OJSC Interregional Distribution Grid Company of Siberia

Consolidated Financial Statements
for the year ended 31 December 2009

Contents

ZAO KPMG
10 Presnenskaya Naberezhnaya
Moscow, Russia 123317

Telephone +7 (495) 937 4477
Fax +7 (495) 937 4400/99
Internet www.kpmg.ru

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Basis for Qualified Opinion

We did not observe the counting of inventories stated at RUR 715 686 thousand as at 1 January 2008 because we were engaged as auditors of the Group only after that date. It was impracticable to satisfy ourselves as to those inventory quantities by other audit procedures. Accordingly, we were unable to determine whether any adjustments might be necessary to operating expenses, income tax benefit and profit for the year ended 31 December 2008.

Qualified Opinion

In our opinion, except for the effects on the corresponding figures of such adjustments, if any, that might have been determined to be necessary had it been practicable to obtain sufficient appropriate audit evidence as described in the Basis for Qualified Opinion paragraph, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2009, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO KPMG

ZAO KPMG

17 May 2010

OJSC IDGC of Siberia
Consolidated Statement of Comprehensive Income for the year ended 31 December 2009
(in thousands of Russian Roubles, unless otherwise stated)

	Note	Year ended 31 December 2009	Year ended 31 December 2008
Revenue	8	39 949 234	37 717 838
Operating expenses	9	(40 502 990)	(36 781 626)
Other operating income	8	582 374	518 377
Results from operating activities		**28 618**	**1 454 589**
Finance income	11	34 833	341 624
Finance costs	11	(961 788)	(915 595)
Net finance costs		**(926 955)**	**(573 971)**
(Loss)/profit before income tax		**(898 337)**	**880 618**
Income tax benefit	12	124 273	716 148
(Loss)/profit for the year		**(774 064)**	**1 596 766**
Other comprehensive income			
Net change in fair value of available-for-sale financial assets		153 109	-
Income tax on other comprehensive income		(12 490)	-
Other comprehensive income for the year, net of income tax		140 619	-
Total comprehensive (loss)/income for the year		**(633 445)**	**1 596 766**
(Loss)/profit attributable to:			
Shareholders of the Company		(773 248)	1 598 728
Minority interest		(816)	(1 962)
(Loss)/profit for the year		**(774 064)**	**1 596 766**
Total comprehensive (loss)/income attributable to:			
Shareholders of the Company		(632 629)	1 598 728
Minority interest		(816)	(1 962)
Total comprehensive (loss)/income for the year		**(633 445)**	**1 596 766**
(Loss)/earnings per share – basic and diluted (in Russian Roubles)	22	**(0.0087)**	**0.0179**

These consolidated financial statements were approved by management of the Company on 17 May 2010 and were signed on its behalf by:

General Director — Antropenko A. V.

Chief accountant — Astrakhantseva V. G.

The consolidated statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 11-42.

(in thousands of Russian Roubles, unless otherwise stated)

	Note	31 December 2009	31 December 2008
ASSETS			
Non-current assets			
Property, plant and equipment	13	35 298 609	35 271 802
Intangible assets	14	389 755	398 916
Investments and financial assets	16	694 458	536 368
Other non-current assets	17	103 192	192 331
Total non-current assets		**36 486 014**	**36 399 417**
Current assets			
Cash and cash equivalents	18	140 242	38 764
Trade and other receivables	19	5 850 274	4 886 692
Income tax receivable		160 421	186 239
VAT recoverable		178 253	157 706
Prepayments	19	333 578	416 667
Inventories	20	628 473	609 410
Other current assets		54 598	61 712
Total current assets		**7 345 839**	**6 357 190**
Total assets		**43 831 853**	**42 756 607**

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 11-42.

(in thousands of Russian Roubles, unless otherwise stated)

	Note	31 December 2009	31 December 2008
EQUITY AND LIABILITIES			
Equity			
Share capital	21	8 936 766	8 936 766
Retained earnings		17 042 503	17 958 024
Available-for-sale investments revaluation reserve		140 619	-
Total equity attributable to shareholders of the Company		**26 119 888**	**26 894 790**
Minority interest		3 007	3 823
Total equity		**26 122 895**	**26 898 613**
Non-current liabilities			
Loans and borrowings	23	3 872 507	1 653 553
Finance lease liability	24	136 091	230 302
Employee benefits	25	209 076	140 947
Deferred tax liabilities	15	3 102 521	3 306 723
Other non-current liabilities	26	514 607	401 569
Total non-current liabilities		**7 834 802**	**5 733 094**
Current liabilities			
Loans and borrowings	23	2 574 732	3 886 559
Finance lease liability	24	99 656	132 866
Trade and other payables	28	5 520 396	4 493 963
Employee payables	27	528 832	646 197
Income tax payable		107 470	41 006
Other taxes payable	29	1 043 070	924 309
Total current liabilities		**9 874 156**	**10 124 900**
Total liabilities		**17 708 958**	**15 857 994**
Total equity and liabilities		**43 831 853**	**42 756 607**

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 11-42.

(in thousands of Russian Roubles, unless otherwise stated)

	Note	Year ended 31 December 2009	Year ended 31 December 2008
OPERATING ACTIVITIES			
(Loss)/profit before income tax		**(898 337)**	**880 618**
Adjustments for:			
Depreciation and amortization	9	3 555 198	3 244 170
Allowance for impairment of accounts receivable	9	329 196	226 300
Net finance costs	11	926 955	573 971
(Gain)/loss on disposal of property, plant and equipment	8, 9	(19 344)	14 263
Gain on disposal of OJSC Tyvinskaya MSK	8	-	(122 939)
Other non-cash activities		921	39 228
Operating profit before changes in working capital		**3 894 589**	**4 855 611**
Increase in accounts receivable and prepayments		(1 209 688)	(2 056 029)
(Increase)/decrease in inventories		(23 710)	88 124
Decrease in other assets		78 542	158 976
Increase in accounts payable		1 163 093	705 159
Decrease in employee payables		(117 365)	(126 829)
Increase in employee benefits		68 129	8 884
Increase/(decrease) in other taxes payable		118 761	(191 799)
Increase in other liabilities		74 384	246 371
Cash flows from operations before income tax paid		**4 046 735**	**3 688 468**
Income tax paid in cash		(28 621)	(682 149)
Net cash flows from operating activities		**4 018 114**	**3 006 319**

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 11-42.

(in thousands of Russian Roubles, unless otherwise stated)

	Note	Year ended 31 December 2009	Year ended 31 December 2008
INVESTING ACTIVITIES			
Acquisition of property, plant and equipment		(3 536 515)	(5 035 137)
Proceeds from disposal of property, plant and equipment		151 439	86 975
Acquisition of intangible assets		(189 890)	(70 078)
Proceeds from disposal of OJSC Tyvinskaya MSK	6	-	360 959
Proceeds from disposal of non - core assets		-	606 663
Proceeds from loans given		890	35 654
Interest received		5 732	6 879
Proceeds from disposal of investments		872	258 000
Cash flows used in investing activities		**(3 567 472)**	**(3 750 085)**
FINANCING ACTIVITIES			
Proceeds from borrowings		18 756 931	15 443 907
Repayment of borrowings		(17 849 607)	(14 241 965)
Repayment of finance lease liability		(176 294)	(77 597)
Repayment of promissory notes		-	(249 459)
Interest paid		(941 287)	(484 462)
Dividends to shareholders		(138 907)	-
Cash flows (used in)/from financing activities		**(349 164)**	**390 424**
Net increase/(decrease) in cash and cash equivalents		**101 478**	**(353 342)**
Cash and cash equivalents at beginning of year		38 764	392 106
Cash and cash equivalents at end of year	18	**140 242**	**38 764**

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 11-42.

(in thousands of Russian Roubles, unless otherwise stated)

	Share capital	Available-for-sale investments revaluation reserve	Retained earnings	Total equity attributable to shareholders of the Company	Minority interest	Total
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 comprehensive income	**-**	**-**	**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**
Balance at 1 January 2009	**8 936 766**	**-**	**17 958 024**	**26 894 790**	**3 823**	**26 898 613**
Loss for the year	-	-	(773 248)	(773 248)	(816)	(774 064)
Net change in fair value of available-for-sale financial assets	-	140 619	-	140 619	-	140 619
Total other comprehensive income		140 619	-	140 619	-	140 619
Total comprehensive income	**-**	**140 619**	**(773 248)**	**(632 629)**	**(816)**	**(633 445)**
Dividends to shareholders	-	-	(142 273)	(142 273)	-	(142 273)
Total transactions with owners	**-**	**-**	**(142 273)**	**(142 273)**	**-**	**(142 273)**
Balance at 31 December 2009	**8 936 766**	**140 619**	**17 042 503**	**26 119 888**	**3 007**	**26 122 895**

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 11-42.

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 Buryatenergo, OJSC Krasnoyarskenergo, OJSC Kuzbassenergo – RES, 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, the 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 of electricity and the connection of customers to the electricity grid. The Group's business is a national monopoly which is under the pressure and support of the Russian government. The Government of the Russian Federation influences the Group's operations through setting transmission tariffs. The Group's tariffs are controlled by the Federal Service on Tariffs and the Regional Energy Commissions.

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

As at 31 December 2009, 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 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 for financial investments classified as available-for-sale and stated at fair value; and property, plant and equipment which was revalued to determine deemed cost as part of the adoption of IFRSs as at 1 January 2007.

(c) Functional and presentation currency

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

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

(d) Use of judgments, estimates and assumptions

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

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

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the Financial Statements is included in the following notes:

- Note 30 – allowances for impairment of trade and other receivables.

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

- Note 13 – useful lives of property, plant and equipment;
- Note 25 – employee benefits;
- Note 33 – contingencies.

(e) Changes in accounting policies and presentation

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

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

(i) Determination and presentation of operating segments

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

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

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

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

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

(ii) Presentation of financial statements

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

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

3 Significant accounting policies

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

(a) Basis of consolidation

(i) Subsidiaries

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

(ii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(iii) Business combinations involving entities under common control

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 Group equity except that any share capital of the acquired entities is recognized as part of retained earnings. Any cash paid for the acquisition is recognised directly in equity.

(b) Financial instruments

(i) Non-derivative financial instruments

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

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

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

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

The Group has the following non-derivative financial assets: loans and receivables and available-for-sale financial assets.

Loans and receivables

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

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

Available-for-sale financial assets

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

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

(ii) Non-derivative financial liabilities

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

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

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

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

(c) Share capital

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

(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 IFRSs, was determined by reference to its fair value at that date.

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

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

Gains and losses on disposal of an item of property, plant and equipment are recognized net in "operating expenses" or "other operating income" in profit or loss.

(ii) Subsequent costs

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

(iii) Depreciation

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

The estimated useful lives of property, plant and equipment 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 financial year end and adjusted if appropriate.

(iv) Leased assets

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

Leases, other than finance leases, are treated as operating leases, and leased assets are not recognized in the consolidated statement of financial position. Operating lease payments (net of benefits granted by the lessor) are recognized in profit or loss on a straight line basis over the lease term.

(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.

(ii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognized in profit or loss as incurred.

(iii) Amortization

Amortisation is calculated over the cost of the asset, or other amount substituted for cost, less its residual value.

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

The estimated useful lives of intangible assets are as follows:

Licenses and certificates	1-3 years;
Software	2-4 years.

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

(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 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 impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

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

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset’s original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

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

(ii) Non-financial assets

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

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

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the 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 profit or loss when the customer acceptance of the volume of electricity transmitted is received. The tariffs for energy transmission are approved by the Federal Tariff Agency and Regional Energy Commission of each region of the Group's operations.

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

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

(j) Finance income and costs

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

Finance costs comprise interest expense on borrowings, finance leasing, unwinding of the discount on provisions and impairment losses recognised on financial assets other than trade and other receivables. All borrowing costs are recognised in profit or loss using the effective interest method, except for borrowing costs related to qualifying assets which are recognised as part of the cost of such assets.

(k) Income tax

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 or in other comprehensive income.

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

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

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

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

(ii) Defined benefits plan

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group’s net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and any unrecognised past 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 profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in profit or loss.

The Group recognises all actuarial gains and losses in profit or loss 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 and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed using the projected unit credit method. Any actuarial gains and losses are recognized in profit or loss in the period in which they arise.

(iv) Short-term benefits

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

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 share holders of the Group by the weighted average number of ordinary shares outstanding during the period.

(n) Segment reporting

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

(o) New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2009, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective.

- Revised IAS 24 *Related Party* Disclosures (2009) introduces an exemption from the basic disclosure requirements in relation to related party disclosures and outstanding balances, including commitments, for government-related entities. Additionally, the standard has been revised to simplify some of the presentation guidance that was previously non-reciprocal. The revised standard is to be applied retrospectively for annual periods beginning on or after 1 January 2011. The Group has not yet determined the potential effect of the amendment.

- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in several phases and is intended to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement* once the project is completed by the end of 2010. The first phase of IFRS 9 was issued in November 2009 and relates to the recognition and measurement of financial assets. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued.

- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2010. The Group has not yet 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. This fair value is determined for disclosure purposes.

(c) Non-derivative financial liabilities

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

(in thousands of Russian Roubles, unless otherwise stated)

5 Group subsidiaries

The Group's subsidiaries are disclosed below:

Subsidiaries:	31 December 2009 Ownership, %	31 December 2008 Ownership, %
OJSC Tyvaenergo	98.96	98.96
OJSC AES	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 Mekhanizirovannaya colonna	100.00	100.00
OJSC Zabaikalets – Energiya	75.00	75.00
LLC Energo-leasing	100.00	100.00
OJSC AESC	80.00	80.00
LLC ASKOR	70.00	70.00
LLC TechnoLeasing	75.00	75.00
LLC DC «Altayenergo»	99.00	99.00

6 Disposal of subsidiary

On 20 June 2008 66.44 % of the shares of OJSC Tyvinskaya MSK were 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 the shares of OJSC Tyvinskaya MSK were converted into 367 356 456 ordinary shares of FGC UES. These shares were recorded as available-for-sale investments.

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 8)	**122 939**
Cash disposed of	**2 378**
Net cash inflow	**360 959**

7 Operating segments

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

In 2008 the Group had eight reportable segments as Altayenergo and Gorno-Altayiskie Electricheskie Seti were considered as one segment. It is impracticable to present separate financial information of these segments for 2008.

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

Unallocated items comprise corporate balances of the Company's headquarters which do not constitute an operating segment under IFRS 8 requirements.

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

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

(in thousands of Russian Roubles, unless otherwise stated)

Segment items as at and for the year ended 31 December 2009 are presented below:

	Transmission										
	Altayenergo	Buryatenergo	Gorno-Altayskie elektricheskie seti	Kuzbassenergo - RES	Krasnoyarsk-energo	Omskenergo	Khakas-energo	Chitaenergo	Tyvaenergo	Other segments	**Total**
Revenue											
Electricity transmission	4 138 088	2 506 841	213 008	12 098 964	8 277 446	4 195 603	2 356 596	3 427 851	522 169	-	37 736 566
Connection services	9 101	39 393	10 975	324 186	452 585	38 499	89 607	416 191	32 663	-	1 413 200
Other	17 135	14 198	2 211	8 927	307 870	38 785	5 398	18 357	26 059	1 090 666	1 529 606
Total segment revenues	**4 164 324**	**2 560 432**	**226 194**	**12 432 077**	**9 037 901**	**4 272 887**	**2 451 601**	**3 862 399**	**580 891**	**1 090 666**	**40 679 372**
Segment operating (loss)/ profit	**(140 315)**	**6 410**	**(35 734)**	**(157 427)**	**313 314**	**311 790**	**137 863**	**593 467**	**(19 823)**	**39 254**	**1 048 799**
Finance income	-	2	-	-	72	5	3	30	-	415	527
Finance costs	(544 036)	(55 659)	(1 170)	(51 335)	(150 945)	(126 423)	-	(419)	(4 955)	(2 912)	(937 854)
Segment (loss)/ profit before income tax	**(830 431)**	**(41 613)**	**(38 943)**	**(277 197)**	**53 424**	**(170 578)**	**119 647**	**484 588**	**41 223**	**(3 237)**	**(663 117)**
Depreciation and amortization	669 048	235 637	58 152	539 134	573 625	283 954	130 657	435 483	37 539	37 036	3 000 265
Segment assets	**9 575 544**	**3 010 576**	**1 916 335**	**7 605 966**	**9 354 290**	**4 757 154**	**2 084 804**	**5 474 707**	**1 131 974**	**787 519**	**45 698 869**
Including property, plant and equipment	*7 705 234*	*2 286 984*	*1 840 871*	*6 338 756*	*7 360 174*	*3 749 593*	*1 731 737*	*5 041 141*	*312 999*	*257 713*	*36 625 202*
Segment liabilities	**4 267 199**	**578 098**	**168 535**	**1 757 818**	**2 473 240**	**1 731 123**	**256 464**	**474 537**	**899 462**	**932 127**	**13 538 603**
Capital expenditures	**513 278**	**241 599**	**124 237**	**473 659**	**701 777**	**325 566**	**253 320**	**790 707**	**102 026**	**26 860**	**3 553 029**

The inter-segment revenue included in other revenue of “Other segments” was RUR 807 111 thousand.

(in thousands of Russian Roubles, unless otherwise stated)

Segment items as at and for the year ended 31 December 2008 are presented below:

	Transmission									
	Altayenergo	Buryatenergo	Kuzbassenergo - RES	Krasnoyarskenergo	Omskenergo	Khakas-energo	Chitaenergo	Tyvaenergo	Other segments	**Total**
Revenue										
Electricity transmission	3 968 137	2 392 189	11 753 131	6 897 630	3 987 656	2 144 092	2 684 081	437 818	-	34 264 734
Connection services	108 633	55 713	474 114	347 512	536 417	65 286	529 328	-	-	2 117 003
Other	20 664	32 543	31 975	287 427	38 988	8 084	22 565	54 423	1 267 566	1 764 235
Total segment revenues	**4 097 434**	**2 480 445**	**12 259 220**	**7 532 569**	**4 563 061**	**2 217 462**	**3 235 974**	**492 241**	**1 267 566**	**38 145 972**
Segment operating (loss)/ profit	**(157 453)**	**224 718**	**651 312**	**(265 498)**	**688 663**	**172 783**	**494 425**	**41 984**	**(5 301)**	**1 845 633**
Finance income	-	528	419	219	56	866	2 641	-	596	5 325
Finance costs	(392 571)	(20 394)	(27 896)	(69 504)	(48 563)	(237)	(1 047)	(689)	(2 108)	(563 009)
Segment (loss)/ profit before income tax	**(637 378)**	**215 700**	**433 442**	**(673 872)**	**313 329**	**151 503**	**511 592**	**(64 357)**	**(104 941)**	**145 018**
Depreciation and amortization	748 190	206 685	498 300	537 957	251 459	130 040	374 087	7 661	34 691	2 789 070
Segment assets	**12 067 402**	**3 056 628**	**7 426 533**	**8 126 721**	**4 667 904**	**1 969 833**	**5 315 363**	**653 416**	**987 658**	**44 271 458**
Including property, plant and equipment	*9 684 281*	*2 281 947*	*6 422 711*	*7 236 123*	*3 740 666*	*1 633 353*	*4 714 054*	*72 574*	*270 813*	*36 056 522*
Segment liabilities	**4 375 565**	**606 925**	**1 216 448**	**1 534 382**	**1 474 285**	**135 353**	**387 488**	**621 614**	**1 072 381**	**11 424 441**
Capital expenditures	**586 332**	**365 372**	**1 147 815**	**927 144**	**745 597**	**209 396**	**806 700**	**22 908**	**21 477**	**4 832 741**

The inter-segment revenue included in other revenue of “Other segments” was RUR 675 320 thousand.

(in thousands of Russian Roubles, unless otherwise stated)

Reconciliation of key segment items measured as reported to the Management Board with similar items in these Financial Statements is presented in the tables below.

Revenues:

	Year ended 31 December 2009	Year ended 31 December 2008
Segment revenues	**40 679 372**	**38 145 972**
Inter-segment revenue elimination	(807 111)	(675 320)
Other adjustments	(21 809)	107 720
Unallocated	98 782	139 466
Revenues per consolidated statement of comprehensive income	**39 949 234**	**37 717 838**

(Loss)/ profit before income tax:

	Year ended 31 December 2009	Year ended 31 December 2008
Segment (loss)/ profit before income tax	**(663 117)**	**145 018**
Adjustment for depreciation of property, plant and equipment	(177 275)	(140 365)
Adjustments for financial lease	(46 244)	62 233
Discounting of accounts receivable	9 248	255 563
Adjustment for allowance for impairment of accounts receivable	101 125	639 762
Adjustment for change in fair value of available-for-sale investments	(140 619)	(377 510)
Recognition of employee benefits obligations	(62 697)	121 193
Capitalized interest	72 571	56 707
Discounting of accounts payable	(38 232)	44 555
Other adjustments	60 224	38 596
Unallocated	(13 321)	34 866
(Loss)/ profit before income tax per consolidated statement of comprehensive income	**(898 337)**	**880 618**

(in thousands of Russian Roubles, unless otherwise stated)

Total assets:

	31 December 2009	31 December 2008
Total segment assets	**45 698 869**	**44 271 508**
Inter-segment balances	(968 305)	(822 122)
Elimination of investments in subsidiaries	(502 266)	(506 701)
Adjustment for net book value of property, plant and equipment	(2 115 629)	(1 868 856)
Recognition of financial assets related to employee benefit fund	451 619	446 188
Adjustment for prepaid expenses write-off	(340 183)	(245 845)
Provision for inventory obsolescence	(31 210)	(35 802)
Adjustment for deferred tax	(418 109)	(496 771)
Adjustments for finance lease	388 670	524 111
Capitalized interest	149 382	81 624
Other adjustments	60 893	6 676
Unallocated	1 458 122	1 402 597
Total assets per consolidated statement of financial position	**43 831 853**	**42 756 607**

Total liabilities:

	31 December 2009	31 December 2008
Total segment liabilities	**13 538 603**	**11 424 441**
Intersegment balances	(968 305)	(822 122)
Adjustment for deferred tax	1 970 390	2 022 270
Unused vacation and annual bonus provision	185 038	286 640
Finance lease liabilities	226 841	346 351
Employee benefit obligations	209 076	140 947
Discounting of accounts payable	(84 581)	(177 111)
Adjustment for other provisions	150 074	63 961
Other adjustments	(76 773)	61 734
Unallocated	2 558 595	2 510 883
Total liabilities per consolidated statement of financial position	**17 708 958**	**15 857 994**

Significant customers of the Group are state controlled entities. The amounts of revenues from such entities are disclosed in Note 34. Revenues from state controlled entities are reported by all segments of the Group.

For the year ended 31 December 2009 the Group had two major customers - companies in two regions of the Russian Federation with individual turnover over 10% of total Group revenues (in Kuzbassenergo-RES segment - RUR 4 916 431 thousand, in Krasnoyarskenergo segment - RUR 4 168 510 thousand). In 2008 - two major customers (in Kuzbassenergo-RES segment – RUR 5 549 308 thousand, in Krasnoyarskenergo segment – RUR 5 172 536 thousand).

8 Revenue and other operating income

Revenue	**Year ended 31 December 2009**	**Year ended 31 December 2008**
Electricity transmission	37 532 516	34 251 227
Connection services	1 413 200	2 117 313
Heat	281 268	206 119
Rent	165 295	126 336
Repairs and maintenance	320 810	525 510
Other	236 145	491 333
	39 949 234	**37 717 838**

(in thousands of Russian Roubles, unless otherwise stated)

Other operating income	**Year ended 31 December 2009**	**Year ended 31 December 2008**
Fines and penalties	118 604	72 495
Gain on disposal of property, plant and equipment	19 344	-
Gain due to repayment of accounts receivable written off in prior periods	-	66 782
Gain on disposal of OJSC Tyvinskaya MSK	-	122 939
Other income	444 426	256 161
	582 374	**518 377**

9 Operating expenses

	Year ended 31 December 2009	**Year ended 31 December 2008**
Transmission fee to FGC UES	9 928 526	8 567 816
Personnel costs (Note 10)	6 979 858	7 109 989
Electricity transmission	6 486 916	6 155 432
Purchased electricity for compensation of technological losses	6 482 949	4 796 940
Depreciation and amortization	3 555 198	3 244 170
Repairs and maintenance	1 638 853	1 515 787
Raw materials and supplies	1 074 583	1 503 681
Consulting, legal and audit services	619 027	387 746
Electricity metering services	587 132	750 900
Transportation	450 899	147 264
Allowance for impairment of accounts receivable	329 196	226 300
Security	221 216	240 406
Taxes other than income tax	164 454	257 389
Rent	194 185	117 176
Telecommunication services	180 851	302 063
Insurance	156 600	129 041
Heat for own needs	37 845	39 759
Losses on disposal of property, plant and equipment	-	14 263
Provision for inventory obsolescence	-	7 065
Other	1 414 702	1 268 439
	40 502 990	**36 781 626**

10 Personnel costs

	Year ended 31 December 2009	**Year ended 31 December 2008**
Wages and salaries	5 427 146	5 412 478
Payroll taxes	1 270 239	1 319 368
Expense in respect of post-employment defined benefit plan	142 737	32 523
(Income)/expense in respect of long-term service benefits	(21 618)	1 729
Other	161 354	343 891
	6 979 858	**7 109 989**

In 2009 the average number of employees (including production and non production employees) was 20 054 in 2009 (2008: 20 335 employees).

(in thousands of Russian Roubles, unless otherwise stated)

11 Finance income and costs

Finance income	Year ended 31 December 2009	Year ended 31 December 2008
Effect of discounting of financial instruments	28 813	334 397
Interest income	5 732	6 879
Other	288	348
	34 833	**341 624**
Finance costs		
Interest expense	861 019	507 765
Effect of discounting of financial instruments	57 798	34 280
Interest on finance lease liabilities	42 971	44 535
Impairment of available-for-sale financial assets	-	329 015
	961 788	**915 595**

12 Income tax benefit

	Year ended 31 December 2009	Year ended 31 December 2008
Current tax (expense)/ benefit		
Current year	(136 859)	(357 807)
Over provided in prior years	44 440	525 992
	(92 419)	**168 185**
Deferred tax benefit		
Origination and reversal of temporary differences	216 692	(113 382)
Change in tax rate	-	661 345
	124 273	**716 148**

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

Reconciliation of effective tax rate:

	Year ended 31 December 2009	%	Year ended 31 December 2008	%
(Loss)/profit before income tax	**(898 337)**	**100**	**880 618**	**100**
Income tax benefit/ (expense) at applicable tax rate	179 667	20	(211 348)	(24)
Change in tax rate	-	-	661 345	75
Non-deductible items	(99 834)	(11)	(259 841)	(30)
Over provided in prior years	44 440	5	525 992	60
	124 273	**14**	**716 148**	**81**

(in thousands of Russian Roubles, unless otherwise stated)

13 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 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**
Balance at 1 January 2009	6 716 435	23 292 204	5 997 852	2 985 278	1 976 966	40 968 735
Additions	62 582	43 704	153 864	208 860	3 046 037	3 515 047
Transfers	763 326	1 280 936	1 073 739	517 128	(3 635 129)	-
Disposals	(14 489)	(27 793)	(13 264)	(66 505)	(77 967)	(200 018)
Balance at 31 December 2009	**7 527 854**	**24 589 051**	**7 212 191**	**3 644 761**	**1 309 907**	**44 283 764**
Depreciation						
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)**
Balance at 1 January 2009	(600 342)	(3 292 589)	(954 564)	(849 438)	-	(5 696 933)
Depreciation charge	(415 169)	(1 821 497)	(637 048)	(482 433)	-	(3 356 147)
Disposals	2 691	9 401	4 787	51 046	-	67 925
Balance at 31 December 2009	**(1 012 820)**	**(5 104 685)**	**(1 586 825)**	**(1 280 825)**	**-**	**(8 985 155)**
Net book value						
At 1 January 2008	**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**
At 31 December 2009	**6 515 034**	**19 484 366**	**5 625 366**	**2 363 936**	**1 309 907**	**35 298 609**

(in thousands of Russian Roubles, unless otherwise stated)

As at 31 December 2009 construction in progress includes prepayments for property, plant and equipment of RUR 92 385 thousand (as at 31 December 2008: RUR 215 576 thousand).

The amount of capitalized interest in 2009 was RUR 72 571 thousand (in 2008: RUR 56 707 thousand). Capitalisation rate to determine the amount of borrowing cost eligible for capitalisation in the year ended 31 December 2009 was: 15.6 % (31 December 2008: 11.1 %).

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 2009 the net book value of leased property, plant and equipment was RUR 447 332 thousand (31 December 2008: RUR 561 225 thousand). The leased equipment secures lease obligations.

14 Intangible assets

	Software	Licenses	Certificates	Other intangible assets	Total
Cost					
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**
Balance at 1 January 2009	82 680	12 513	614 636	4 765	714 594
Additions	182 133	-	7 544	213	189 890
Balance at 31 December 2009	**264 813**	**12 513**	**622 180**	**4 978**	**904 484**
Amortisation					
Balance at 1 January 2008	(321)	(5 160)	(99 089)	(2 263)	(106 833)
Amortisation charge	(865)	(2 560)	(204 035)	(1 385)	(208 845)
Balance at 31 December 2008	**(1 186)**	**(7 720)**	**(303 124)**	**(3 648)**	**(315 678)**
Balance at 1 January 2009	(1 186)	(7 720)	(303 124)	(3 648)	(315 678)
Amortisation change	(5 613)	-	(192 830)	(608)	(199 051)
Balance at 31 December 2009	**(6 799)**	**(7 720)**	**(495 954)**	**(4 256)**	**(514 729)**
Net book value					
At 1 January 2008	**14 181**	**7 346**	**513 654**	**2 502**	**537 683**
At 31 December 2008	**81 494**	**4 793**	**311 512**	**1 117**	**398 916**
At 31 December 2009	**258 014**	**4 793**	**126 226**	**722**	**389 755**

(in thousands of Russian Roubles, unless otherwise stated)

15 Deferred tax liabilities

Recognized deferred tax assets and liabilities

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

	Assets		Liabilities		Net	
	2009	**2008**	**2009**	**2008**	**2009**	**2008**
Property, plant and equipment	981	608	(3 548 897)	(3 621 732)	(3 547 916)	(3 621 124)
Inventories	6 242	7 160	-	-	6 242	7 160
Trade and other receivables	143 361	66 722	-	-	143 361	66 722
Other current assets	2 570	3 010	-	-	2 570	3 010
Trade and other payables	183 906	90 837	-	(952)	183 906	89 885
Tax loss carry-forwards	164 732	166 343	-	-	164 732	166 343
Other	63 709	92 654	(119 125)	(111 373)	(55 416)	(18 719)
Deferred tax assets/(liabilities)	**565 501**	**427 334**	**(3 668 022)**	**(3 734 057)**	**(3 102 521)**	**(3 306 723)**

Movements in temporary differences during the year

	1 January 2008	Recognized in profit or loss	31 December 2008	Recognized in other comprehensive income	Recognized in profit or loss	31 December 2009
Property, plant and equipment	(4 510 073)	888 949	(3 621 124)	-	73 208	(3 547 916)
Inventories	7 179	(19)	7 160	-	(918)	6 242
Trade and other receivables	112 355	(45 633)	66 722	-	76 639	143 361
Other current assets	388	2 622	3 010	-	(440)	2 570
Trade and other payables	171 496	(81 611)	89 885	-	94 021	183 906
Tax loss carry-forwards	312 666	(146 323)	166 343	-	(1 611)	164 732
Other	51 303	(70 022)	(18 719)	(12 490)	(24 207)	(55 416)
Deferred tax assets/(liabilities)	**(3 854 686)**	**547 963**	**(3 306 723)**	**(12 490)**	**216 692**	**(3 102 521)**

16 Investments and financial assets

	31 December 2009	31 December 2008
Non-current		
Available-for-sale investments	242 839	90 180
Financial assets related to employee benefit fund	451 619	446 188
	694 458	**536 368**

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

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

For more detailed information concerning the Group's exposure to credit risks related to investments and financial assets refer to Note 30.

(in thousands of Russian Roubles, unless otherwise stated)

17 Other non-current assets

	31 December 2009	31 December 2008
Trade accounts receivable	4 449	-
Other accounts receivable	54 337	123 388
VAT recoverable	16 629	41 117
Other non-current assets	27 777	27 826
	103 192	**192 331**

For more detailed information concerning the Group's exposure to credit risks and impairment losses related to trade and other receivables refer to Note 30.

18 Cash and cash equivalents

Cash and cash equivalents mainly represent cash in bank accounts amounted to RUR 140 242 thousand denominated in roubles (31 December 2008: RUR 38 764 thousand).

19 Trade and other receivables

	31 December 2009	31 December 2008
Trade receivables from electricity transmission and technological connection	4 686 596	3 136 944
Trade receivables from electricity transmission and technological connection impairment allowance	(427 361)	(162 026)
Other trade receivables	504 768	1 338 742
Other trade receivables impairment allowance	(214 206)	(893 495)
Other receivables	2 204 623	2 251 959
Other receivables impairment allowance	(904 146)	(785 432)
Total trade and other receivables	**5 850 274**	**4 886 692**

Prepayments	**31 December 2009**	**31 December 2008**
Prepayments	290 511	228 110
Prepayments impairment allowance	(9 007)	(14 257)
VAT prepaid	42 532	67 804
Other taxes prepaid	9 542	135 010
	333 578	**416 667**

As at 31 December 2009 other receivables include accounts receivable from the Committee of Tax, Finance and Credit Policy of the Administration of Altay Region in the amount of RUR 1 001 277 thousand. These receivables were recorded as a result of the Altay Region Arbitrage Court decision as at 6 August 2004. The Committee of Tax, Finance and Credit Policy of the Administration of Altay Region was obliged to pay RUR 1 001 277 thousand to the Company in order to compensate losses incurred by Altayenergo due to incorrect setting of energy tariffs for 2002. Management of the Group determines the collectability of these accounts receivable as highly probable, although the maturity date is uncertain. As at 31 December 2009 the accounts receivables mentioned above were stated at nominal value and were not discounted.

For more detailed information concerning the Group's exposure to credit risks and impairment losses related to trade and other receivables refer to Note 30.

(in thousands of Russian Roubles, unless otherwise stated)

20 Inventories

	31 December 2009	31 December 2008
Materials and supplies	466 813	484 373
Spare parts	119 195	128 634
Other inventories	73 675	32 205
Total inventories	**659 683**	**645 212**
Less: provision for inventory obsolescence	(31 210)	(35 802)
Net book value	**628 473**	**609 410**

As at 31 December 2009 and 2008 no inventories were pledged under the bank loan agreements.

21 Equity

(a) Share capital

	31 December 2009	31 December 2008
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 was formed through the issuance of shares of the Company and conversion of these newly issued shares into 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 2009 the Company had retained earnings, including loss for the current year, of RUR 8 759 thousand (as at 31 December 2008 - RUR 873 506 thousand).

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 142 273 thousand. In 2009, and up to the date of approval of the Financial Statements the Group declared no dividends for 2009.

22 Earnings per share

	Year ended 31 December 2009	Year ended 31 December 2008
Weighted average number of ordinary shares for the year ended 31 December (thousands of shares)	89 367 655	89 367 655
Total (loss)/profit attributable to shareholders of the Company	**(773 248)**	**1 598 728**
(Loss)/earnings per share (in Russian Roubles) – basic and diluted	**(0.0087)**	**0.0179**

In accordance with the Group's accounting policy for business combinations under common control the weighted average number of shares used for the purpose of calculating 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)

23 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 30.

Non-current liabilities

Name of lender		Effective interest rate, %	Maturity	31 December 2009	31 December 2008
OJSC Alfa-Bank	Unsecured	11.4-11.7	2011	1 765 000	-
OJSC Svyaz-Bank	Unsecured	12.5	2011	1 660 000	-
OJSC JSCB ROSBANK	Unsecured	15.7	2010	1 550 000	1 450 000
OJSC Gazprombank	Unsecured	12.5-13.0	2010	814 000	1 439 000
OJSC JSCB ROSBANK	Unsecured	15.7	2011	447 507	1 337 507
OJSC JSCB MFK	Unsecured	13.0	2010	200 000	-
OJSC Eniseiskaya TGC-13	Unsecured	refinancing rate	2010	886	3 553
OJSC TransCreditBank	Unsecured	11.45 – 12.0	2009	-	560 000
				6 437 393	**4 790 060**
Less: current portion of long-term loans					
OJSC JSCB ROSBANK	Unsecured	15.7	2010	(1 550 000)	(1 337 507)
OJSC Gazprombank	Unsecured	12.5 – 13.0	2010	(814 000)	(1 239 000)
OJSC JSCB MFK	Unsecured	13.0	2010	(200 000)	-
OJSC Eniseiskaya TGC-13	Unsecured	refinancing rate	2010	(886)	-
OJSC TransCreditBank	Unsecured	11.45 – 12.0	2010	-	(560 000)
				3 872 507	**1 653 553**

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 liabilities

Name of lender		Effective interest rate, %	31 December 2009	31 December 2008
OJSC Gazprombank	Unsecured	9.5-17.0	-	376 690
OJSC JSCB ROSBANK	Unsecured	9.0 - 11.8	-	343 635
OJSC TransCreditBank	Unsecured	13.5-17.0	-	20 000
Other loans and borrowings			9 846	9 727
			9 846	**750 052**
Current portion of long-term loans				
OJSC JSCB ROSBANK	Unsecured	15.7	1 550 000	1 337 507
OJSC Gazprombank	Unsecured	12.5 – 13.0	814 000	1 239 000
OJSC JSCB MFK	Unsecured	13.0	200 000	-
OJSC Eniseiskaya TGC-13	Unsecured	refinancing rate	886	-
OJSC TransCreditBank	Unsecured	11.45 – 12.0	-	560 000
			2 574 732	**3 886 559**

There are no secured loans as at 31 December 2009 and 2008 (refer to Note 20).

(in thousands of Russian Roubles, unless otherwise stated)

24 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:

	Year ended 31 December 2009			Year ended 31 December 2008		
	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	121 676	(22 020)	99 656	172 980	(40 114)	132 866
Between one and five years	152 555	(16 464)	136 091	270 624	(40 322)	230 302
	274 231	**(38 484)**	**235 747**	**443 604**	**(80 436)**	**363 168**

The finance lease liabilities are secured by the leased assets.

25 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.

Movements in the net liability of the defined benefit obligations are as follows:

	31 December 2009	31 December 2009	31 December 2008	31 December 2008
	Post employment benefits	Other long-term benefits	Post employment benefits	Other long-term benefits
Total present value of obligations	521 800	-	310 980	21 618
Unrecognised net actuarial (loss)/gain	(70 872)	-	12 308	-
Unrecognised past service cost	(241 852)	-	(203 959)	-
Recognized liability for defined benefit obligations	**209 076**	**-**	**119 329**	**21 618**

The amounts recognized in profit or loss are as follows:

	Year ended 31 December 2009	Year ended 31 December 2009	Year ended 31 December 2008	Year ended 31 December 2008
	Post employment benefits	Other long-term benefits	Post employment benefits	Other long-term benefits
Current service cost	28 090	-	14 261	1 257
Interest expense	26 868	-	7 575	1 570
Recognized past service costs	87 779	-	12 478	3 875
Recognized actuarial gain	-	(10 609)	-	(4 325)
Curtailment / settlement gain	-	(11 009)	(1 791)	(648)
Total periodical pension cost	**142 737**	**(21 618)**	**32 523**	**1 729**

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

(in thousands of Russian Roubles, unless otherwise stated)

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

	31 December 2009 Post employment benefits	31 December 2009 Other long-term benefits	31 December 2008 Post employment benefits	31 December 2008 Other long-term benefits
Defined benefit obligations at 1 January	310 980	21 618	111 228	23 061
Current service cost	28 090	-	14 261	1 257
Interest expense	26 868	-	7 575	1 570
Actuarial (gains)/losses	83 180	(10 609)	(21 775)	(4 325)
Benefits paid	(52 990)	-	(13 052)	(3 172)
Past service costs	125 672	-	214 534	3 875
Curtailment / settlement gain	-	(11 009)	(1 791)	(648)
Defined benefit obligations at 31 December	**521 800**	**-**	**310 980**	**21 618**

Principal actuarial assumptions are as follows:

	2009	2008
Discount rate	8.70%	9.00%
Salary increase	5.50%	8.0%
Inflation rate	5.50%	6.5%

26 Other non-current liabilities

	31 December 2009	31 December 2008
Trade payables	163 456	239 218
Other payables and accrued expenses	247 045	68 912
Prepayments from customers for technological connection	104 106	93 439
	514 607	**401 569**

27 Employee payables

	31 December 2009	31 December 2008
Salaries and wages payable	343 794	359 557
Unused vacation provision	176 740	181 040
Annual bonus provision	8 298	105 600
	528 832	**646 197**

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

(in thousands of Russian Roubles, unless otherwise stated)

28 Trade and other payables

	31 December 2009	31 December 2008
Trade payables for repairs and constructions	717 111	872 655
Other trade payables	2 873 186	1 933 226
Other payables and accrued expenses	1 114 778	705 365
Prepayments from customers for electricity transmission and technological connection	695 738	909 219
Other prepayments received	119 583	73 498
	5 520 396	**4 493 963**

29 Other taxes payables

	31 December 2009	31 December 2008
Tax fines and penalties	470 807	465 569
Value added tax	326 286	242 470
Unified social tax	95 633	91 828
Personal income tax	69 900	78 005
Other taxes	80 444	46 437
	1 043 070	**924 309**

30 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 operations are denominated in a currency other than the functional currency of the Company and its subsidiaries, 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. 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.

(in thousands of Russian Roubles, unless otherwise stated)

(i) Trade and other receivables

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

To manage the credit risk, the Group attempts, to the extent possible, to demand prepayments from customers. As a rule, prepayment for connection services is set in 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 2009	**31 December 2008**
Trade and other receivables	5 909 060	5 010 080
Cash and cash equivalents	140 242	38 764
Investments and financial assets	694 458	536 368
	6 743 760	**5 585 212**

Financial guarantees are disclosed in the Note 33.

The Group's four most significant customers, regional distribution entities, account for RUR 1 521 041 thousand of the trade receivables carrying amount at 31 December 2009 (31 December 2008: 1 482 404 RUR 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 2009	**31 December 2008**
Electricity transmission customers (regional distribution entities)	2 408 079	1 783 300
Electricity transmission customers (others)	1 473 458	783 958
Connection services customers	377 698	407 660
Other trade customers	295 011	445 247
	4 554 246	**3 420 165**

Impairment losses

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

	At 31 December 2009		At 31 December 2008	
	Gross	**Allowance**	**Gross**	**Allowance**
Not past due	2 661 534	-	4 339 092	-
Past due 0-3 months	1 485 199	(142 509)	15 993	-
Past due 3-12 months	2 052 578	(258 155)	489 866	(232 068)
Past due more than 12 months	1 255 462	(1 145 049)	2 006 082	(1 608 885)
	7 454 773	**(1 545 713)**	**6 851 033**	**(1 840 953)**

(in thousands of Russian Roubles, unless otherwise stated)

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

	Year ended 31 December 2009	Year ended 31 December 2008
Balance at 1 January	1 840 953	2 437 573
Net increase during the period	329 196	226 300
Provision used	(624 436)	(822 920)
Balance at 31 December	**1 545 713**	**1 840 953**

(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 including estimated interest payments:

	Carrying amount	Contractual cash flows	12 months or less	Between 1 and 5 years	Over 5 years
Non-derivative financial liabilities as at 31 December 2009					
Loans	6 447 239	10 003 834	3 810 398	6 193 436	-
Finance lease liabilities	235 747	274 231	121 677	152 554	-
Trade and other payables	5 644 408	5 644 408	5 233 907	387 004	23 497
	12 327 394	**15 922 473**	**9 165 982**	**6 732 994**	**23 497**

	Carrying amount	Contractual cash flows	12 months or less	Between 1 and 5 years	Over 5 years
Non-derivative financial liabilities as at 31 December 2008					
Loans	5 540 112	9 493 942	4 831 484	4 662 458	-
Finance lease liabilities	363 168	443 604	172 980	270 624	-
Trade and other payables	4 465 573	4 465 573	4 157 443	307 173	957
	10 368 853	**14 403 119**	**9 161 907**	**5 240 255**	**957**

Financial guarantees are disclosed in the Note 33.

(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.

(in thousands of Russian Roubles, unless otherwise stated)

(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.

Profile

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

Fixed rate instruments	**Carrying amount 31 December 2009**	**Carrying amount 31 December 2008**
Loans and borrowings	6 447 239	5 540 112
Finance lease liabilities	235 747	363 168
	6 682 986	**5 903 280**

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 2009	**31 December 2008**
Trade and other receivables	13.80%	17.00%
Trade and other payables	12.00%	17.00%
Loans and borrowings	11.4-15.7%	11.00-17.00%

Fair value of available-for-sale investments (refer to Note 16) was determined in accordance with quoted prices at MICEX.

(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)

31 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 2009	31 December 2008
Less than one year	162 190	27 382
Between one year and five years	141 392	108 606
More than five years	615 163	241 911
	918 745	**377 899**

In 2009 the amount of rent expense under operating leases recognized in profit or loss was RUR 194 185 thousand (in 2008: RUR 117 176 thousand).

32 Commitments

(a) Capital commitments

The Group has outstanding commitments under the contracts for the purchase and construction of property, plant and equipment for RUR 3 367 053 thousand as at 31 December 2009, net of VAT (as at 31 December 2008: RUR 1 924 698 thousand).

33 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. Management does not believe than these matters will not 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 Financial Statements, if the authorities were successful in enforcing their interpretations, could be significant.

(in thousands of Russian Roubles, unless otherwise stated)

(d) Environmental matters

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

Potential liabilities might arise as a result of changes in legislation and regulation or civil litigation. The impact of these potential changes cannot be estimated, but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

(e) Guarantees

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

	Amount per agreement 31 December 2009	Amount per agreement 31 December 2008
OJSC Promsvyazbank	103 078	156 176
OJSC Sberbank	21 866	75 400
OJSC TransCreditBank	-	44 662
	124 944	**276 238**

34 Related parties

(a) Control relationships

The Company's parent as at 31 December 2009 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) 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 2009 was RUR 109 181 thousand (2008: RUR 105 380 thousand).

Total remuneration paid to the members of the Board of Directors and the Management Board for the year ended 31 December 2009 was RUR 8 698 thousand (2008: RUR 83 390 thousand).

(c) Transactions with other related parties

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

Revenue

	Transaction value 31 December 2009	Outstanding balance 31 December 2009	Transaction value 31 December 2008	Outstanding balance 31 December 2008
Electricity transmission:				
Entities under common control of the parent	522 169	317 009	7 802 120	170 221
Other state controlled entities	8 491 437	1 533 686	6 148 932	710 874
Other revenue:				
Entities under common control of the parent	43 391	152 563	383 258	16 070
Other state controlled entities	1 144 127	1 253 746	572 008	1 586 426
	10 201 124	**3 257 004**	**14 906 318**	**2 483 591**

(in thousands of Russian Roubles, unless otherwise stated)

Expenses

	Transaction value 2009	Outstanding balance 31 December 2009	Transaction value 2008	Outstanding balance 31 December 2008
Electricity transmission:				
Entities under common control of the parent	146 582	-	5 927 229	23 282
Other state controlled entities	13 125 406	1 410 688	5 291 895	449 970
Other expenses:				
Entities under common control of the parent	317 040	201 441	658 580	193 545
Other state controlled entities	146 644	280 772	79 931	317 572
	13 735 672	**1 892 901**	**11 957 635**	**984 369**

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 2009	Outstanding balance 31 December 2008
Other state controlled entities	358 154	86 046
Other related parties	89 940	89 940
	448 094	**175 986**

(e) Prepayments issued

	Outstanding balance 31 December 2009	Outstanding balance 31 December 2008
Entities under common control of the parent	-	728
Other state controlled entities	20 052	76 592
	20 052	**77 320**

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.

(f) Loans and borrowings

	Amount obtained 2009	Outstanding balance 31 December 2009	Amount obtained 2008	Outstanding balance 31 December 2008
State controlled entities	4 937 000	1 660 000	2 795 000	580 000
Other related parties	-	886	4 735	3 553
	4 937 000	**1 660 886**	**2 799 735**	**583 553**

Loans are received at market interest rates (refer to Note 23).