	Unsecured	8,00%	2008	-	7,382
OJSC "Sberbank"	Unsecured	10,80-14,24%	2009	685	-
OJSC "Svyazbank"	Unsecured	12,28%	2009	224,556	-
OJSC "Transcreditbank"	Unsecured	9,57–12,64%	2008-2009	18,012	116,679
				1,491,125	1,819,198
Total long-term borrowings				3,979,557	3,312,444

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.

Current borrowings and current portion of long-term borrowings

Name of lender		Effective interest rate	31 December 2008	31 December 2007
Finance department of Belgorodskaya oblast	Unsecured	9,45%	5,722	5,738
OJSC "Alpha Bank"	Unsecured	9,70–12,60 %	-	136,777
OJSC "Bank of Moscow"	Unsecured	11,89–12,08%	108,245	284,428
OJSC "Bank VTB"	Unsecured	10,79%	604	360,478
OJSC "Eurofinance Mosnarbank"	Unsecured	8,50–12,00%	-	322,500
OJSC "Gazprombank"	Unsecured	9,46–18,48%	2,114,101	520,719
OJSC "Kurskprombank"	Unsecured	9,90%	-	28,730
OJSC "Lipetskcombank"	Unsecured	6,70–13,00%	-	228,591
OJSC "Ogresbank"	Unsecured	13,07-19,81%	1,800,000	-
CJSC "Raiffeisenbank"	Unsecured	23,38%	712,181	-
OJSC "Rosbank"	Unsecured	9,00–12,60%	417,645	1,082,699
OJSC "Sobinbank"	Unsecured	8,00%	-	7,382
OJSC "Sberbank"	Unsecured	10,80-14,24%	685	110,000
OJSC "Svyazbank"	Unsecured	12,28%	224,556	-
OJSC "Transcreditbank"	Unsecured	9,57–12,64%	18,012	116,679
			5,401,751	3,204,721

As at 31 December 2008 the bank loans are secured over inventories in the amount of RUR 611,123 thousand (31 December 2007: none) (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 as at 31 December 2008 and 31 December 2007:

	At 31 December 2007		
	Minimum lease payments	Principal	Interest
Less than one year	1,084,872	728,307	356,565
Between one and five years	1,413,139	1,097,958	315,181
After five years	90,217	82,211	8,006
	2,588,228	1,908,476	679,752

	At 31 December 2008		
	Minimum lease payments	Principal	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

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 2007.

The amounts recognized in the balance sheet are as follows:

	<u>31 December 2008</u>	<u>31 December 2007</u>
Present value of defined benefit obligation	1,756,253	2,234,181
Unrecognized past service cost	(610,177)	(612,208)
Net liability in the balance sheet	<u>1,146,076</u>	<u>1,621,973</u>

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.

The amounts recognized in the income statement are as follows:

	<u>31 December 2008</u>	<u>31 December 2007</u>
Current service cost	66,659	114,294
Interest expense	150,807	135,737
Amortization of prior service cost	191,616	100,796
Recognized actuarial (gain)/loss	(765,030)	85,508
Net (benefit)/expense	<u>(355,948)</u>	<u>436,335</u>

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

	<u>31 December 2008</u>	<u>31 December 2007</u>
Present value of defined benefit obligation at 1 January	2,234,181	2,010,913
Current service cost	66,659	114,294
Interest expense	150,807	135,737
Actuarial (gains)/losses	(765,030)	85,508
Benefits paid	(119,949)	(112,271)
Prior service cost	189,585	-
Present value of defined benefit obligation at 31 December	<u>1,756,253</u>	<u>2,234,181</u>

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 higher than expected decrease in membership since previous year (RUR 156,940 thousand).

Principal actuarial assumptions are as follows:

	<u>2008</u>	<u>2007</u>
Discount rate, annual	9.00%	6.75%
Future salary increase, per year	7.00%	7.50%
Inflation rate, per year	6.60%	6.00%

The expense recognized in the following line items in the income statement:

	<u>2008</u>	<u>2007</u>
Operating expenses	(506,755)	300,598
Financial expenses	150,807	135,737
	<u>(355,948)</u>	<u>436,335</u>

25 EMPLOYEE PAYABLES

	<u>31 December 2008</u>	<u>31 December 2007</u>
Salaries and wages payable	296,184	300,227
Unused vacation provision	134,376	117,207
Annual bonus provision	43,243	448,957
	<u>473,803</u>	<u>866,391</u>

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

26 TRADE AND OTHER PAYABLES

	<u>31 December 2008</u>	<u>31 December 2007</u>
Trade accounts payable	3,851,035	1,876,776
Advances received	2,182,860	1,024,703
Other payables and accrued expenses	466,488	238,443
	<u>6,500,383</u>	<u>3,139,922</u>

27 OTHER TAXES PAYABLE

	<u>31 December 2008</u>	<u>31 December 2007</u>
Value added tax	255,735	258,483
Employee taxes	93,765	111,060
Property tax	56,102	30,768
Other taxes	107,866	82,559
	<u>513,468</u>	<u>482,870</u>

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 Group, 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 fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

(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 stipulated by contract and depends on the amount of capacity to be connected; if the capacity to be connected is up to 15 kW, prepayment of 100% of the contract amount is required; if the capacity to be connected is from 15 to 100 kW, then prepayment of 5-15% of the contract amount is required; and if the capacity to be connected exceeds 100 kW, then prepayment of 60% of the contract amount is required.

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.

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.

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 2008	31 December 2007
Trade and other receivables	4,131,850	2,146,987
Cash and cash equivalents	74,672	368,677
Investments	34,271	341,097
	4,240,793	2,856,761

The Group's two most significant customers, regional distribution entities, account for RUR 1 545 362 thousand of the trade receivables carrying amount at 31 December 2008 (31 December 2007: RUR 517 383 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 2008	Carrying amount at 31 December 2007
Electricity transmission customers	2,563,694	1,154,591
Connection services customers	378,847	270,635
Other customers	869,682	394,093
	3,812,223	1,819,319

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 2008		At 31 December 2007	
	Gross	Allowance	Gross	Allowance
Not past due	3,053,255	(350,758)	1,083,324	-
Past due 0-3 months	159,255	-	446,940	-
Past due 3-12 months	1,287,695	(22,820)	616,723	-
Past due more than 12 months	406,221	(400,998)	1,204,634	(1,204,634)
	4,906,426	(774,576)	3,351,21	(1,204,634)

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

	Year ended 31 December 2008	Year ended 31 December 2007
Balance at 1 January	1,204,634	1,030,761
Net increase during the period	299,595	177,659
Reserve used	(729,653)	(3,786)
Balance at 31 December	774,576	1,204,634

(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 credit lines with a pool of commercial banks, of which five banks were designated as highly rated banks. Long-term credit facilities were obtained from each of the highly rated banks.

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

	12 months or less	Between 1 and 5 years	More than 5 years	Total
Liabilities as at 31 December 2008				
Long-term municipal loans	5,722	340,000	-	345,722
Long-term bank loans	1,485,403	3,639,557	-	5,124,960
Short-term bank loans	3,910,626	-	-	3,910,626
Finance lease liabilities	1,047,926	1,724,642	353,719	3,126,287
Trade and other payables	4,067,461	-	-	4,067,461
	10,517,138	5,704,199	353,719	16,575,056

	12 months or less	Between 1 and 5 years	More than 5 years	Total
Liabilities as at 31 December 2007				
Long-term municipal loans	5,738	340,000	-	345,738
Long-term bank loans	1,813,460	2,972,444	-	4,785,904
Short-term bank loans	1,385,523	-	-	1,385,523
Finance lease liabilities	728,307	1,097,958	82,211	1,908,476
Trade and other payables	2,025,600	-	-	2,025,600
	5,958,628	4,410,402	82,211	10,451,241

(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 interest-bearing assets, loans and borrowings. The interest rates on most long- and short-term interest-bearing assets, 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).

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:

	Carrying amount	Carrying amount
	2008	2007
Fixed rate instruments		
Financial liabilities	12,507,595	8,425,641

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.

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

(e) Capital management

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

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

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

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

(f) Fair values

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

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:

	<u>31 December 2008</u>	<u>31 December 2007</u>
Less than one year	280,944	133,508
Between one year and five years	246,023	157,737
After five years	662,893	793,944
	<u>1,189,860</u>	<u>1,085,189</u>

The amount of lease expense under operating leases recognized in the income statement in 2008 was RUR 260,521 thousand (in 2007: RUR 210,340 thousand).

30 COMMITMENTS

(a) Sales commitments

As at 31 December 2008 the Group has entered into contracts to carry out electricity transmission services to regional energy distribution entities for RUR 42,234,636 thousand (net of VAT) (as at 31 December 2007: total amount of RUR 33,645,246 thousand).

The Group has entered into contracts to provide connection services to the electricity network for RUR 5,363,967 thousand as at 31 December 2008 (net of VAT) (as at 31 December 2007: RUR 4,879,151 thousand).

(b) Capital commitments

The Group has outstanding commitments under the contracts for the purchase and construction of property, plant and equipment for RUR 5,143,008 thousand as at 31 December 2008 (net of VAT) (as at 31 December 2007: RUR 1,547,381 thousand).

(c) Purchase commitments

The Group has a number of outstanding contracts to purchase electricity for compensation of losses. After 31 December 2008 the evaluated volume of supplies under the current contracts will be approximately equal to RUR 15,819,524 thousand (net of VAT).

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 does not have full coverage for its property, plant and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

(b) Litigation

The Group is a party to certain legal proceedings arising in the ordinary course of business. The management does not believe that 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 consolidated 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. Company 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.

(e) Guarantees

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

	Amount on contract	Amount on contract
	31 December 2008	31 December 2007
OJSC "Rosbank"	1,050,000	-
Belgorodskoe OSB №8582	767,127	652,755
CJSC "Gazenergoprombank"	90,519	133,768
Voronezhskiy branch of OJSC "Alpha Bank"	68,840	87,223
	1,976,486	873,746

32 RELATED PARTY TRANSACTIONS

(a) Control relationships

The Company's parent as at 31 December 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 2008 was RUR 239,860 thousand (2007: RUR 228,940 thousand).

(c) Transactions with other related parties

Entities under common control of the parent for the year 2007 and 2008 are represented by former RAO UES group companies.

(i) Revenue

	Transaction value	Outstanding balance	Transaction value	Outstanding balance
	2008	31 December 2008	2007	31 December 2007
Electricity transmission:				
Entities under common control of the parent	2,034,666	-	13,832,803	526,325
Other state controlled entities	783,789	61,057	504,767	38
Other revenue:				
Entities under common control of the parent	10,986	3,304	515,722	8,653
Other state controlled entities	2,156,696	271,472	188,758	14,130
	4, 986,137	335,833	15,042,050	549,146

(ii) Expenses

	Transaction value	Outstanding balance	Transaction value	Outstanding balance
	2008	31 December 2008	2007	31 December 2007
Electricity transmission:				
Entities under common control of the parent	384,746	-	8,685,628	63,031
Other state controlled entities	7,223,757	211,568	127,563	11,746
Other expenses:				
Entities under common control of the parent	4,108	-	-	-
Other state controlled entities	2,885,950	264,748	291,876	17,195
Related party lessors	7,139	-	269,393	1,519,123
	10,505,700	476,316	9,374,460	1,611,095

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.

(iii) Advances received

	Outstanding balance	Outstanding balance
	31 December 2008	31 December 2007
Entities under common control of the parent	-	22
Other state controlled entities	73,053	198,491
	73,053	198,513

(iv) Advances issued

	Outstanding balance	Outstanding balance
	31 December 2008	31 December 2007
Entities under common control of the parent	-	139,980
Other state controlled entities	67,020	14,502
	67,020	154,482

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

(v) Loans and borrowings

	Amount loaned	Outstanding balance	Amount loaned	Outstanding balance
	2008	31 December 2008	2007	31 December 2007
Loans received:				
State controlled entities	1,007,046	1,565,147	5,423,546	4,060,114
	1,007,046	1,565,147	5,423,546	4,060,114

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