JSC Interregional Distribution Grid Company of Siberia

Consolidated Financial Statements
for the years ended 31 December 2008 and 2007

Contents

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Independent Auditors' Report

To the Board of Directors of Joint Stock Company IDGC of Siberia

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. 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 consolidated financial statements are free of material misstatement.

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

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

Basis for Qualified Opinion

We did not observe the counting of inventories stated at RUR 715 686 thousand as at 31 December 2007 because we were engaged as auditors of the Group only after that date. It was impracticable to satisfy ourselves as to those inventory quantities by other audit procedures. Accordingly, we were unable to determine whether any adjustments might be necessary to operating expenses, income tax expense and profit for the year ended 31 December 2008 and to inventories, operating expenses, income tax expense, profit for the year and retained earnings as at and for the year ended 31 December 2007.

Qualified Opinion

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

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21 December 2009

(in thousands of Russian Roubles, unless otherwise stated)

	Note	Year ended 31 December 2008	Year ended 31 December 2007
Revenue	7	37 717 838	29 134 037
Operating expenses	8	(36 781 626)	(28 873 467)
Other operating income	7	518 377	657 525
Results from operating activities		**1 454 589**	**918 095**
Financial income	10	341 624	181 554
Financial expenses	10	(915 595)	(603 985)
Profit before income tax		**880 618**	**495 664**
Income tax benefit/(expense)	11	716 148	(212 584)
Profit for the year		**1 596 766**	**283 080**
Attributable to:			
Shareholders of the Company		1 598 728	284 298
Minority interest		(1 962)	(1 218)
Earnings per share – basic and diluted (in Russian Roubles)	21	**0.0179**	**0.0032**

These consolidated financial statements were approved by management of the Company on 21 December 2009 and were signed on its behalf by:

General Director Antropenko A.V.

Chief accountant Astrakhantseva V.G.

The consolidated income statement is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 11-40

(in thousands of Russian Roubles, unless otherwise stated)

	Note	31 December 2008	31 December 2007
ASSETS			
Non-current assets			
Property, plant and equipment	12	35 271 802	33 479 532
Intangible assets	13	398 916	537 683
Investments and financial assets	15	536 368	605 733
Deferred tax assets	14	427 334	763 954
Other non-current assets	16	192 331	1 078 458
Total non-current assets		**36 826 751**	**36 465 360**
Current assets			
Cash and cash equivalents	17	38 764	392 106
Investments and financial assets	15	-	268 594
Trade and other receivables	18	4 886 692	5 033 119
Income tax receivable		186 239	72 402
VAT recoverable		157 706	347 277
Prepayments	18	416 667	430 669
Inventories	19	609 410	715 686
Other current assets		61 712	107 978
Total current assets		**6 357 190**	**7 367 831**
Total assets		**43 183 941**	**43 833 191**

The consolidated balance sheet is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 11-40

(in thousands of Russian Roubles, unless otherwise stated)

	Note	31 December 2008	31 December 2007
EQUITY AND LIABILITIES			
Equity			
Share capital	20	8 936 766	8 936 766
Retained earnings		17 958 024	16 359 296
Total equity attributable to shareholders of the Company		**26 894 790**	**25 296 062**
Minority interest		3 823	5 785
Total equity		**26 898 613**	**25 301 847**
Non-current liabilities			
Loans and borrowings	22	1 653 553	363 425
Finance lease liability	23	230 302	260 434
Employee benefits	24	140 947	122 919
Deferred tax liabilities	14	3 734 057	4 618 640
Other non-current liabilities	25	401 569	276 626
Total non-current liabilities		**6 160 428**	**5 642 044**
Current liabilities			
Loans and borrowings	22	3 886 559	6 514 181
Finance lease liability	23	132 866	94 318
Trade and other payables	27	4 493 963	3 458 164
Employee payables	26	646 197	773 026
Income tax payable		41 006	657 592
Other taxes payable	28	924 309	1 392 019
Total current liabilities		**10 124 900**	**12 889 300**
Total liabilities		**16 285 328**	**18 531 344**
Total equity and liabilities		**43 183 941**	**43 833 191**

The consolidated balance sheet is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 11-40

(in thousands of Russian Roubles, unless otherwise stated)

		Year ended 31 December 2008	Year ended 31 December 2007
OPERATING ACTIVITIES			
Profit before income tax		**880 618**	**495 664**
Adjustments for:			
Depreciation and amortization	8	3 244 171	2 689 380
Allowance for impairment of accounts receivable	8	226 300	125 619
Provision for inventory obsolescence	8	7 065	27 730
Financial income	10	(341 624)	(181 554)
Financial expenses	10	915 595	603 985
Losses on disposal of property, plant and equipment	8	14 263	67 914
Gain on disposal of OJSC Tyvinskaya MSK	7	(122 939)	-
Gain on disposal of other assets	7	(47 097)	(12 503)
Other non-cash activities		79 259	60 430
Operating profit before changes in working capital		**4 855 611**	**3 876 665**
(Increase)/decrease in accounts receivable and prepayments		(2 056 029)	384 391
Decrease/(increase) in inventories		88 124	(122 447)
Decrease in other assets		298 197	229 694
Increase in financial assets related to employee benefit fund		(139 221)	(189 297)
Increase/(decrease) in accounts payable		705 159	(1 196 670)
(Decrease)/increase in employee payables		(126 829)	157 130
Increase/(decrease) in employee benefits		8 884	(3 240)
Decrease in other taxes payable		(191 799)	(420 020)
Income tax paid in cash		(682 149)	(885 635)
Increase in other liabilities		246 371	29 850
Cash flows from operating activities		**3 006 319**	**1 860 421**
INVESTING ACTIVITIES			
Acquisition of property, plant and equipment		(5 035 137)	(4 182 469)
Proceeds from disposal of property, plant and equipment		86 975	80 191
Acquisition of intangible assets		(70 078)	(445 085)
Proceeds from disposal of OJSC Tyvinskaya MSK	6	360 959	-
Proceeds from disposal of non - core assets	18	606 663	3 512 034
Proceeds from loans given		35 654	-
Interest received		6 879	24 684
Proceeds from disposal of investments		258 000	182 712
Dividends received		-	1 416
Cash flows used in investing activities		**(3 750 085)**	**(826 517)**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 11-40

(in thousands of Russian Roubles, unless otherwise stated)

		Year ended 31 December 2008	Year ended 31 December 2007
FINANCING ACTIVITIES			
Proceeds from borrowings		15 443 907	12 106 263
Repayment of borrowings		(14 241 965)	(13 965 263)
Payment of finance lease liability		(77 597)	(63 642)
Proceeds from promissory notes		-	2 706 308
Repayment of promissory notes		(249 459)	(1 295 751)
Interest paid		(484 462)	(415 448)
Dividends to shareholders		-	(170 087)
Cash flows from/(used in) financing activities		**390 424**	**(1 097 620)**
Net decrease in cash and cash equivalents		**(353 342)**	**(63 716)**
Cash and cash equivalents at beginning of year		**392 106**	**455 822**
Cash and cash equivalents at end of year	17	**38 764**	**392 106**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 11-40

(in thousands of Russian Roubles, unless otherwise stated)

	Share capital	Retained earnings	Total equity attributable to shareholders of the Company	Minority interest	Total
Balance at 1 January 2007	**8 936 766**	**16 245 766**	**25 182 532**	**7 003**	**25 189 535**
Profit for the year	-	284 298	284 298	(1 218)	283 080
Total recognised income and expense	-	284 298	284 298	(1 218)	283 080
Dividends to shareholders	-	(170 768)	(170 768)	-	(170 768)
Balance at 31 December 2007	**8 936 766**	**16 359 296**	**25 296 062**	**5 785**	**25 301 847**
Balance at 1 January 2008	**8 936 766**	**16 359 296**	**25 296 062**	**5 785**	**25 301 847**
Profit for the year	-	1 598 728	1 598 728	(1 962)	1 596 766
Total recognised income and expense	-	1 598 728	1 598 728	(1 962)	1 596 766
Balance at 31 December 2008	**8 936 766**	**17 958 024**	**26 894 790**	**3 823**	**26 898 613**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 11-40

1 Background

(a) The Group and its operations

Open Joint Stock Company Interregional Distribution Grid Company of Siberia (hereinafter – "the Company") was founded to effectively manage the distribution electric grid complex of Siberia as part of the reform process in the Russian electric utilities industry. The Company was established in July 2005 (registered on 4 July 2005) in accordance with the laws of the Russian Federation and based on the Decree of the Chairman of the Board of Directors of the Open Joint Stock Company RAO United Energy System of Russia (hereafter - "RAO UES") dated 1 July 2005, No. 149r.

The Company's registered office is located at 144a , Bograda Street, Krasnoyarsk, Russia, 660021.

On 27 April 2007 the Board of directors of RAO UES approved the structure of Interregional Distribution Grid Companies. Under the approved structure the following entities were incorporated into the Company: OJSC Altayenergo, OJSC Burytenergo, OJSC Krasnoyarskenergo, OJSC Kuzbassenergo – REK, OJSC Omskenergo, OJSC Khakasenergo, OJSC Chitaenergo, OJSC Tyvaenergo – Holding. A merger of the Company with those entities was completed on 31 March 2008. The merger was effected through conversion of shares issued by the Company in exchange for shares in the merged entities. As a result of the merger, above-mentioned entities ceased to exist as separate legal entities and the Company became their legal successor.

The subsidiaries of the Company are disclosed in Note 5.

The Company's and its subsidiaries (together referred to as the "Group") principal activity is the transmission and distribution of electricity and connection of customers to the electricity grid. The Group's business is the national monopoly which is under pressure and support of Russian government. The Government of the Russian Federation directly affects the Group's operations through the state tariffs.

In accordance with legislation the Group's tariffs are controlled by the Federal Service on Tariffs and the Regional Energy Commission.

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

As at 31 December 2008, the Government of the Russian Federation owned 54.99% of the voting shares and 7.01% of the preference shares of JSC IDGC Holding, which in turn owned 52.88% of the Company.

(b) 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 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 of the Group (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 financial investments classified as 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 years ended 31 December 2008 and 2007 and in the preparation of an opening IFRS balance sheet at 1 January 2007 (the Group's date of transition).

The formation of the Group was completed on 31 March 2008 (refer to Note 1(a)). All the entities constituting the merged Group were under common control of RAO UES. These Financial Statements are prepared in accordance with the Group accounting policies in respect of business combinations involving entities under common control (refer to Note 3(a)) as if the formation of the Group was completed as at 1 January 2007.

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

The Group 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) 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.

(e) Use of judgments, estimates and assumptions

Management has made a number of judgments, estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these 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 19 – Inventories;
- Note 24 – Employee benefits.

3 Significant accounting policies

The significant accounting policies have been applied in the preparation of these Financial Statements are described below. These accounting policies have been consistently applied.

(a) Basis of consolidation

(i) Subsidiaries

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

(ii) 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

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are restated. The assets and liabilities acquired are recognised at the carrying amounts recognized previously in the financial statements of the acquired entities. 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, 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.

Available-for-sale financial assets

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

Other

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

(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 cost of property, plant and equipment at 1 January 2007, the date of transition to IFRS, was determined by reference to its fair value at that date.

Cost includes 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 “operating expenses” or “other operating income” in the income statement.

(i) 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.

(ii) 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 are as follows:

- Buildings 10-70 years;
- Transmission networks 6-40 years;
- Equipment for electricity transmission 4-30 years;
- Other 1-30 years.

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

(iii) 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.

(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:

- Licenses and certificates 1-3 years;
- Software 2-4 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 funds invested (including available-for-sale financial assets), dividend income, discount on financial instruments. 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, financial leasing, discount on financial instruments and impairment losses recognised on financial assets other than trade and other receivables. 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 services are deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group’s obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method.

When the 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 in the income statement for the reporting period under the 10% corridor of the post-employment benefit obligation.

(iii) Other long-term employee benefits

The Group’s net obligation in respect of non-current employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group’s obligations. The calculation is performed using the projected unit credit method. Actuarial gains and losses on other non-current obligations are recognized immediately. Past service cost on other non-current obligations is recognized immediately.

(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 in respect of loans issued to the Group lessors. 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 Siberia 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. Currently 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.

(in thousands of Russian Roubles, unless otherwise stated)

- 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. The Group does not expect this amendment 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 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 securities

The fair value of 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 non-current trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. Management believes that the fair value of current trade and other receivables approximates their carrying amount.

(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.

5 Group subsidiaries

The Group's subsidiaries are disclosed below:

Subsidiaries:	31 December 2008 Ownership, %	31 December 2007 Ownership, %
OJSC Tyvaenergo	98.96	98.96
OJSC Avtoenergoservice	100.00	100.00
OJSC Omskelectrosetremont	100.00	100.00
OJSC Sotcsfera	100.00	100.00
OJSC Buryatsetremont	100.00	100.00
OJSC PSH - Energetic	100.00	100.00
OJSC Sibirsetremont	100.00	100.00
OJSC Mehkolonna	100.00	100.00
OJSC SK Zabaykalets – Energia	75.00	75.00
LLC Energoleasing	100.00	100.00
OJSC Altayenergospetscomplekt	100.00	100.00
LLC Askor	100.00	100.00
LLC Technoleasing	100.00	100.00
LLC Dolgovoyi center Altayenergo	100.00	100.00
OJSC Tyvinskaya MSK	-	100.00

(in thousands of Russian Roubles, unless otherwise stated)

6 Disposal of subsidiary

On 20 June 2008 66.44 % of shares of OJSC Tyvinskaya MSK was sold to Open Joint Stock Company Federal Grid Company of Unified Energy System (hereinafter – "FGC UES") for the total amount of RUR 363 337 thousand. The transaction was settled in cash. On 1 July 2008 the residual 33.42 % of shares of OJSC Tyvinskaya MSK were converted into the 367 356 456 ordinary shares of FGC UES. These shares were recorded as available-for-sale investments in the Group's consolidated balance sheet as at 31 December 2008 (refer to Note 15).

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

ASSETS	**Carrying amount at date of disposal**
Property, plant and equipment	373 621
Cash and cash equivalents	2 378
Trade and other receivables	2 190
Inventories	2
Total	**378 191**
LIABILITIES	
Trade and other payables	(7 746)
Total	**(7 746)**
Net identifiable assets and liabilities	**370 445**
Consideration received in cash	363 337
Consideration received in shares of FGC UES	130 047
Total consideration received	**493 384**
Gain on disposal (Note 7)	**122 939**
Cash disposed of	**2 378**
Net cash inflow	**360 959**

7 Revenue and other operating income

Revenue	**Year ended 31 December 2008**	**Year ended 31 December 2007**
Electricity transmission	34 251 227	25 953 664
Connection services	2 117 313	1 878 197
Heat	206 119	176 705
Rent	126 336	194 211
Repairs and maintenance	525 510	288 018
Other	491 333	643 242
	37 717 838	**29 134 037**

(in thousands of Russian Roubles, unless otherwise stated)

Other operating income	**Year ended 31 December 2008**	**Year ended 31 December 2007**
Gain on disposal of OJSC Tyvinskaya MSK	122 939	-
Fines and penalties	72 495	57 985
Gain due to repayment of accounts receivable written off in prior periods	66 782	88 542
Gain on disposal of other assets	47 097	12 503
Surplus of assets	23 141	22 664
Property and land tax overpaid in prior periods	-	234 099
Other income	185 923	241 732
	518 377	**657 525**

8 Operating expenses

	Year ended 31 December 2008	**Year ended 31 December 2007**
Transmission fee to FGC UES	8 567 816	7 345 735
Personnel costs (Note 9)	7 109 989	6 250 080
Electricity transmission	6 302 696	3 511 527
Purchased electricity for compensation of technological losses	4 796 940	3 781 228
Depreciation and amortization	3 244 171	2 689 380
Raw materials and supplies	1 503 681	1 158 882
Repairs, maintenance and installation services	1 515 787	710 355
Electricity metering services	750 900	689 933
Consulting, legal and audit services	387 746	196 700
Telecommunication services	302 063	139 462
Security	240 406	200 843
Allowance for impairment of accounts receivable	226 300	125 619
Taxes other than income tax	257 389	111 977
Rent	117 176	135 607
Insurance	129 041	80 944
Heat for own needs	39 759	34 246
Charity	37 259	24 293
Losses on disposal of property, plant and equipment	14 263	67 914
Provision for inventory obsolescence	7 065	27 730
Other	1 231 179	1 591 012
	36 781 626	**28 873 467**

(in thousands of Russian Roubles, unless otherwise stated)

9 Personnel costs

	Year ended 31 December 2008	Year ended 31 December 2007
Wages and salaries	5 412 478	4 496 215
Payroll taxes	1 319 368	1 187 522
Expense in respect of post-employment defined benefit plan	32 523	18 814
Expense in respect of long-term service benefits provided	1 729	5 729
Other	343 891	541 800
	7 109 989	**6 250 080**

The average number of employees (including production and non production employees) was 20 335 in 2008 (2007: 21 464 employees).

10 Financial income and expenses

Financial income	Year ended 31 December 2008	Year ended 31 December 2007
Effect of discounting of financial instruments	334 397	156 870
Interest income	6 879	24 684
Other	348	-
	341 624	**181 554**
Financial expenses		
Interest expense	507 765	440 448
Interest on finance lease liabilities	44 535	15 463
Impairment of available-for-sale financial assets	329 015	108 423
Effect of discounting of financial instruments	34 280	39 130
Other	-	521
	915 595	**603 985**

11 Income tax benefit/(expense)

	Year ended 31 December 2008	Year ended 31 December 2007
Current tax benefit/(expense)		
Current year	(357 807)	(1 369 902)
Over provided in prior years	525 992	96 140
	168 185	**(1 273 762)**
Deferred tax benefit/(expense)		
Origination and reversal of temporary differences	(113 382)	1 061 178
Change in tax rate	661 345	-
	716 148	**(212 584)**

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.

(in thousands of Russian Roubles, unless otherwise stated)

Reconciliation of effective tax rate:

	Year ended 31 December 2008	%	Year ended 31 December 2007	%
Profit before income tax	880 618	100	495 664	100
Income tax expense at applicable tax rate	(211 348)	(24)	(118 959)	(24)
Change in tax rate	661 345	75	-	-
Non-deductible items	(259 841)	(30)	(189 765)	(38)
Over provided in prior years	525 992	60	96 140	19
	716 148	**81**	**(212 584)**	**(43)**

12 Property, plant and equipment

	Land and buildings	Transmission networks	Equipment for electricity transmission	Other	Construction in progress	Total
Cost/Deemed cost						
Balance at 1 January 2007	5 148 810	20 979 386	3 375 837	1 877 684	521 290	31 903 007
Additions	88 575	46 553	356 600	497 838	3 475 736	4 465 302
Transfers	453 112	925 185	874 230	392 252	(2 644 779)	-
Disposals	(33 480)	(68 438)	(7 347)	(25 719)	(36 661)	(171 645)
Balance at 31 December 2007	**5 657 017**	**21 882 686**	**4 599 320**	**2 742 055**	**1 315 586**	**36 196 664**
Balance at 1 January 2008	5 657 017	21 882 686	4 599 320	2 742 055	1 315 586	36 196 664
Additions	155 926	26 413	141 082	373 044	4 607 101	5 303 566
Transfers	932 603	1 420 342	1 266 737	305 851	(3 925 533)	-
Disposals	(29 111)	(37 237)	(9 287)	(42 802)	(13 603)	(132 040)
Disposal of OJSC Tyvinskaya MSK	-	-	-	(392 870)	(6 585)	(399 455)
Balance at 31 December 2008	**6 716 435**	**23 292 204**	**5 997 852**	**2 985 278**	**1 976 966**	**40 968 735**
Depreciation						
Balance at 1 January 2007	(6 587)	-	(62 705)	(66 028)	-	(135 320)
Depreciation for the year	(266 074)	(1 596 800)	(390 016)	(342 231)	-	(2 595 121)
Disposals	956	6 478	885	4 990	-	13 309
Balance at 31 December 2007	**(271 705)**	**(1 590 322)**	**(451 836)**	**(403 269)**	**-**	**(2 717 132)**
Balance at 1 January 2008	(271 705)	(1 590 322)	(451 836)	(403 269)	-	(2 717 132)
Depreciation charge	(330 797)	(1 711 829)	(505 251)	(487 448)	-	(3 035 325)
Disposals	2 160	9 562	2 523	15 445	-	29 690
Disposal of OJSC Tyvinskaya MSK	-	-	-	25 834	-	25 834
Balance at 31 December 2008	**(600 342)**	**(3 292 589)**	**(954 564)**	**(849 438)**	**-**	**(5 696 933)**
Net book value						
At 1 January 2007	**5 142 223**	**20 979 386**	**3 313 132**	**1 811 656**	**521 290**	**31 767 687**

(in thousands of Russian Roubles, unless otherwise stated)

At 31 December 2007	**5 385 312**	**20 292 364**	**4 147 484**	**2 338 786**	**1 315 586**	**33 479 532**
At 31 December 2008	**6 116 093**	**19 999 615**	**5 043 288**	**2 135 840**	**1 976 966**	**35 271 802**

As at 31 December 2008 construction in progress includes prepayments for property, plant and equipment of RUR 215 576 thousand (as at 31 December 2007: RUR 81 872 thousand).

The amount of capitalized interest in 2008 was RUR 56 707 thousand (in 2007: RUR 24 917 thousand).

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 based on the independent appraisal. The fair value and estimated remaining useful lives as at 1 January 2007 was determined by the independent appraiser, comprised of the consortium of "Deloitte and Touche", "The institute for Enterprise Issues", "AKF "Top-Audit" LLC" and “Otzenka-colsunting”. The appraisal was performed in accordance with International Standards on Appraisal.

As a result of the appraisal, the fair value of property, plant and equipment was determined to be RUR 31 568 348 thousand as at 1 January 2007. The net book value of property, plant and equipment in the financial statements prepared in accordance with the Russian Accounting Principles was RUR 32 049 598 thousand as at 1 January 2007.

The appraised items of property, plant and equipment did not include the assets of the Company’s subsidiaries, which were recorded at cost as at 1 January 2007. The net book value of such property, plant and equipment as at 1 January 2007 is RUR 199 399 thousand.

The majority of the items of property, plant 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, and industry experts and suppliers of property, plant and equipment were contacted.

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.

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

- Cash flows were projected based on actual operating results and the business plan for the period till the year 2016.
- Based on Government regulations, the electricity transmission industry was expected to switch to the Regulatory Asset Base (RAB) regulation of tariffs, which is aimed at ensuring the fair return on the invested capital. The shift to RAB regulation as at 1 January 2007 was expected to occur in 2012 with the transition period 2010-2012. The RUR rate of return on the invested capital is determined by Government regulations was expected to be in the range of 5.5% to 6.5%.
- A discount rate was estimated in the range of 12% to 13.5% and was applied in determining the recoverable amount of property, plant and equipment. The discount rate was estimated on the basis of the weighted average cost of capital, which was based on the cost of own capital and after-tax cost of borrowings.

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.

Impairment testing

Given the current challenging market conditions, the management performed an impairment test in respect of property, plant and equipment as at 31 December 2008. The Group property, plant and equipment are tested for impairment separately for each cash-generating unit. The following key assumptions were used in determining the recoverable amounts of property, plant and equipment:

(in thousands of Russian Roubles, unless otherwise stated)

- Cash flows were estimated based on the projections incorporating the Group's best estimates of production volumes, operating expenses and tariffs anticipated under the revised RAB regime. The projection period was set till the year 2014.
- Based on Government regulations, tariffs for electricity transmission are expected to be changed from the current "Cost plus" approach to the RAB regulation. As at the impairment testing date Management and industry experts expect the shift to RAB regulation to occur not later than 1 January 2011.
- Based on Government regulations, the return on capital invested before RAB regulation introduction period will gradually increase over the transition period and it expected to be 12% after the introduction of RAB. The return on the capital invested after the RAB regulation is introduced is expected to be 12%.
- A discount rate of 15.71% was applied in determining the recoverable amount. The discount rate was estimated based on the weighted average cost of capital, which was based on the cost of own capital of 17.36% and the after-tax cost of borrowings of 11.28%.

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

Leased plant and machinery

The Group leases production equipment and transportation vehicles under a number of finance lease agreements. At the end of each of the leases the Group has the option to purchase the equipment. As at 31 December 2008 the net book value of leased property, plant and equipment was RUR 561 225 thousand (2007: RUR 496 800 thousand). The leased equipment secures lease obligations.

13 Intangible assets

	Software	Licenses	Certificates	Other intangible assets	Total
Cost					
Balance at 1 January 2007	-	6 318	188 661	4 452	199 431
Additions	14 502	6 188	424 082	313	445 085
Balance at 31 December 2007	**14 502**	**12 506**	**612 743**	**4 765**	**644 516**
Balance at 1 January 2008	14 502	12 506	612 743	4 765	644 516
Additions	68 178	7	1 893	-	70 078
Balance at 31 December 2008	**82 680**	**12 513**	**614 636**	**4 765**	**714 594**
Amortisation					
Balance at 1 January 2007	-	-	(12 571)	-	(12 571)
Amortisation charge	(321)	(5 160)	(86 518)	(2 263)	(94 262)
Balance at 31 December 2007	**(321)**	**(5 160)**	**(99 089)**	**(2 263)**	**(106 833)**
Balance at 1 January 2008	(321)	(5 160)	(99 089)	(2 263)	(106 833)
Amortisation change	(865)	(2 560)	(204 035)	(1 385)	(208 845)
Balance at 31 December 2008	**(1 186)**	**(7 720)**	**(303 124)**	**(3 648)**	**(315 678)**
Net book value					
At 1 January 2007	**-**	**6 318**	**176 090**	**4 452**	**186 860**
At 31 December 2007	**14 181**	**7 346**	**513 654**	**2 502**	**537 683**
At 31 December 2008	**81 494**	**4 793**	**311 512**	**1 117**	**398 916**

(in thousands of Russian Roubles, unless otherwise stated)

14 Deferred tax assets and liabilities

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	608	318	(3 621 732)	(4 510 391)	(3 621 124)	(4 510 073)
Other non-current assets	60 909	87 024	-	-	60 909	87 024
Inventories	7 160	7 179	-	-	7 160	7 179
Trade and other receivables	66 722	116 745	-	(4 390)	66 722	112 355
Other current assets	3 010	388	-	-	3 010	388
Trade and other payables	90 837	172 427	(952)	(931)	89 885	171 496
Tax loss carry-forward	166 343	312 666	-	-	166 343	312 666
Other	31 745	67 207	(111 373)	(102 928)	(79 628)	(35 721)
Deferred tax assets/(liabilities)	**427 334**	**763 954**	**(3 734 057)**	**(4 618 640)**	**(3 306 723)**	**(3 854 686)**

Movements in temporary differences during the year

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

15 Investments and financial assets

	31 December 2008	**31 December 2007**
Non-current		
Available-for-sale investments	90 180	298 766
Financial assets related to employee benefit fund	446 188	306 967
	536 368	**605 733**
Current		
Available-for-sale investments	-	268 594
	-	**268 594**

Available-for-sale investments are mainly represented by marketable securities stated at fair value.

On 30 January 2008 45 880 shares of OJSC Eniseiskaya TGK-13 with carrying amount of RUR 268 594 thousand were sold to CJSC IK Region for the total amount of RUR 270 000 thousand. Gain on disposal in the total amount of RUR 1 406 thousand was recorded in other operating income in the consolidated income statement.

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

(in thousands of Russian Roubles, unless otherwise stated)

16 Other non-current assets

	31 December 2008	31 December 2007
Other accounts receivable	123 388	1 033 161
VAT recoverable	41 117	17 859
Other non-current assets	27 826	27 438
	192 331	**1 078 458**

As at 31 December 2007 other accounts receivable are mainly represented by long-term accounts receivable from the Committee of Tax, Finance and Credit Policy of the Administration of Altay Region. The gross amount is RUR 1 001 277 thousand discounted for the repayment period of 2009. They are presented as short-term receivables as at 31 December 2008.

17 Cash and cash equivalents

Cash and cash equivalents mainly represent cash in bank accounts amounted to RUR 38 764 thousand denominated in roubles (31 December 2007: RUR 392 106 thousand).

18 Trade and other receivables

	31 December 2008	31 December 2007
Trade receivables from electricity transmission and technological connection	2 352 985	618 366
Trade receivables from electricity transmission and technological connection impairment allowance	(162 026)	-
Other trade receivables	2 122 701	1 882 630
Other trade receivables impairment allowance	(893 495)	(1 200 378)
Other receivables due to disposal of non-core assets	-	2 963 047
Other receivables	2 251 959	2 006 649
Other receivables impairment allowance	(785 432)	(1 237 195)
Total trade and other receivables	**4 886 692**	**5 033 119**

Prepayments	**31 December 2008**	**31 December 2007**
Prepayments	228 110	221 904
Prepayments impairment allowance	(14 257)	(14 257)
VAT prepaid	67 804	31 224
Other taxes prepaid	135 010	191 798
	416 667	**430 669**

As part of the process of reorganisation of RAO UES during 2007 and the first quarter 2008 the Group disposed property, plant and equipment and inventory used for generation and high-voltage transmission of energy (the Group's non-core assets) to FGC UES, OJSC Kuzbassenergo and OJSC Eniseiskaya TGC-13. For the purpose of the preparation of these Financial Statements the disposal of non-core assets accounted for as if it occurred before 1 January 2007. Therefore, the Group recorded accounts receivable due to disposal of non-core assets in the amount of RUR 7 107 246 thousand and RUR 2 963 047 thousand as at 1 January 2007 and 31 December 2007 accordingly. Cash proceeds, excluding VAT, from disposal of non-core assets for 2008 were RUR 606 663 thousand (for 2007 – RUR 3 512 033 thousand). The remaining amount of accounts receivable amounted to RUR 2 247 184 thousand was settled through redemption of the Group's promissory notes (refer to Note 22).

For more detailed information concerning the Group's exposure to credit risks and impairment losses related to trade and other receivables refer to Note 29.

(in thousands of Russian Roubles, unless otherwise stated)

19 Inventories

	31 December 2008	31 December 2007
Materials and supplies	484 373	465 324
Spare parts	128 634	109 260
Other inventories	32 205	169 839
Total inventories	**645 212**	**744 423**
Less: provision for inventory obsolescence	(35 802)	(28 737)
Net book value	**609 410**	**715 686**

At 31 December 2007 inventories with a carrying amount of RUR 577 395 thousand were pledged as collateral for bank loans. As at 31 December 2008 no inventories were pledged (refer to Note 22).

20 Equity

(a) Share capital

	31 December 2008	31 December 2007
Number of ordinary shares authorised, issued and fully paid (thousands)	89 367 655	89 367 655
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 with par value 0.10 RUR each for the total amount of RUR 10 000 thousand and was fully paid by cash. The share capital of 89 367 655 thousand ordinary shares were formed through the issuance of shares of the Company and conversion of these newly issued shares into the shares of the merged entities (refer to Note 1).

(b) Dividends

In accordance with Russian legislation the Company's distributable reserves are limited to the balance of accumulated retained earnings as recorded in the Company's statutory financial statements prepared in accordance with Russian Accounting Principles. As at 31 December 2008 the Company had retained earnings, including the profit for the current year, of RUR 873 506 thousand.

The Company neither declared nor paid dividends for the year ended 31 December 2007.

21 Earnings per share

	Year ended 31 December 2008	Year ended 31 December 2007
Weighted average number of ordinary shares for the year ended 31 December (thousands of shares)	89 367 655	89 367 655
Total profit attributable to shareholders of the Company	**1 598 728**	**284 298**
Earnings per share (in Russian Roubles) – basic and diluted	**0.0179**	**0.0032**

In accordance with the Group's accounting policy for business combinations under common control, weighted average number of shares used for the purpose of calculation of earnings per share has been determined as if the formation of the Group was completed at the beginning of the earliest period presented.

(in thousands of Russian Roubles, unless otherwise stated)

22 Loans and borrowings

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

Non-current liabilities

Name of lender		Effective interest rate, %	Maturity	31 December 2008	31 December 2007
OJSC JSCB ROSBANK	Unsecured	9.0 - 11.8	2010	1 450 000	190 000
OJSC JSCB ROSBANK	Unsecured	10.5 - 11.8	2009	1 337 507	-
OJSC TransCreditBank	Secured	11.45 - 12.0	2010	-	60 000
OJSC TransCreditBank	Unsecured	11.45 - 12.0	2009	560 000	-
OJSC Gazprombank	Unsecured	10.5 - 11.44	2010	200 000	110 000
OJSC Gazprombank	Unsecured	15.0 - 17.0	2009	1 239 000	-
OJSC Alfa-Bank	Unsecured	8.46 - 11.02	2008	-	529 000
OJSC Eniseiskaya TGC-13	Unsecured	refinancing rate	2010	3 553	3 991
				4 790 060	**892 991**
Less: current portion of long-term loans					
OJSC Gazprombank	Unsecured	15.0 - 17.0	2009	(1 239 000)	-
OJSC Alfa-Bank	Unsecured	8.46 - 11.02	2008	-	(529 000)
OJSC JSCB ROSBANK	Unsecured	10.5 - 11.8	2009	(1 337 507)	-
OJSC TransCreditBank	Unsecured	11.45 - 12.0	2009	(560 000)	-
OJSC Eniseiskaya TGC-13	Unsecured	refinancing rate	2008	-	(566)
				1 653 553	**363 425**

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.

(in thousands of Russian Roubles, unless otherwise stated)

Current liabilities

Name of lender		Effective interest rate, %	31 December 2008	31 December 2007
OJSC Alfa-Bank	Unsecured	8.46 - 11.02	-	360 000
OJSC Gazprombank	Unsecured	9.5-17.0	376 690	-
OJSC JSCB ROSBANK	Unsecured	9.0 - 11.8	343 635	1 000 000
OJSC TransCreditBank	Secured	13.5-17.0	-	619 900
OJSC TransCreditBank	Unsecured	13.5-17.0	20 000	-
OJSC Sberbank	Unsecured	8.85	-	39 340
OJSC AK BARS BANK	Secured	11.5	-	450 000
OJSC Bank Zenit	Secured	11.0	-	324 796
OJSC URSA Bank	Unsecured	9.0	-	235 000
OJSC Sobinbank	Secured	12.5	-	110 000
OJSC Finservice Bank	Unsecured	12.5	-	100 000
OJSC VTB Bank	Secured	10.0	-	247 600
Other loans and borrowings			9 727	1 336
			750 052	**3 487 972**
Current portion of long-term loans				
OJSC Gazprombank	Unsecured	15.0 - 17.0	1 239 000	-
OJSC JSCB ROSBANK	Unsecured	10.5 - 11.8	1 337 507	-
OJSC Alfa-Bank	Unsecured	8.46 - 11.02	-	529 000
OJSC TransCreditBank	Unsecured	11.45 - 12.0	560 000	-
OJSC Eniseiskaya TGC-13	Unsecured	refinancing rate	-	566
Promissory notes	Unsecured	interest free	-	2 496 643
			3 886 559	**6 514 181**

At 31 December 2007 the bank loans in the amount of RUR 1 812 296 thousand are secured over inventories in amount of RUR 577 395 thousand. There are no secured loans as at 31 December 2008 (see Note 19).

23 Finance lease liability

The Group leases transportation vehicles technical and other equipment under a number of finance lease agreements. Finance lease liabilities are payable as follows as at 31 December 2008 and 31 December 2007:

	Year ended 31 December 2008			Year ended 31 December 2007		
	Future minimum lease payments	**Interest**	**Present value of minimum lease payments**	**Future minimum lease payments**	**Interest**	**Present value of minimum lease payments**
Less than one year	172 980	(40 114)	132 866	127 773	(33 455)	94 318
Between one and five years	270 624	(40 322)	230 302	320 340	(59 906)	260 434
	443 604	**(80 436)**	**363 168**	**448 113**	**(93 361)**	**354 752**

The finance lease liabilities are secured by the leased assets.

(in thousands of Russian Roubles, unless otherwise stated)

24 Employee benefits

The Group has defined benefit pension and other long-term defined benefit plans that cover most full-time and retired employees. Defined post-employment benefits consist of several unfunded plans providing for lump-sum payments upon retirement, financial support for current pensioners, death benefits, jubilee benefits.

The amounts recognized in the balance sheet are as follows:

	31 December 2008	31 December 2008	31 December 2007	31 December 2007
	Post employment benefits	**Other long-term benefits**	**Post employment benefits**	**Other long-term benefits**
Total present value of obligations	310 980	21 618	111 228	23 061
Unrecognised net actuarial loss/(gain)	12 308	-	(9 467)	-
Unrecognised past service cost	(203 959)	-	(1 903)	-
Recognized liability for defined benefit obligations	**119 329**	**21 618**	**99 858**	**23 061**

The amounts recognized in the income statement are as follows:

	31 December 2008	31 December 2008	31 December 2007	31 December 2007
	Post employment benefits	**Other long-term benefits**	**Post employment benefits**	**Other long-term benefits**
Current service cost	14 261	1 257	6 649	2 213
Interest expense	7 575	1 570	6 452	1 470
Recognized past service costs	12 478	3 875	5 347	3 027
Recognized actuarial gain	-	(4 325)	-	(776)
Curtailment / settlement gain	(1 791)	(648)	366	(205)
Total periodical pension cost	**32 523**	**1 729**	**18 814**	**5 729**

The expense is recognized in the "personnel costs" as part of operating expenses.

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

	31 December 2008	31 December 2008	31 December 2007	31 December 2007
	Post employment benefits	**Other long-term benefits**	**Post employment benefits**	**Other long-term benefits**
Defined benefit obligations at 1 January	111 228	23 061	96 303	21 933
Current service cost	14 261	1 256	6 649	2 213
Interest expense	7 575	1 570	6 452	1 470
Actuarial (gains)/losses	(21 775)	(4 325)	9 467	(776)
Benefits paid	(13 052)	(3 171)	(14 527)	(4 601)
Past service costs	214 534	3 875	7 250	3 027
Curtailment / settlement	(1 791)	(648)	(366)	(205)
Defined benefit obligations at 31 December	**310 980**	**21 618**	**111 228**	**23 061**

(in thousands of Russian Roubles, unless otherwise stated)

Principal actuarial assumptions are as follows:

	2008	2007
Discount rate	9.00%	6.81%
Salary increase	8.0%	8.0%
Inflation rate	6.5%	6.0%

25 Other non-current liabilities

	31 December 2008	31 December 2007
Trade payables	239 218	158 655
Other payables and accrued expenses	68 912	84 288
Prepayments from customers for technological connection	93 439	33 683
	401 569	**276 626**

26 Employee payables

	31 December 2008	31 December 2007
Salaries and wages payable	359 557	300 605
Unused vacation provision	181 040	131 228
Annual bonus provision	105 600	341 193
	646 197	**773 026**

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

27 Trade and other payables

	31 December 2008	31 December 2007
Trade payables for repairs and constructions	872 655	461 566
Other trade payables	1 933 226	1 472 984
Other payables and accrued expenses	705 365	966 867
Prepayments from customers for electricity transmission and technological connection	909 219	375 668
Other prepayments received	73 498	181 079
	4 493 963	**3 458 164**

28 Other taxes payables

	31 December 2008	31 December 2007
Value added tax	242 470	527 527
Unified social tax	91 828	113 503
Personal income tax	78 005	68 501
Tax fines and penalties	465 569	582 925
Other taxes	46 437	99 563
	924 309	**1 392 019**

(in thousands of Russian Roubles, unless otherwise stated)

29 Financial risk management

(a) Overview

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

- credit risk;
- liquidity risk;
- market risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosure are included throughout these Financial Statements.

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.

The Group's risk management policies deal with identifying and analyzing the risk faces by the Group, setting appropriate risk limits and controls, and monitoring risk and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its internal policies, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

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

(b) Credit risk

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

(i) Trade and other receivables

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

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

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:

	Carrying amount	
	31 December 2008	**31 December 2007**
Trade and other receivables	5 010 080	6 066 280
Cash and cash equivalents	38 764	392 106
Investments and financial assets	536 368	874 327
	5 585 212	**7 332 713**

(in thousands of Russian Roubles, unless otherwise stated)

The Group's four most significant customers, regional distribution entities, account for RUR 1 482 404 thousand of the trade receivables carrying amount at 31 December 2008 (31 December 2007: RUR 467 385 thousand).

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

	Carrying amount	
	31 December 2008	**31 December 2007**
Electricity transmission customers (regional distribution entities)	1 783 300	562 254
Electricity transmission customers (others)	1 229 205	682 252
Connection services customers	407 660	56 112
	3 420 165	**1 300 618**

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	4 339 092	-	5 504 632	-
Past due 0-3 months	15 993	-	17 785	-
Past due 3-12 months	489 866	(232 068)	362 122	(125 221)
Past due more than 12 months	2 006 082	(1 608 885)	2 619 314	(2 312 352)
	6 851 033	**(1 840 953)**	**8 503 853**	**(2 437 573)**

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	2 437 573	2 835 961
Net increase during the period	226 300	125 619
Provision used	(822 920)	(524 007)
Balance at 31 December	**1 840 953**	**2 437 573**

The movement in the allowance for impairment in respect of available-for-sale investments during the year was as follows:

	Year ended 31 December 2008	**Year ended 31 December 2007**
Balance at 1 January	108 423	-
Increase during the period	329 015	108 423
Provision used	(57 585)	-
Balance at 31 December	**379 853**	**108 423**

(in thousands of Russian Roubles, unless otherwise stated)

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

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

To manage the liquidity risk, the Group has negotiated long-term 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 contractual maturities of financial liabilities presented excluding estimated interest payments and the impact of netting agreements:

	12 months or less	Between 1 and 5 years	More than 5 years	Total
Non-derivative financial liabilities as at 31 December 2008				
Loans	3 886 559	1 653 553	-	5 540 112
Finance lease liabilities	132 866	230 302	-	363 168
Trade and other payables	4 157 443	307 173	957	4 465 573
	8 176 868	**2 191 028**	**957**	**10 368 853**

	12 months or less	Between 1 and 5 years	More than 5 years	Total
Non-derivative financial liabilities as at 31 December 2007				
Loans	4 017 538	363 425	-	4 380 963
Promissory notes	2 496 643	-	-	2 496 643
Finance lease liabilities	94 318	260 434	-	354 752
Trade and other payables	3 674 443	242 182	761	3 917 386
	10 282 942	**866 041**	**761**	**11 149 744**

(d) Market risk

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

(i) Interest rate risk

The Group's income and operating cash flows are largely independent of changes in market interest rates. The Group is exposed to interest rate risk only through market value fluctuations of loans and borrowings. The interest rates on most loans and borrowings are fixed. Changes in interest rates impact primarily loans and borrowings by changing their fair value (fixed 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.

(in thousands of Russian Roubles, unless otherwise stated)

Profile

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

	Carrying amount	Carrying amount
Fixed rate instruments	**2008**	**2007**
Financial liabilities	5 540 112	4 380 963
Promissory notes	-	2 496 643

Fair value sensitivity analysis for fixed rate instruments

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

(e) Fair values

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

The basis for determining fair value is disclosed in Note 4.

The interest rates used to discount estimated cash flows, where applicable, were as follows:

	31 December 2008	31 December 2007
Trade and other receivables	17.00%	11.51%
Trade and other payables	17.00%	11.51%
Loans and borrowings	11.00-17.00%	10.00-12.00%

(f) Capital management

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

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

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

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

(in thousands of Russian Roubles, unless otherwise stated)

30 Operating lease

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

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

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

	31 December 2008	31 December 2007
Less than one year	27 382	50 753
Between one year and five years	108 606	108 575
More than five years	241 911	269 324
	377 899	**428 652**

The amount of lease expense under operating leases recognized in the income statement in 2008 was RUR 117 176 thousand (in 2007: RUR 135 607 thousand).

31 Commitments

(a) Sales commitments

As at 31 December 2008 the Group has entered into agreements to render electricity transmission services to regional energy distribution entities for RUR 38 863 814 thousand, net of VAT (31 December 2007: total amount of RUR 34 263 679 thousand).

As at 31 December 2008 the Group has entered into agreements to provide connection services to the electricity network for RUR 1 105 025 thousand, net of VAT (31 December 2007: RUR 886 806 thousand).

(b) Capital commitments

The Group has outstanding commitments under the contracts for the purchase and construction of property, plant and equipment for RUR 1 924 698 thousand as at 31 December 2008, net of VAT (as at 31 December 2007: RUR 1 530 827 thousand).

(c) Purchase commitments

As at 31 December 2008 the Group has entered into agreements with local transmission grid companies to purchase services on transmitting electricity for RUR 16 010 032 thousand, net of VAT (31 December 2007: RUR 13 065 974 thousand).

The Group has a number of contracts with electricity suppliers to purchase electricity for compensation of losses. As at 31 December 2008 the estimated amount of supplies under the current contracts approximately equals to RUR 5 782 188 thousand, net of VAT (31 December 2007: RUR 4 289 544 thousand).

32 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 than these matters will not have a material adverse effect on the Group’s financial position and operating results.

(in thousands of Russian Roubles, unless otherwise stated)

(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 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 per agreement 31 December 2008	**Amount per agreement 31 December 2007**
OJSC Promsvyazbank	156 176	-
OJSC Sberbank	75 400	-
OJSC TransCreditBank	44 662	27 800
OJSC Sobinbank	-	148 733
OJSC JSCB Evrofinance Mosnarbank	-	1 013
	276 238	**177 546**

33 Related parties

(a) Control relationships

The Company’s parent as at 31 December 2008 and 31 December 2007 was JSC IDGC Holding and RAO UES respectively. 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 and RAO UES.

(b) Management remuneration

There are no transactions or balances with key management and their close family members except for remuneration in the form of salary and bonuses. Total remuneration paid to management for the year ended 31 December 2008 was RUR 105 380 thousand (2007: RUR 326 603 thousand).

Total remuneration paid to the members of the Board of Directors and the Management Board for the year ended 31 December 2008 was RUR 83 390 thousand (2007: RUR 167 233 thousand).

(in thousands of Russian Roubles, unless otherwise stated)

(c) Transactions with other related parties

Revenue

	Transaction value 31 December 2008	Outstanding balance 31 December 2008	Transaction value 31 December 2007	Outstanding balance 31 December 2007
Electricity transmission:				
Entities under common control of the parent	7 802 120	170 221	21 204 571	583 930
Other state controlled entities	6 148 932	710 874	2 482	282
Other revenue:				
Entities under common control of the parent	383 258	16 070	500 463	207 464
Other state controlled entities	212 465	1 586 426	297 651	2 062 928
	14 546 775	**2 483 591**	**22 005 167**	**2 854 604**

Expenses

	Transaction value 2008	Outstanding balance 31 December 2008	Transaction value 2007	Outstanding balance 31 December 2007
Electricity transmission:				
Entities under common control of the parent	5 927 229	23 282	10 226 786	86 853
Other state controlled entities	4 498 692	86 464	95 010	2 258
Other expenses:				
Entities under common control of the parent	658 580	193 545	355 722	151 570
Other state controlled entities	873 134	681 078	219 738	909 844
	11 957 635	**984 369**	**10 897 256**	**1 150 525**

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

(d) Prepayments received

	Outstanding balance 31 December 2008	Outstanding balance 31 December 2007
Entities under common control of the parent	89 940	159
Other state controlled entities	86 046	30 580
	175 986	**30 739**

(in thousands of Russian Roubles, unless otherwise stated)

(e) Prepayments issued

	Outstanding balance 31 December 2008	Outstanding balance 31 December 2007
Entities under common control of the parent	728	89 301
Other state controlled entities	76 592	4 551
	77 320	**93 852**

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.

Trade and other receivables for disposal of non-current assets are disclosed in the Note 18.

(f) Loans and borrowings

	Amount obtained 2008	Outstanding balance 31 December 2008	Amount obtained 2007	Outstanding balance 31 December 2007
State controlled entities	2 795 000	2 396 637	1 227 600	1 079 344
Other related parties	4 735	3 553	4 735	3 991
	2 799 735	**2 400 190**	**1 232 335**	**1 083 335**

Loans are received at market interest rates (refer to Note 22).

34 Subsequent events

The Group's management expects potential losses as a result of the changes at electricity wholesale market due to the accident at Sayano–Shushenskaya Hydroelectric Power plant, however the amount of these losses cannot be reasonably estimated at present.

At the annual shareholders meeting held on 26 June 2009 the dividends for 2008 were declared in the amount of RUR 0.001592 per one ordinary share in the total amount of RUR 142 308 thousand.