RAO ENERGY SYSTEM OF EAST GROUP

CONSOLIDATED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2009

PRICEWATERHOUSECOOPERS

ZAO PricewaterhouseCoopers Audit
White Square Office Center
10 Butyrsky Val
Moscow, Russia, 125047
Telephone +7 (495) 967 6000
Fax +7 (495) 967 6001
www.pwc.ru

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Board of Directors of Joint Stock Company "RAO Energy system of East"

We have audited the accompanying consolidated financial statements of JSC "RAO Energy system of East" and its subsidiaries (the "Group") which comprise the consolidated statement of financial position as of 31 December 2009 and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

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

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Except as discussed below, we conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

Basis for Qualified Opinion
We did not observe the counting of the physical inventory stated at RR 10,540,376 thousand as of 1 January 2008, since that date was prior to our appointment as auditors, and we were unable to satisfy ourselves as to the carrying value of those inventory quantities by other audit procedures. The balance of inventory as of 1 January 2008 forms part of the opening position for the determination of the results of operations for 2008. As a result, we are unable to determine whether adjustments to the results of operations for 2008 and the balance of inventory as of 1 January 2008 might be necessary.

No statement of financial position and related notes as of 1 January 2008 ("date of transition to IFRSs") are presented in the consolidated financial statements as required by IFRS 1 "First-time Adoption of International Financial Reporting Standards". In our opinion, inclusion of the statement

AUDITOR'S REPORT

of financial position and related notes as at the date of transition to IFRSs are necessary for a proper understanding of the Group's first IFRS financial statements.

Qualified Opinion
In our opinion, except for the effects, and possible effects of the matters described in the Basis for Qualified Opinion section, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation

26 July 2010

(In thousands of Russian Rubles unless noted otherwise)

	Note	31 December 2009	31 December 2008
ASSETS			
Non-current assets			
Property, plant and equipment	7	59,509,344	59,574,425
Goodwill	4	1,019,788	-
Other intangible assets	8	206,116	93,576
Investments in associates	9	38,442	55,899
Available-for-sale investments	10	4,833,231	1,991,071
Deferred income tax assets	27	554,794	396,810
Trade and other receivables	13	418,102	281,544
Other non-current assets	11	147,041	314,399
Total non-current assets		**66,726,858**	**62,707,724**
Current assets			
Inventories	12	12,733,369	12,150,413
Trade and other receivables	13	27,450,097	21,980,382
Current income tax prepayments		658,268	1,042,954
Other current assets	11	2,922,260	465,043
Cash and cash equivalents	14	9,317,204	11,053,971
Total current assets		**53,081,198**	**46,692,763**
Total assets		**119,808,056**	**109,400,487**
EQUITY			
Share capital	15	21,558,452	21,558,452
Accumulated deficit and other reserves		(8,025,054)	(5,092,875)
Equity attributable to the Company's owners		**13,533,398**	**16,465,577**
Non-controlling interest		**11,609,279**	**10,649,527**
Total equity		**25,142,677**	**27,115,104**
LIABILITIES			
Non-current liabilities			
Borrowings	16	10,129,587	11,682,081
Trade and other payables	21	96,448	172,545
Pension benefit obligations	17	8,332,600	7,640,945
Deferred income tax liability	27	3,758,218	3,574,059
Total non-current liabilities		**22,316,853**	**23,069,630**
Current liabilities			
Borrowings	16	36,233,988	29,032,206
Trade and other payables	21	31,705,083	26,265,710
Provisions for liabilities and charges	20	529,360	727,519
Current income tax payable		312,006	424,083
Other taxes payable	19	3,568,089	2,766,235
Total current liabilities		**72,348,526**	**59,215,753**
Total liabilities		**94,665,379**	**82,285,383**
Total liabilities and equity		**119,808,056**	**109,400,487**

Chairman of Management Board — I.V. Blagodyr

Chief Accountant — I.V. Davydova

23 July 2010

(In thousands of Russian Rubles unless noted otherwise)

	Note	2009	2008
Revenue	22	327,907,981	272,345,069
Government grants	18	10,029,765	9,541,778
Operating expenses	23	(334,195,719)	(282,307,545)
Impairment charge related to property, plant and equipment, net	7	(4,282,144)	(13,044,094)
Gross loss		**(540,117)**	**(13,464,792)**
Other operating income	24	2,741,917	2,294,573
Operating profit/(loss)		**2,201,800**	**(11,170,219)**
Finance income	25	1,148,115	656,475
Finance costs	26	(6,106,189)	(4,379,987)
Losses on available-for-sale investments	10	(20,957)	(4,131,426)
Share of result of associates	9	14,791	(15,007)
Loss before income tax		**(2,762,440)**	**(19,040,164)**
Income tax (expense)/benefit	27	(464,348)	996,665
LOSS FOR THE YEAR		**(3,226,788)**	**(18,043,499)**
Other comprehensive income:			
Available-for-sale investments:			
- Gains less losses arising during the year	10	2,560,852	-
- Income tax recorded directly in other comprehensive income	27	(512,170)	-
Other comprehensive income for the year		**2,048,682**	**-**
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(1,178,106)**	**(18,043,499)**
Loss is attributable to:			
- Owners of the Company		(3,692,542)	(12,223,627)
- Non-controlling interest		465,754	(5,819,872)
Loss for the year		**(3,226,788)**	**(18,043,499)**
Total comprehensive income/(loss) is attributable to:			
- Owners of the Company		(2,636,932)	(12,223,627)
- Non-controlling interest		1,458,826	(5,819,872)
Total comprehensive loss for the year		**(1,178,106)**	**(18,043,499)**
Loss per ordinary and preference shares from operations attributable to the owners of the Company, basic and diluted (in RR per share)	28	(0.0856)	(0.3479)

Chairman of Management Board I.V. Blagodyr

Chief Accountant I.V. Davydova

23 July 2010

RAO Energy System of East Group
Consolidated Statements of Changes in Equity for the year ended 31 December 2009
(In thousands of Russian Rubles unless noted otherwise)

	Note	Share capital	Retained earnings/ (Accumulated deficit)	Revaluation reserve	Equity Attributable to owners of the Company	Non-controlling interest	Total equity
As at 1 January 2008		**13,572,452**	**7,130,752**	-	**20,703,204**	**16,564,899**	**37,268,103**
Total loss for the year		-	(12,223,627)	-	(12,223,627)	(5,819,872)	(18,043,499)
Contribution to share capital	15b	7,986,000	-	-	7,986,000	-	7,986,000
Dividends declared	15c	-	-	-	-	(95,500)	(95,500)
As at 31 December 2008		**21,558,452**	**(5,092,875)**	-	**16,465,577**	**10,649,527**	**27,115,104**
Loss for the year		-	(3,692,542)	-	(3,692,542)	465,754	(3,226,788)
Other comprehensive income							
Fair value gains on available-for-sale investments	10	-	-	1,319,513	1,319,513	1,241,339	2,560,852
Income tax recorded in other comprehensive income	27	-	-	(263,903)	(263,903)	(248,267)	(512,170)
Total other comprehensive income		-	-	1,055,610	1,055,610	993,072	2,048,682
Total comprehensive income		-	(3,692,542)	1,055,610	(2,636,932)	1,458,826	(1,178,106)
Effect of changes in non-controlling interest		-	(295,247)	-	(295,247)	4,049	(291,198)
Dividends declared	15	-	-	-	-	(503,123)	(503,123)
As at 31 December 2009		**21,558,452**	**(9,080,664)**	**1,055,610**	**13,533,398**	**11,609,279**	**25,142,677**

Chairman of Management Board I.V. Blagodyr

Chief Accountant I.V. Davydova

23 July 2010

The accompanying notes are an integral part of these consolidated financial statements.

(In thousands of Russian Rubles unless noted otherwise)

	Note	2009	2008
Cash flows from operating activities			
Loss before income tax		(2,762,440)	(19,040,164)
Adjustments for:			
Depreciation and amortisation	23	4,310,760	4,133,711
Impairment losses on property, plant and equipment, net	7	4,282,144	13,044,094
Allowance for impairment of trade and other receivables	23	3,996,009	3,430,622
(Reversal) / provision for inventory obsolescence		(108,181)	218,672
Gains less losses on disposal of property, plant and equipment	24	(323,033)	(431,651)
Gains less losses on sale of subsidiaries	4	(194,819)	-
Finance income	25	(1,148,115)	(656,475)
Losses on available-for-sale investments	10	20,957	4,131,426
Finance costs	26	6,106,189	4,379,987
Share of (profit) / losses of equity accounted investees	9	(14,791)	15,007
Other (profit) / loss, net		(263,059)	169,746
Operating cash flows before working capital changes		**13,901,621**	**9,394,975**
Increase in inventories		(366,674)	(1,790,758)
Increase in trade and other receivables		(11,234,307)	(3,475,939)
Increase in trade and other payables		10,827,837	1,495,004
Increase in other taxes payable		710,804	859,204
Increase in pension benefit obligations	17	691,655	581,744
Changes in working capital		**14,530,936**	**7,064,230**
Income taxes paid		(696,702)	(3,060,104)
Interest paid		(6,256,288)	(3,802,383)
Net cash from operating activities		**7,577,946**	**201,743**
Cash flows from investing activities			
Acquisition of property, plant and equipment		(9,109,679)	(13,196,945)
Proceeds from disposal of investments		71,972	800,603
Interest received		903,501	592,867
Dividends received		99	10,304
Proceeds from sale of property, plant and equipment		191,545	143,743
Acquisition of intangible assets		(133,671)	(4,537)
Acquisition of available-for-sale investments	10	(336,609)	(55,270)
Acquisition of subsidiaries, net of cash acquired	4	(907,922)	(8,394)
Disposal of subsidiaries and associates	4, 9	(3,020,028)	-
Issue of loans and deposits placed	11	(2,602,281)	(187,184)
Proceeds from issued loans and deposits	11	310,109	136,936
Net cash used in investing activities		**(14,632,964)**	**(11,767,877)**

(In thousands of Russian Rubles unless noted otherwise)

	Note	2009	2008
Cash flows from financing activities			
Proceeds from borrowings		86,748,003	61,961,358
Repayment of borrowings		(80,247,137)	(55,574,386)
Contribution to share capital	15b	-	7,986,000
Payment of finance lease liabilities		(617,127)	(919,624)
Dividends paid to non-controlling interest holders		(565,488)	(95,500)
Net cash from financing activities		**5,318,251**	**13,357,848**
Net (decrease)/increase of cash and cash equivalents		**(1,736,767)**	**1,791,714**
Cash and cash equivalents at the beginning of the year		**11,053,971**	**9,262,257**
Cash and cash equivalents at the end of the year	14	**9,317,204**	**11,053,971**

Chairman of Management Board — I.V. Blagodyr

Chief Accountant — I.V. Davydova

23 July 2010

Note 1. RAO Energy System of East Group and its Operations

The Joint Stock Company "RAO Energy System of East" (hereinafter referred to as "the Company") was established on 1 July 2008 as a result of the reorganization of Russian Open Joint Stock Company for Energy and Electrification Unified Energy System of Russia (hereinafter referred to as "RAO UES") through a spin-off in accordance with the decision approved by the Extraordinary General Meeting of Shareholders of RAO UES on 26 October 2007. As a result of the reorganization, the Company became a shareholder of a number of energy companies in the Far East region of Russia and a number of energy retail companies and non-core companies that were transferred to the Company according to the separation balance sheet. The consolidated financial statements present the financial performance of the Company and its subsidiaries (together referred to as the "Group" or "RAO Energy System of East Group") as if its reorganization had been completed as of 1 January 2008. The Group's principal subsidiaries are presented in Note 4.

The Company was incorporated and is domiciled in the Russian Federation. The Company was set up in accordance with Russian regulations.

The Russian Federation represented by the Federal Agency for State Property Management owns 52.68% of the Group and 47.32% is owned by non-controling shareholders. Related party transactions are detailed in Note 6.

The shares of the Company are traded on the MICEX Stock Exchange and the Russian Trading System.

The Group's principal business activities are:

- electricity and heat generation;
- electricity and heat distribution;
- electricity and heat wholesale.
- electricity retail.

The Company's registered office is located at 28, Shevchenko str., Blagoveshchensk, the Amur region, Russia, 675000.

The Group operates in the Far East region and the territories of Moscow, Saint-Petersburg, Tambov, Saratov regions and the Altai territory. The Far East Federal regions comprises Republic of Sakha (Yakutiya), Kamchatka region, Primorye territory, Khabarovsk territory, Amur region, Magadan region, Sakhalin region, Evreiskaya autonomous district and Chukotka autonomous district.

Main developments of the Group's formation process. The Company is a legal successor to RAO UES in relation to most of the rights and obligations of RAO UES regarding electricity energy industry of the Far East region represented by controlling stakes in OJSC "Dalnevostochnaya Energy Company" and isolated energy systems as well as controlling stakes in retail companies that had not been sold during the reorganization of RAO UES ended on 1 July 2008.

- OJSC "Dalnevostochnaya energrticheskaya kompaniya" subgroup includes OJSC "Dalnevostochnaya energeticheskaya kompaniya" (OJSC "DEK"), two 100% subsidiaries: OJSC "Dalnevostochnaya generiruyuschaya kompaniya" (OJSC "DGK") which is the owner of all the heat power plants in the region, and OJSC "Dalnevostochnaya raspredelitelnaya setevaya kompaniya" (OJSC "DRSK"), which is the owner of power lines from 35kV to 110kV, as well as non-core subsidiaries – maintenance, construction and service companies.

  OJSC "DEK" was established in February 2007 as a result of a reorganization of the following energy companies of RAO UES: OJSC "Amurenergo", OJSC "Dalenergo", OJSC "Khabarovskenergo" and OJSC "Yuzhnoye Yakutskenergo", located in the Primorye and Khabarovsk territories, in Amur region and Evreiskaya autonomous district.

  OJSC "DEK" operates as a buyer and seller of electricity in the Far East region. As at 1 January 2008 47.81% of shares of OJSC "Dalnevostochnaya energeticheskaya kompaniya" were directly owned by RAO UES and 3.22% of the shares were indirectly owned via OJSC "Yuzhno-Yakutskaya energeticheskaya kompaniya". In January 2008 OJSC "Yuzhno-Yakutskaya energeticheskaya kompaniya" was integrated into OJSC "DEK" making RAO UES the direct owner of 51.03% of OJSC "DEK".

Note 1. RAO Energy System of East Group and its Operations (Continued)

OJSC "Dalnevostochnaya energeticheskaya upravlyayuschaya kompaniya" (OJSC "DVEUK") was established on 15 July 2001 to increase the effectiveness of Far East subsidiaries of RAO UES and to perform anti-crisis management in the eastern energy companies. Before 1 July 2008 RAO UES owned 100% of the shares of OJSC "DVEUK". During 2008 and the first half of 2009 OJSC "DVEUK" was involved in financial and investment program of management of OJSC "DEK". In 2009 Federal Service of Financial Markets registered additional shares emission of OJSC "DVEUK" in favour of the Russian Federation and since July 2009 the Russian Federation ownes 99.9975% of share capital of the OJSC "Dalnevostochnaya energeticheskaya upravlyayuschaya kompaniya".

- Isolated energy systems are located in Kamchatka, Magadan, Sakhalin regions, Chukotka autonomous district, Sakha (Yakutiya) republic and provide the majority of electricity and heat energy to legal entities and individual customers of these regions. The isolated energy systems include such entities as OJSC "Kamchatskenergo", OJSC "Magadanenergo", OJSC "Sakhalinenergo", OJSC "Yakutskenergo".
- Retail companies are located in the central part of Russian Federation:

OJSC "Mosenergosbyt" was spun-off during the reorganization of OJSC "Mosenergo". As at 1 January 2008 RAO UES owned 50.9% (voting 50.9%) of its shares. The company supplies electricity to the city of Moscow and the Moscow region.

OJSC "Peterburgskaya sbytovaya kompaniya" was spun-off during the reorganization of OJSC "Lenenergo". As at 1 January 2008 RAO UES owned 49% (voting 57.4%) of its shares. The company is a main supplier of electricity to the city of Saint-Petersburg and the Leningrad region.

In 2006 OJSC "Saratovenergo" was reorganized to become a retail company in the Saratov region. As at 1 January 2008 RAO UES owned 48.36% (voting 64.04%) of its shares.

OJSC "Altayenergosbyt" was established on 6 July 2006 solely by RAO UES. The retail assets and functions of OJSC "Altayenergo" were passed to OJSC "Altayenergosbyt". The company supplies electricity on territory of the Republic of Altay and Altay region. As at 1 January 2008 RAO UES owned 100% (voting 100%) of its shares.

OJSC "Tambovskaya energosbytovaya kompaniya" was spun-off during the reorganization of OJSC "Tambovenergo" on 11 January 2005. As at 1 January 2008 RAO UES owned 49.01% (voting 56.01%) of its shares. The company supplies electricity to the Tambov region. To do so, the company buys electricity on the wholesale market (being its subject) and from regional generating companies. Electricity is transmitted by the grid lines of OJSC "Tambovenergo".

Relations with the State and current regulation. The shareholder controlling the Group is the Russian Federation represented by the Federal Agency for State Property Management. As at 1 January 2008, 31 December 2008 and 31 December 2009 the Federal Agency for State Property Management owned 52.68% of the Company.

Many consumers of electricity and heat are controlled by or affiliated with the Russian Federation. Moreover, the Russian Federation controls a number of fuel suppliers and suppliers of other materials of the Group (Note 6).

The Government affects the Group's operations through:

- participation of its representatives in the Company's Board of Directors;
- tariff regulation within wholesale electricity and capacity as well as retail electricity markets;
- agreement procedures for the Company's investment program, volume and sources of their financing, control over its implementation;
- existing antimonopoly regulation.

The Russian Federation directly influences the activities of the Group by regulating the wholesale purchases of electricity via the Federal Service of Tariff (hereinafter, "FST") and the retail sale of electricity, capacity and heat via Regional Energy Commission (hereinafter, "REC"). The activities of all generating companies are coordinated by OJSC "System Operator of the United Energy System" (hereinafter, "SO UES") to maintain the effective operation of the electricity market.

Note 1. RAO Energy System of East Group and its Operations (Continued)

Tariffs on electricity and heat for the Group are set on the basis of regulatory documents covering the generation of electricity and heat and regulations applied to natural monopolies. The Government of the Russian Federation during the privatization of 1992 laid down conditions obligating RAO UES to supply Russian consumers with electricity and heat.

Operating Environment of the Group

The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation and high interest rates. The global financial crisis has had a severe effect on the Russian economy since mid-2008:

- Lower commodity prices have resulted in lower income from exports and thus lower domestic demand. Russia's economy contracted in 2009.
- The rise in Russian and emerging market risk premia resulted in a steep increase in foreign financing costs.
- The depreciation of the Russian Rouble against hard currencies (compared to RR 25.3718 for 1 US Dollar at 1 October 2008) increased the burden of foreign currency corporate debt, which has risen considerably in recent years.
- As part of preventive steps to ease the effects of the situation in financial markets on the economy, the Government incurred a large fiscal deficit in 2009.

Borrowers and debtors of the Group were adversely affected by the financial and economic environment, which in turn has had an impact on their ability to repay the amounts owed. Deteriorating economic conditions for borrowers and debtors were reflected in revised estimates of expected future cash flows in impairment assessments.

The volume of financing available in particular from overseas has significantly reduced since August 2007. Such circumstances may affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions.

Reduced revenue budgets and more challenging situation in the markets for Group's products and services have led management to perform an impairment test of the Group's property, plant and equipment (Note 7). The Group recognized the resulting net impairment loss totalling RR 4,282,144 thousand (2008: RR 13,044,094 thousand).

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in the Russian Federation. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

Management is unable to predict all developments in the economic environment which could have an impact on the Group's operations and consequently what effect, if any, they could have on the future financial position of the Group.

Note 2. Basis of Preparation

Statement of compliance. These consolidated financial statements have been prepared in compliance with the requirements of IFRS 1 First-time Adoption of International Financial Reporting Standards (IFRS) and represent first complete set of IFRS consolidated financial statements of the Group.

The Group's date of transition to IFRSs is 1 January 2008. Subject to certain exceptions, IFRS 1 requires retrospective application of the version of standards and interpretations effective for the year ended 31 December 2009. This version was applied in preparing the opening IFRS consolidated statement of financial position at 1 January 2008 and in subsequent periods up to 31 December 2009. In preparing these consolidated financial statements, the Group has applied the mandatory exceptions and has elected to apply the following optional exemptions from retrospective application:

(a) *Fair value as deemed cost exemption.* The Group has elected to measure certain items of property, plant and equipment at fair value at 1 January 2008. The effect of the exemption was to decrease the

Note 2. Basis of Preparation (Continued)

carrying amount of property, plant and equipment, according to Regulations on Accounting and Reporting of the Russian Federation (RAR), by RR 26,124,434 thousand to RR 60,676,022 thousand under IFRS on the date of transition to IFRSs, 1 January 2008.

(b) *Past business combinations exemption.* The Group has elected not to apply IFRS 3 (as revised in 2008) retrospectively to past business combinations (business combinations that occurred before the date of transition to IFRSs).

(c) *Employee benefit exemption.* The Group has elected to use a "corridor" approach that leaves cumulative actuarial gains and losses unrecognized at the date of transition to IFRSs.

(d) *Borrowing cost exemption.* The Group applied the transitional provision for borrowing cost recognition with effective date interpreted as 1 January 2009.

The presented consolidated financial statements have been prepared in accordance with the accounting policy of the Group regarding transactions under common control as if the reorganization of the Group had been completed as of 1 January 2008.

The Company and each consolidated enterprise individually maintained its own books of accounts and prepared its statutory financial statements in accordance with the RAR. The accompanying financial statements are based on the statutory records and adjusted and reclassified for the purpose of fair presentation in accordance with IFRS.

As the Group did not previously prepare consolidated financial statements under RAR, a reconciliation of how the transition from previous Generally Accepted Accounting Principles to IFRS has affected the Group's consolidated financial position, financial performance and cash flows is not presented.

Functional and presentation currency. The functional currency of the Company and its subsidiaries, and the Group's presentation currency, is the national currency of the Russian Federation, Russian Rubles ("RR").

New accounting Pronouncements

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2010 or later periods and which the Group has not early adopted:

Embedded Derivatives - Amendments to IFRIC 9 and IAS 39, issued in March 2009. The amendments clarify that on reclassification of a financial asset out of the 'at fair value through profit or loss' category, all embedded derivatives have to be assessed and, if necessary, separately accounted for. The amendment did not have an impact on these financial statements.

IFRIC 17, Distribution of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009). The amendment clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets will be recognised in profit or loss when the entity settles the dividend payable. IFRIC 17 is not relevant to the Group's operations because it does not distribute non-cash assets to owners.

IFRIC 18, Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. IFRIC 18 is not expected to have any impact on the Group's consolidated financial statements.

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments *(effective for annual periods beginning on or after 1 July 2010).* This IFRIC clarifies the accounting when an entity settles its debt by issuing its own equity instruments. A gain or loss is recognised in profit or loss based on the fair value of the equity instruments compared to the carrying amount of the debt. The Group is currently assessing the impact of the interpretation on its financial statements.

Note 2. Basis of Preparation (Continued)

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "non-controllable interests") even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value.

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer will have to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone.

Eligible Hedged Items—Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after 1 July 2009). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment is not expected to have any impact on the Group's financial statements as the Group does not apply hedge accounting.

IFRS 1, First-time Adoption of International Financial Reporting Standards (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009). The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The Group concluded that the revised standard does not have any effect on its financial statements.

Group Cash-settled Share-based Payment Transactions - Amendments to IFRS 2, Share-based Payment (effective for annual periods beginning on or after 1 January 2010). The amendments provide a clear basis to determine the classification of share-based payment awards in both consolidated and separate financial statements. The amendments incorporate into the standard the guidance in IFRIC 8 and IFRIC 11, which are withdrawn. The amendments expand on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation. The amendments also clarify the defined terms in the Appendix to the standard. The Group does not expect the amendments to have any material effect on its financial statements.

Classification of Rights Issues - Amendment to IAS 32 (issued 8 October 2009; effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives.

Note 2. Basis of Preparation (Continued)

Improvements to International Financial Reporting Standards *(issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010).* The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain non-current land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged.

Amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities.

IFRS 9, Financial Instruments Part 1: Classification and Measurement. IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted.

The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

Improvements to International Financial Reporting Standards *(issued in May 2010 and effective for the Group from 1 January 2011).* The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous

Note 2. Basis of Preparation (Continued)

GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period; IAS 1 was amended to clarify that the components of the statement of changes in equity include profit or loss, other comprehensive income, total comprehensive income and transactions with owners and that an analysis of other comprehensive income by item may be presented in the notes; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits.

Additional Exemptions for First-time Adopters - Amendments to IFRS 1, First-time Adoption of IFRS (effective for annual periods beginning on or after 1 January 2010). The amendments exempt entities using the full cost method from retrospective application of IFRSs for oil and gas assets and also exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4, 'Determining Whether an Arrangement Contains a Lease' when the application of their national accounting requirements produced the same result. The amendments will not have any impact on the Group's financial statements.

Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14 (effective for annual periods beginning on or after 1 January 2011). This amendment will have a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan. It removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement. The Group does not expect the amended interpretation to have an effect on its financial statements.

Limited exemption from comparative IFRS 7 disclosures for first-time adopters - Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2010). Existing IFRS preparers were granted relief from presenting comparative information for the new disclosures required by the March 2009 amendments to IFRS 7, *Financial Instruments: Disclosures*. This amendment to IFRS 1 provides first-time adopters with the same transition provisions as included in the amendment to IFRS 7. The amendment is not expected to have any impact on the Group's financial statements.

Critical Accounting Estimates and Assumptions

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

Note 2. Basis of Preparation (Continued)

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

Judgments that have the most significant effect on the amounts recognized in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next reporting period include the ones discussed below.

Impairment of non-financial assets. At each reporting date management assesses whether there is any indication of impairment of non-financial assets. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

See effect of these critical accounting estimates and assumptions in Note 7.

Impairment of financial assets, carried at amortised cost. The Group's impairment provision is based on the Group's assessment of the collectability of individually significant specific accounts receivable. The remaining balances are assessed collectively in groups that share similar credit risk characteristics. In establishing the required provision, management considers historical losses adjusted to take into account current market conditions and our customers' financial condition, the amount of receivables in dispute, and the current receivables aging and current payment patterns.

If there is deterioration in major customer creditworthiness or actual defaults are higher, the actual results may differ from these estimates.

The Group's allowance for impairment of accounts receivable is further discussed in Note 13.

Provisions for liabilities and charges. The Group accrues provision for legal proceedings when its assessments indicate that it is probable that a liability has been incurred and an amount can be reasonably estimated. The Group's estimates for provisions for liabilities and charges are based on currently available facts and the Group's estimates of the ultimate outcome or resolution of the liability in the future.

See effect of these critical accounting estimates and assumptions in Note 20.

Useful lives of property, plant and equipment. The estimation of the useful lives of an item of property, plant and equipment is a matter of management judgment based upon experience with similar assets. In determining the useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear and tear and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments for future depreciation rates, which can affect the reported income. See effect of these critical accounting estimates and assumptions in Note 7.

Impairment of available-for-sale equity investments. The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below their cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Group evaluates, among other factors, the volatility in share price. In addition, impairment may be appropriate when there is evidence of changes in technology or deterioration in the financial health of the investee, industry and sector performance, or operational or financing cash flows.

The decision on impairment is made on a case-by-case basis to determine whether a decline in the fair value of an available-for-sale financial asset below its cost is significant or prolonged.

Tax contingencies. Russian tax legislation is subject to varying interpretations and changes, which can occur frequently. Where the Group management believes it is probable that their interpretation of the relevant legislation and the Group's tax positions cannot be sustained, an appropriate amount is accrued for in these IFRS financial statements. See effect of these critical accounting estimates and assumptions in Note 29.

Note 2. Basis of Preparation (Continued)

Recognition of deferred tax assets. At each reporting date management assesses recoverability of deferred tax assets arising from operating losses and asset impairments in the context of the current economic environment, particularly when current and expected future profits have been adversely affected by market conditions. Management considers first the future reversal of existing deferred tax liabilities and then considers future taxable profits when evaluating deferred tax assets. The assessment is made on a jurisdiction-by-jurisdiction basis (Note 27).

Going concern. Management prepared these financial statements on a going concern basis. In making this judgement management considered the Group's financial position, current intentions, profitability of operations and access to financial resources, and analysed the impact of the recent financial crisis on future operations of the Group (Note 30).

Financial assets carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty.

Liabilities carried at amortised cost. Fair values of other liabilities were determined using valuation techniques. The estimated fair value of fixed interest rate instruments with stated maturity was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

Note 3. Summary of Significant Accounting Policies

Principles of consolidation. The consolidated Financial Statements comprise the financial statements of the Company and the financial statements of those entities whose operations are controlled by the Company. Control is presumed to exist when the Company controls, directly or indirectly through subsidiaries, more than 50 percent of voting rights. Also subsidiary undertakings include entities in which the Group controls less than 50 percent of the voting share capital but where the Group controls the entity through other means. This may include a history of casting the majority of the votes at the meetings of the board of directors or equivalent governing body.

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control is transferred to the Group and are deconsolidated from the date that control effectively ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the acquirer's share of the fair value of the net assets of the acquiree is recorded as goodwill. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controllable interest except for contingent income tax liabilities, which are measured in accordance with IAS 12 "Income Taxes".

The non-controlling interest has been disclosed as a separate component of equity.

Intercompany balances and transactions, and any unrealized gains arising from intercompany transactions, are eliminated when preparing the consolidated financial statements.

Transfers of subsidiaries from parties under common control. Transfers of subsidiaries from parties under common control are accounted for using the predecessor values method. Under this method the consolidated financial statements of the combined entity are presented as if the businesses had been combined from the beginning of the earliest period presented or, if later, the date when the combining entities were first brought under common control. The assets and liabilities of the subsidiary transferred under common control are at the predecessor entity's carrying amounts. The predecessor entity is considered to be the highest reporting entity in which the subsidiary's IFRS financial information was consolidated.

Purchases and sales of non-controlling interests. The Group applies the economic entity model to account for transactions with minority shareholders. Any difference between the purchase consideration and the carrying amount of non-controllable interest, acquired is recorded as capital transaction directly in equity. The Group recognises the difference between sales consideration and carrying amount of non-controllable interest, sold as a capital transaction in the statement of changes in equity.

Note 3. Summary of Significant Accounting Policies (Continued)

Investments in associates. Associates are entities over which the Company has significant influence (directly or indirectly), but not control, accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting, based upon the percentage of ownership held by the Group and are initially recognised at cost. The Group's share of profits or losses of associates is recorded in profit or loss for the year as share of result of associates.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.
Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates.

Financial assets

Classification of financial assets. The Group classifies financial assets in the following measurement categories: loans and receivables, available-for-sale financial assets. The Group does not have any financial assets held-to-maturity and financial assets at fair value through profit or loss. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are unquoted non-derivative financial assets that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the reporting date. These are classified as non-current assets. The Group's loans and receivables comprise "trade and other receivables" and cash and cash equivalents in the statement of financial position (Notes 13 and 14).

All other financial assets are included in the available-for-sale category, which includes investment securities which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates or equity prices.

Dividends on available-for-sale equity instruments are recognised in profit or loss for the year as finance income when the Group's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired at which time the cumulative gain or loss is reclassified from other comprehensive income to finance income in profit or loss for the year.

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of available-for-sale financial assets.

A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is reclassified from other comprehensive income to finance costs in profit or loss for the year. Impairment losses on equity instruments are not reversed through profit or loss.

Recognition and measurement of financial instruments. Financial assets are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the

(In thousands of Russian Rubles unless noted otherwise)

Note 3. Summary of Significant Accounting Policies (Continued)

counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Foreign currency. Monetary assets and liabilities, which are held by the Group entities and denominated in foreign currencies at the end of the reporting period, are translated into RR at the exchange rates prevailing at that date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Gains and losses resulting from the settlement of such transactions and translation of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss for the year.

As at 31 December 2009, the official rate of exchange, as determined by the Central Bank of the Russian Federation, between RR and US Dollar (hereinafter referred to as "USD") was RR 30.24: USD 1.00 (31 December 2008: RR 29.38: USD 1.00), between RR and EURO was RR 43.39: EURO 1.00 (31 December 2008: RR 41.44: EURO 1.00).

Property, plant and equipment. Property, plant and equipment are stated at deemed cost as allowed by exemption of IFRS, less accumulated depreciation and provision for impairment, where required.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised in profit or loss for the year within other operating income or costs.

Land and construction in progress are not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives.

The useful lives of property, plant and equipment are subject to annual assessment by management and if expectations differ from previous estimates, the changes of useful lives are accounted for as a change in an accounting estimate prospectively.

The useful lives, in years, of assets by type of facility are as follows:

Type of facility	Useful lives in years
Buildings	10 to 100
Constructions other than distribution and heating networks	10 to 100
Distribution networks	7 to 45
Heating networks	7 to 25
Machinery and equipment for power generation	10 to 40
Other	5 to 50

Other property, plant and equipment include motor vehicles, computer equipment, office fixtures and other equipment.

Up to 31 December 2008, borrowing costs incurred for the financing of construction of property, plant and equipment are expensed but not capitalised within the cost of property, plant and equipment. Starting from 1 January 2009 the Group capitalises borrowing costs related to new qualifying assets for which construction commenced on or after 1 January 2009.

Social assets are not capitalised as they are not expected to result in future economic benefits to the Group. Costs associated with fulfilling the Group's social responsibilities are expensed as incurred.

Impairment of property, plant and equipment. Impairment of property, plant and equipment is calculated as the difference between the carrying values of the net assets of cash-generating units, including where appropriate, investments, and their recoverable amounts. The recoverable amount is defined as the higher of an asset's fair value less costs to sell and its estimated value in use at the date the impairment review is undertaken. Fair value less costs to sell represents the amount that can be generated through the sale of assets. Value in use represents the present value of expected future cash flows discounted on a pre-tax basis, using the estimated cost of capital of the cash-generating unit.

Note 3. Summary of Significant Accounting Policies (Continued)

Impairment reviews for property, plant and equipment are carried out when there is an indication that impairment may have occurred, or where it is otherwise required to ensure that property, plant and equipment are not carried above their estimated recoverable amounts (Note 7).

Goodwill. Goodwill represents the excess of the cost of an acquisition over the fair value of the acquirer's share of the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of exchange. Goodwill on acquisitions of subsidiaries is presented separately in the consolidated statement of financial position. Goodwill is carried at cost less accumulated impairment losses, if any.

The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or groups of units represent the lowest level at which the Group monitors goodwill and are not larger than an operating segment.

Intangible assets. The Group's intangible assets other than goodwill have definite useful lives and primarily include specific computer software.

Amortisation of intangible assets is recognised in profit or loss for the year on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated useful lives of specific software are 3 to 10 years.

Current and deferred income tax. Income tax has been provided for in the financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes other than on income are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

The Group controls reversal of temporary differences relating to taxes chargeable on dividends from subsidiaries or on gains at their disposal. The Group does not recognise deferred tax liabilities on such temporary differences except to the extent that Management expects the temporary differences to reverse in the foreseeable future.

The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

Note 3. Summary of Significant Accounting Policies (Continued)

Inventories. Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

Accounts receivable and prepayments. Accounts receivable are recorded inclusive of value added taxes. Accounts receivable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 360 days overdue) are considered indicators that the trade receivable is impaired. Management assess the receivables using the above indicators, and make a decision about the amount of impairment at the end of each reporting period. The amount of the allowance is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers at the date of origination of receivables.

Cash and cash equivalents. Cash and cash equivalents include cash in hand, deposits held at call with banks, and other current highly liquid investments with original maturities of four months or less. Cash and cash equivalents are carried at amortised cost using the effective interest method. Restricted balances are excluded from cash and cash equivalents for the purposes of the cash flow statement. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period are included in other non-current assets.

Share capital. Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. Preference shares are not redeemable and are considered to be participating shares.

Dividends. Dividends are recorded as a liability and deducted from equity in the period in which they are declared and approved. Any dividends declared after the reporting period and before the financial statements are authorised for issue are disclosed in the subsequent events.

Borrowings and loans. Borrowings and loans are recognised initially at its fair value. Fair value is determined using the prevailing market rate of interest for a similar instrument, if significantly different from the transaction price. In subsequent periods, borrowings and loans are stated at amortised cost using the effective yield method; any difference between the fair value of the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss for the year as an interest expense over the period of the obligation.

Capitalisation of borrowing costs. Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets. Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

The Group capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the group's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

Trade and other payables. Trade payables are accrued when the counterparty performs its obligations under the contract and are carried at amortised cost using the effective interest method.

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Pension and post-employment benefits. In the normal course of business the Group contributes to the Russian Federation defined contribution state pension scheme on behalf of its employees. Mandatory

Note 3. Summary of Significant Accounting Policies (Continued)

contributions to the governmental pension scheme are expensed when incurred and included in employee benefit expenses and payroll taxes within profit or loss for the year.

The Group also operates a defined benefit plan that covers the majority of its employees. Defined benefit plan defines the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognised in the statement of financial position in respect of defined benefit pension plans operated by the Group is the present value of the defined benefit obligation at the end of the reporting period together with adjustments for unrecognised actuarial gains or losses. The defined benefit obligations are calculated using the projected unit credit method. The present value of the defined benefit obligations are determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid associated with the operation of the plans, and that have terms to maturity approximating the terms of the related pension liabilities.

The Group recognises past service cost as an expense on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits are already vested immediately following the introduction of, or changes to, a defined benefit plan, the Group recognises past service cost immediately. Past service cost arises when the Group introduces a defined benefit plan or changes the benefits payable under an existing defined benefit plan. Such changes are in return for employee service over the period until the benefits concerned are vested. Therefore, past service cost is recognised over that period, regardless of the fact that the cost refers to employee service in previous periods. Past service cost is measured as the change in the liability resulting from the amendment.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10 percent of the fair value of plan assets or 10 percent of the present value of the defined benefit obligations are charged or credited to the profit and loss for the year over the employees' expected average remaining working lives.

Environmental liabilities. Liabilities for environmental remediation are recorded where there is a present obligation, the payment is probable and reliable estimates exist.

Finance lease liabilities. Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in borrowings. The interest cost is charged to profit or loss over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

Operating leases. Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss for the year on a straight-line basis over the lease term. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

Revenue recognition. Revenue is recognised when the recovery of the consideration is probable and the amount of revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable, net of discounts and other sale taxes and duties.

- *Electricity and heat.* Revenue is recognised on the delivery of electricity and heat during the period. Tariffs for electricity and heat are approved by the Federal Service on Tariffs and the Regional Energy Commission.

(In thousands of Russian Rubles unless noted otherwise)

Note 3. Summary of Significant Accounting Policies (Continued)

- *Goods sold and services.* Revenue from services rendered and the sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer and work was performed.
- *Commission.* When the Group acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognised is the net amount of commission made by the Group.
- *Government grants.* Government grants that compensate the Group for low electricity tariffs are recognised in the statement of comprehensive income in the same periods in which the respective revenue is earned. Government grants are presented in the statement of comprehensive income separately as "Government grants".

Earnings per share. The earnings per share are determined by dividing the profit or loss attributable to shareholders of the Company by the weighted average number of participating shares outstanding during the reporting period.

Note 4. Principal Subsidiaries

The following are the principal subsidiaries which have been consolidated into these consolidated financial statements as at 31 December 2009 and 31 December 2008.

	31 December 2009		31 December 2008	
Name	**Ownership %**	**Voting %**	**Ownership %**	**Voting %**
OJSC "DEK"	51.03	51.03	51.03	51.03
OJSC "DGK"	51.03	51.03	51.03	51.03
OJSC "DRSK"	51.03	51.03	51.03	51.03
OJSC "DVEUK"	0.0025	0.0025	100.00	100.00
Isolated energy systems:				
OJSC "Kamchatskenergo"	98.68	99.11	98.68	99.11
OJSC "Magadanenergo"*	49.00	64.39	49.00	64.39
OJSC "Yakutskenergo"*	47.39	55.32	47.39	55.32
OJSC "Sakhalinenergo"**	48.99	48.99	48.99	48.99
Retail companies:				
OJSC "Altayenergosbyt"	100.00	100.00	100.00	100.00
OJSC "Tambovskaya energosbytovaya kompaniya"	49.01	56.01	49.01	56.01
OJSC "Saratovenergo"**	48.36	49.00	48.36	64.04
OJSC "Mosenergosbyt"	50.90	50.90	50.90	50.90
OJSC "Peterburgskaya sbytovaya kompaniya"*	49.00	57.40	49.00	57.40

* Difference between the ownership interest and voting interest represents the effect of preference shares.
** Control is based on the ability to govern the operating policies of the company through the majority of votes of the Board of Directors.

Business Combinations

On 20 October, 2009 the Group purchased 100% interest in LLC "Energiya Holding" for a consideration in amount of RR 944,096 thousand. The new subsidiary is guaranteeing supplier of electricity in Sankt-Petersburg with a guaranteed distribution. The purchase of subsidiary is in line with the general strategy of the Group to increase share in electricity distribution market. The effective date of obtaining control over the Company is October 2009. The goodwill arose as a result of the purchase in amount of RR 1,003,542 thousand. The goodwill is primarily attributable to the profitability of the acquired business, the significant synergies and combined cost savings expected to arise.

(In thousands of Russian Rubles unless noted otherwise)

Note 4. Principal Subsidiaries (Continued)

The acquired subsidiary contributed revenue of RR 2,151,188 thousand and profit of RR 93,971 thousand to the Group for the period from the date of acquisition to 31 December 2009. If the purchase of LLC "Energiya Holding" had occurred as at 1 January 2009, the Group's revenue would have increased by RR 9,397,117 thousand, and an additional income would have been recognized of RR 327,069 thousand.

At the date of obtaining control over LLC "Energiya Holding" the Group also received 25% interest in CJSC "Petroelectrosbyt", for consideration paid in amount of RR 300,000 thousand. The main activity of CJSC "Petroelectrosbyt" is distribution of electricity. 75% of shares of CJSC "Petroelectrosbyt" were already in possession of the Group at the date of purchase. The Group applied economic entity model to account for this transaction with a non-controlling shareholder. The difference between the purchase consideration and the carrying amount of non-controlling interest acquired was recorded as capital transaction directly in equity.

On 30 December 2009, the Group entity OJSC "Mosenergosbyt" purchased 100% interest in LLC "Integrator IT". The main activity of the company is supply and maintenance of automated systems of electricity supply management. The consideration fully paid in cash amounted to RR 48,000 thousand. The goodwill arose as a result of the purchase in amount of RR 16,246 thousand.

The acquired subsidiary did not contribute any material revenue and profit to the Group for the period from the date of acquisition to 31 December 2009. If the acquisition had occurred on 1 January 2009, the Group revenue for 2009 would have increased by RR 86,353 thousand, and profit for 2009 would have increased by RR 2,139 thousand.

Details of provisional value of net assets acquired and goodwill are as follows:

	LLC "Intergrator IT"	LLC "Energiya Holding"	Total
Cash and cash equivalents	9,984	374,190	384,174
Intangible asset	2,777	3,296	6,073
Property, plant and equipment	1,479	78,117	79,596
Inventories	171	890	1,061
Accounts receivable	26,540	517,624	544,164
Deferred tax assets	-	1,681	1,681
Financial assets	-	300	300
Trade and other payables	(9,197)	(1,035,544)	(1,044,741)
Provisional value of net assets of subsidiary	**31,754**	**(59,446)**	**(27,692)**
Goodwill arising from the acquisition	**16,246**	**1,003,542**	**1,019,788**
Total purchase consideration	**48,000**	**944,096**	**992,096**
Net of cash and cash equivalents of the acquired company	(9,984)	(374,190)	(384,174)
Outflow of cash and cash equivalents on acquisition	**38,016**	**569,906**	**607,922**

No formal valuation of assets and liabilities, for the purpose of compliance with IFRS, of LLC "Energiya Holding" and LLC "Integrator IT" has been completed. Business combinations were accounted for at provisional amounts. The management anticipates this valuation will be finalized within next 12 months from the date of acquisition.

Disposal of subsidiaries

On 22 December 2009, OJSC "Kamchatskenergo" sold 100% interest in OJSC "Pauzhetskaya GeoES" to OJSC "Geoterm". The consideration was fully paid in cash and amounted to RR 68,000 thousand. OJSC "Pauzhetskaya GeoES" sells electricity produced by its Pauzhetskaya geothermal power station and diesel power station located in Ozernovskiy village in Ust-Bolsheretskiy region of Kamchatka. The amount of net assets at the date of disposal equalled to RR (81,207) thousand.

(In thousands of Russian Rubles unless noted otherwise)

Note 4. Principal Subsidiaries (Continued)

OJSC "Pauzhetskaya GeoES"	as at disposal date
Property, Plant and Equipment	11,638
Deferred tax	24,936
Inventories	4,468
Accounts receivable	10 424
Cash and cash equivalents	3,070
Accounts payable	(135,743)
Net assets	**(81,207)**
Disposal proceeds	68,000
Disposal result	**149,207**

In 2009 the Group lost control over OJSC "Proizvodstvenno-Remontnoe predpriyatie –seti" (maintenance of electricity networks). The control was lost due to start of bankruptcy administration procedure.

OJSC "PRP-seti"	
Net assets as at 1 January 2009	(44,018)
Revenue received during 2009	2,910
Expenses incurred during 2009	(28,188)
Net assets as at date of derecognition	**(69,296)**
Loss on disposal of intercompany payables	(20,000)
Disposal result	**49,296**

On 13 February 2009, the Board of Directors approved additional issue of shares of OJSC "DVUEK" (the main activity of which is financial and operational management). The issue of shares reduced the interest of the Group in the company from 100% to 0.0025%. On 2 July 2009, the Russian Federation was registered as owner of the issued shares (the total issue purchased by the Russian Federation equalled to RR 6,097,600 thousand). The date of registration of ownership of shares is considered as the date of the loss of control over the subsidiary by the Group.

OJSC "DVEUC"	
Net assets as at 1 January 2009	(6,530)
Current period profit	10,364
Net assets as at date of derecognition	**3,834**
Disposal proceeds in the form of equity investment	**150**
Disposal result	**(3,684)**

Net assets of OJSC "DVEUC" as at date of disposal included RR 3,130,958 thousand of cash and cash equivalents in banks.

Note 5. Segment Information

Starting from 1 January 2009, the Group prepares its segment analysis in accordance with IFRS 8 Operating Segments.

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM) and for which discrete financial information is available. The CODM is the person or group of persons who allocates resources and assesses the performance for the entity. The functions of CODM are performed by the Board of Directors of the Group.

Note 5. Segment Information (Continued)

Description of products and services from which each reportable segment derives its revenue

The Group is organised on the basis of six main operating segments:

- Segment 1 - retail segment, include participants of the wholesale electricity market where they buy electricity and capacity and resell it to end customers. Some entities included in this segment have the status of "guaranteeing suppliers" which are obliged to sign contracts on supply of electricity with all end customers of their region upon their request. The segment consists of the following retail companies: OJSC "Altayenergosbyt", OJSC "Mosenergosbyt, OJSC "Peterburgskaya sbytovaya companiya", OJSC "Saratovenergo", OJSC "Tambovskaya energosbytovaya companiya", CJSC "Petroelectrosbyt", OJSC "Obyedinennaya energosbytovaya companiya" as at and for the period ended 31 December 2008 and also includes purchased LLC "Energiya holding" as at and for the period ended 31 December 2009.
- Segment 2 - OJSC "DEK" Group's segment consists of companies that generate electricity and heat and provide transportation, distribution, construction and repair services in the Far East region.
- Segment 3 - OJSC "Kamchatskenergo" segment represents the subsidiary that generates electricity and heat and provides transportation and distribution in the Kamchatka region.
- Segment 4 - OJSC "Magadanenergo" segment represents the subsidiary that generates electricity and heat and provides transportation and distribution services in the Magadan region and Chukotka autonomous district.
- Segment 5 - OJSC "Sakhalinenergo" segment represents the subsidiary that generates electricity and heat and provides transportation and distribution in the Sakhalin region.
- Segment 6 - OJSC "Yakutskenergo" segment represents the subsidiary that generates electricity and heat and provides transportation and distribution services in the Republic of Sakha (Yakutiya).

The Group also includes entities supporting the Group's operations which cannot be allocated to any of the main segments. The entities render financial, managerial, repair and maintenance and other (such as educational, recreation, etc.) services to the Group.

Factors that management used to identify the reportable segments

The Group's segments comprise a group of retail companies and five sub-holdings which were created mainly in accordance with different geographical areas. The CODM monitors the operating results of its subsidiaries/ business units separately for the purpose of making decisions about resource allocation and performance assessment.

Measurement of operating segment profit or loss, assets and liabilities

Segment performance is evaluated based on operating profit or loss and is measured under Russian accounting standards which differ significantly from the operating profit or loss in the IFRS consolidated financial statements. The differences between the measurements of the reportable segments' profit or losses, assets and liabilities and Group's profit and losses, assets and liabilities are:

- income tax is not allocated to the segments;
- liabilities for the Group's post-employment obligations are not recognized;
- provisions for accounts receivable are recognized based on management judgment and availability of information rather than based on the incurred loss model prescribed in IAS 39;
- investments in subsidiaries are not consolidated, investment in associates are not accounted for using the equity method;
- other intercompany assets and liabilities balances are not eliminated.

Transactions between the operating segments are made on normal commercial terms and conditions. Sales between segments are carried out at arm's length. The revenue from external parties reported to the CODM is measured in a manner consistent with that in the statement of comprehensive income.

(In thousands of Russian Rubles unless noted otherwise)

Note 5. Segment Information (Continued)

Information about reportable segment profit or loss, assets and liabilities

Segment information for the reportable segments as at and for the year ended 31 December 2009 is set out below:

	Segment 1	Segment 2	Segment 3	Segment 4	Segment 5	Segment 6	All other segments	Eliminations	Reconciliation	Total
2009										
External revenues	229,892,478	60,972,386	5,844,674	7,157,029	5,881,762	13,830,575	4,148,043	-	181,034	327,907,981
Revenues from other segments	341,511	2,027,276	560	141,176	514	717,955	352,361	(3,581,353)	-	-
Government grants	-	1,929,854	3,779,414	1,475,625	1,065,929	1,508,127	270,816	-	-	10,029,765
Total revenues	**230,233,989**	**64,929,516**	**9,624,648**	**8,773,830**	**6,948,205**	**16,056,657**	**4,771,220**	**(3,581,353)**	**181,034**	**337,937,746**
Other operating expenses	(226,939,792)	(60,136,482)	(8,327,793)	(8,209,871)	(6,607,039)	(15,954,706)	(4,404,241)	3,581,353	(7,197,148)	(334,195,719)
Incl. depreciation & amortization	*(520,366)*	*(4,001,319)*	*(223,177)*	*(373,695)*	*(306,781)*	*(1,731,992)*	*(176,921)*	-	*3,023,491*	*(4,310,760)*
Impairment losses on property, plant and equipment	-	-	-	-	-	-	-	-	(4,282,144)	(4,282,144)
Segment result	**3,294,197**	**4,793,034**	**1,296,855**	**563,959**	**341,166**	**101,951**	**366,979**	-	**(11,298,258)**	**(540,117)**

(In thousands of Russian Rubles unless noted otherwise)

Note 5. Segment Information (Continued)

	Segment 1	Segment 2	Segment 3	Segment 4	Segment 5	Segment 6	All other segments	Eliminations	Reconciliation	Total
2009										
Share of profit/(loss) of equity accounted investees	-	-	163	1,478	-	-	-	-	13,150	14,791
Segment assets	26,252,734	92,371,656	10,295,275	9,348,795	6,453,011	29,825,096	2,766,555	(6,546,394)	(50,958,672)	119,808,056
Investments in equity accounted investees	-	-	-	864	-	-	-	-	37,578	38,442
Capital expenditure	662,200	6,154,644	478,070	386,287	372,504	2,037,073	989,192	-	723,156	11,803,126
Segment liabilities	20,539,620	43,982,744	4,291,437	2,179,941	3,007,936	14,071,125	1,065,648	(1,057,530)	6,584,458	94,665,379

(In thousands of Russian Rubles unless noted otherwise)

Note 5. Segment Information (Continued)

Segment information for the reportable segments for the year ended 31 December 2008 is set out below:

	Segment 1	Segment 2	Segment 3	Segment 4	Segment 5	Segment 6	All other segments	Eliminations	Reconciliation	Total
2008										
External revenues	188,910,632	52,351,005	4,279,347	5,834,598	5,265,385	12,127,770	3,556,757	-	19,575	272,345,069
Revenues from other segments	-	1,698,891	-	107,598	-	147,935	109,708	(2,064,132)	-	-
Government grants	-	2,423,258	3,464,043	1,463,641	697,125	1,296,998	196,713	-	-	9,541,778
Total revenues	**188,910,632**	**56,473,154**	**7,743,390**	**7,405,837**	**5,962,510**	**13,572,703**	**3,863,178**	**(2,064,132)**	**19,575**	**281,886,847**
Other operating expenses	(184,479,075)	(53,987,699)	(7,774,130)	(7,146,647)	(5,785,400)	(13,154,977)	(3,654,310)	2,064,132	(8,389,439)	(282,307,545)
Incl. depreciation & amortization	*(259,055)*	*(2,856,010)*	*(199,179)*	*(353,481)*	*(253,974)*	*(1,159,729)*	*(126,267)*	-	*1,073,984*	*(4,133,711)*
Impairment losses on property, plant and equipment	-	-	-	-	-	-	-	-	(13,044,094)	(13,044,094)
Segment result	**4,431,557**	**2,485,455**	**(30,740)**	**259,190**	**177,110**	**417,726**	**208,868**	**-**	**(21,413,958)**	**(13,464,792)**

(In thousands of Russian Rubles unless noted otherwise)

Note 5. Segment Information (Continued)

	Segment 1	Segment 2	Segment 3	Segment 4	Segment 5	Segment 6	All other segments	Eliminations	Reconciliation	Total
2008										
Share of profit/(loss) of equity accounted investees	-	-	374	81	-	-	-	-	(15,462)	(15,007)
Segment assets	21,143,438	93,448,283	10,197,251	9,026,226	6,258,233	29,309,830	8,554,817	(6,802,524)	(61,735,067)	109,400,487
Investments in equity accounted investees	-	-	84,963	864	-	-	-	-	(29,928)	55,899
Capital expenditure	947,421	10,176,540	207,535	326,945	672,434	2,350,256	344,768	-	1,665,516	16,691,415
Segment liabilities	15,609,854	41,112,554	4,739,181	2,010,056	2,716,518	11,357,687	6,953,310	(6,316,796)	4,103,019	82,285,383

(In thousands of Russian Rubles unless noted otherwise)

Note 5. Segment Information (Continued)

Reconciliation of reportable segment revenues, profit or loss, assets and liabilities

	2009	2008
Total reportable segment result	**10,758,141**	**7,949,166**
Reconciliations:		
Impairment losses on property, plant and equipment	(4,282,144)	(13,044,094)
Accrual of allowance for impairment of trade and other receivables	(3,996,009)	(3,430,622)
Pension benefit obligations	(1,003,164)	(942,358)
Other reclassifications and adjustments	(2,016,941)	(3,996,884)
Gross Profit	**(540,117)**	**(13,464,792)**
Other operating income	2,741,917	2,294,573
Finance income	1,148,115	656,475
Finance costs	(6,106,189)	(4,379,987)
Impairment losses on available-for-sale investments	(20,957)	(4,131,426)
Share of result of associates	14,791	(15,007)
Loss before income tax	**(2,762,440)**	**(19,040,164)**

Total consolidated revenues comprise revenues from core activities and other operating income.

	2009	2008
Total revenues for reportable segments	**331,308,300**	**274,389,626**
Elimination of inter-segment revenue	(3,581,353)	(2,064,132)
Reconciliations:		
Other	181,034	19,575
Total consolidated revenues	**327,907,981**	**272,345,069**

There are no revenues from customers which represent 10% or more of the total revenues.

	31 December 2009	31 December 2008
Total reportable segment assets	**177,313,122**	**177,938,079**
Elimination of inter-segment assets	(6,546,394)	(6,802,524)
Reconciliations:		
Net difference in the value of fixed assets and construction in progress	(51,367,279)	(50,761,711)
Deferred tax adjustment	(140,799)	-
Allowance for impairment of trade and other receivables	(7,475,762)	(2,389,000)
Impairment losses on available-for-sale financial assets	(20,957)	(4,131,426)
Assets of holding company (after elimination of intergroup balances)	6,841,867	4,461,287
Other reclassifications and adjustments	1,204,258	(8,914,218)
Total consolidated assets	**119,808,056**	**109,400,487**
Total reportable segment liabilities	**89,138,451**	**84,499,160**
Elimination of inter-segment liabilities	(1,057,530)	(6,316,796)
Reconciliations:		
Pension benefit obligations	8,332,600	7,640,945
Unused vacations provision	2,240,077	1,904,022

(In thousands of Russian Rubles unless noted otherwise)

	31 December 2009	31 December 2008
Deferred tax adjustment	1,982,496	2,159,669
Elimination of intergroup balances with holding company	(6,036,750)	(8,512,167)
Other reclassifications and adjustments	66,035	910,550
Total consolidated liabilities	**94,665,379**	**82,285,383**

Note 6. Balances and Transactions with Related Parties

Parties are generally considered to be related if the parties are under common control or if one party has the ability to control the other party or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

State controlled entities

In the normal course of business the Group enters into transactions with entities controlled by the State. Prices for electricity and heat energy are based on tariffs set by FST and RECs. Loans are provided at market rates. Taxes are accrued and paid under the Russian tax legislation. The transmission and distribution of electricity are subject to tariff regulations.

At 31 December 2009 and at 31 December 2008 the outstanding balances with state controlled entities were as follows:

	31 December 2009	31 December 2008
Borrowings	27,341,310	23,577,773
Trade and other receivables (less allowance for impairment)	8,369,780	5,350,878
Trade and other payables	3,598,503	5,240,820
Cash and cash equivalents	2,900,750	4,579,503
Interest payable	88,464	117,198

The income and expense items with state controlled entities for the years ended 31 December 2009 and 31 December 2008 were as follows:

	2009	2008
Sales of heat	73,064,561	44,853,809
Electricity sales	7,378,379	4,761,031
Other revenue	2,728,455	3,152,746
Government grants	10,029,765	9,541,778
Interest expenses	(3,016,871)	(1,605,500)
Purchases of electricity	(88,185,577)	(68,523,007)
Electricity transportation services	(84,836,301)	(64,945,915)
Rental expenses	(672,520)	(435,878)
Purchase and transportation of fuel	(5,111,864)	(1,282,563)
Other expenses	(4,931,824)	(6,976,419)

(In thousands of Russian Rubles unless noted otherwise)

Note 6. Balances and Transactions with Related Parties (Continued)

Transactions with associates

At 31 December 2009 and at 31 December 2008 the outstanding balances with associates were as follows:

	31 December 2009	31 December 2008
Trade and other receivables	76,992	64,027

The income and expense items with associates:

	2009	2008
Sales of heat	1,472	1,386
Electricity sales	543,262	441,295
Other revenue	64	313
Other expenses	(5,309)	(4,690)

Transactions with Key management of the Group

Compensation paid to the members of Board of Directors and key management of the Company and its subsidiaries (hereinafter referred to as "Key management of the Group") for their services in management positions consists of contractual salary and performance bonus depending on work results for the period (short-term employee benefits). The total amount of remuneration (including Unified Social Tax) of the key management is incorporated in personnel expenses in operating expenses.

The key managerial personnel include general directors, deputies of general directors, branch directors, finance directors and chief accountants of the Company and the subsidiaries.

Total remuneration to key management of the Group was RR 1,491,021 thousand for the year ended 31 December 2009 and RR 1,246,901 thousand the year ended 31 December 2008.

The outstanding balances represent short-term employee benefits of RR 49,309 thousand as at 31 December 2009 and RR 59,778 thousand as at 31 December 2008 respectively.

(In thousands of Russian Rubles unless noted otherwise)

Note 7. Property, Plant and Equipment

Movements in the carrying amount of property, plant and equipment were as follows:

	Land and buildings	Constructions other than distribution and heating networks	Distribution networks	Heating networks	Machinery and equipment for power generation	Construction in progress	Other	Total
Cost								
Opening balance as at 31 December 2008	**18,938,463**	**8,778,872**	**15,671,630**	**4,766,596**	**8,348,071**	**7,285,809**	**13,952,463**	**77,741,904**
Additions	129,431	51,371	497,111	28,954	2,187,125	7,505,880	1,280,121	**11,679,993**
Acquisitions through business combinations	-	-	-	-	-	-	123,133	**123,133**
Transfers	726,102	1,007,724	913,181	395,499	4,518,675	(9,166,155)	1,604,974	**-**
Disposals	(35,195)	(13,084)	(11,497)	(3)	(33,284)	(508,272)	(216,628)	**(817,963)**
Disposals of cost through disposal of subsidiaries	(66,353)	(1,103)	(608)	-	(1,876,276)	(517,348)	(87,195)	**(2,548,883)**
Closing balance as at 31 December 2009	**19,692,448**	**9,823,780**	**17,069,817**	**5,191,046**	**13,144,311**	**4,599,914**	**16,656,868**	**86,178,184**
Accumulated depreciation (including impairment)								
Opening balance as at 31 December 2008	**(4,032,056)**	**(3,364,095)**	**(1,510,086)**	**(1,928,467)**	**(2,083,968)**	**(1,516,750)**	**(3,732,058)**	**(18,167,480)**
Depreciation charge	(529,807)	(273,457)	(1,066,518)	(261,577)	(679,028)	-	(1,560,308)	**(4,370,695)**
Acquisitions through business combinations	-	-	-	-	-	-	(21,254)	**(21,254)**
Disposals of accrued depreciation	8,046	2,837	1,965	1	7,002	-	76,423	**96,274**
Transfers	(159,509)	(170,433)	(197,094)	(2,662)	(215,806)	883,919	(138,415)	**-**
Disposals of accrued depreciation through disposal of subsidiaries	10,333	679	349	-	31,859	-	33,238	**76,458**
Impairment charge to profit or loss	(1,644,326)	(1,004,829)	(743,212)	(419,784)	(1,946,699)	(463,007)	(1,716,537)	**(7,938,394)**
Reversal of impairment through profit or loss	523,300	355,850	388,934	659,908	428,921	267,469	1,031,868	**3,656,250**
Closing balance as at 31 December 2009	**(5,824,018)**	**(4,453,448)**	**(4,453,448)**	**(3,125,662)**	**(1,952,581)**	**(4,457,719)**	**828,369**	**(6,027,043)**
Carrying amount as at 31 December 2008	**14,906,408**	**5,414,777**	**14,161,544**	**2,838,129**	**6,264,103**	**5,769,059**	**10,220,405**	**59,574,425**
Carrying amount as at 31 December 2009	**13,868,430**	**5,370,332**	**13,944,155**	**3,238,465**	**8,686,592**	**3,771,545**	**10,629,825**	**59,509,344**

(In thousands of Russian Rubles unless noted otherwise)

Note 7. Property, Plant and Equipment (Continued)

	Land and buildings	Constructions other than distribution and heating networks	Distribution networks	Heating networks	Machinery and equipment for power generation	Construction in progress	Other	Total
Cost								
Opening balance as at 31 December 2007	**18,156,406**	**4,742,496**	**15,305,472**	**4,208,141**	**5,821,894**	**2,167,504**	**11,308,394**	**61,710,307**
Additions	192,652	344,096	153,104	269,280	351,138	13,333,966	2,047,179	**16,691,415**
Transfers	634,808	3,696,946	219,734	297,082	2,182,712	(7,879,606)	848,324	**-**
Disposals	(45,403)	(4,666)	(6,680)	(7,907)	(7,673)	(336,055)	(251,434)	**(659,818)**
Closing balance as at 31 December 2008	**18,938,463**	**8,778,872**	**15,671,630**	**4,766,596**	**8,348,071**	**7,285,809**	**13,952,463**	**77,741,904**
Accumulated depreciation (including impairment)								
Opening balance as at 31 December 2007	**(131,055)**	**(10,991)**	**-**	**(21,294)**	**(191,626)**	**-**	**(679,319)**	**(1,034,285)**
Depreciation charge	(612,657)	(247,047)	(1,036,497)	(315,051)	(494,486)	-	(1,469,881)	**(4,175,619)**
Disposals of accrued depreciation	2,851	1,206	72	305	355	-	81,729	**86,518**
Transfers	(4,878)	(26,070)	(4,964)	2	(42,322)	-	78,232	**-**
Impairment charge to profit or loss	(3,286,317)	(3,081,193)	(468,697)	(1,592,429)	(1,355,889)	(1,516,750)	(1,742,819)	**(13,044,094)**
Closing balance as at 31 December 2008	**(4,032,056)**	**(3,364,095)**	**(1,510,086)**	**(1,928,467)**	**(2,083,968)**	**(1,516,750)**	**(3,732,058)**	**(18,167,480)**
Carrying amount as at 31 December 2007	**18,025,351**	**4,731,505**	**15,305,472**	**4,186,847**	**5,630,268**	**2,167,504**	**10,629,075**	**60,676,022**
Carrying amount as at 31 December 2008	**14,906,408**	**5,414,777**	**14,161,544**	**2,838,129**	**6,264,103**	**5,769,059**	**10,220,405**	**59,574,425**

Note 7. Property, Plant and Equipment (Continued)

Assets under construction represent the carrying amount of property, plant and equipment that has not yet been put into operation and advances to construction companies and suppliers of property, plant and equipment. As at 31 December 2009 such advances amounted to RR 264,671 thousand (31 December 2008: RR 749,182 thousand).

Additions to assets under construction include capitalized borrowing costs of RR 18,532 thousand. The capitalization rate was 15% percent. Up to 31 December 2008, borrowing costs incurred to finance the construction of property, plant and equipment are expensed.

Other property, plant and equipment include motor vehicles, computer equipment, office fixtures and other equipment.

Assets held under finance lease are included in property plant and equipment with a carrying value of RR 702,751 thousand (RR 803,153 thousand as at 31 December 2008).

Deemed cost at the date of transition to IFRS

Management commissioned a consortium of independent appraisers led by CJSC "Deloitte & Touche CIS" to appraise property, plant and equipment of sixteen major the Group's entities in order to determine the fair value of their property, plant and equipment as at 1 January 2008.

As a result of the appraisal, the fair value of property, plant and equipment was determined to be RR 57,951,372 thousand as at 1 January 2008. Property, plant and equipment of RR 2,724,650 thousand as at 1 January 2008 is presented at cost.

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

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

The replacement cost of industrial buildings, power transmission grids and substations has been estimated based on technical characteristics of these objects including necessary adjustments to unit values. The replacement cost of electrical equipment (transformers, turbines, boilers and other electrical equipment) was estimated using data from price-lists of manufactures and trading companies. Physical depreciation was estimated using the effective age method and expert opinion of the Group's technical specialists. Functional obsolescence was assumed to be taken into account by using recent data on replacement costs for comparable assets and Ko-Invest reference books. Economic obsolescence was estimated based on profitability test results for each cash generating unit. The following key assumptions were applied:

- Cash flows were projected based on actual 2007 operating results and the one-year business plan.
- Cash flows for a further 9 years were extrapolated assuming growth of up to 2% in production of electricity and growth in revenues in accordance with management's and the Ministry of Economic Development's (MED) tariff forecasts and expenses increasing in line with MED and Global Inside inflation projections.
- A discount rate ranging from 13% to 14% was applied in determining the recoverable amount of the cash generating units.
- A terminal value was derived at the end of the 10-year period. A terminal rate of 3.5% was used in estimating the terminal value of the assets.

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

Note 7. Property, Plant and Equipment (Continued)

Impairment as of 31 December 2008 and 31 December 2009

Management of the Company analyzed the current economic situation and decided that indicators of impairment existed at the end of the reporting period due to the volatility of the markets and the ongoing global financial and economic crisis. The amount of impairment was estimated in accordance with IAS 36 "Impairment of assets":

- all assets of subsidiaries were allocated to cash-generating units on the basis of regional tariff setting principal;
- the recoverable amount of assets was estimated as value in use calculated in accordance with discounted cash flow method.

The discount rate was estimated based on the weighted average cost of capital. In the impairment test of assets as of 31 December 2008 current (as of the date of the test) and target (to be achieved in 2014) discount rates were calculated which equalled to 16.93% and 12.13% for isolated companies, and 16.17% and 11.53% for OJSC "DGK" and OJSC "DRSK" respectively.

In the impairment test of assets as of 31 December 2009 discount rates were calculated which equalled to 12.48% for isolated companies, 10.28% and 9.71% for OJSC "DGK" and OJSC "DRSK" respectively.

For the purpose of cash flow discounting for the both dates the following key assumptions were used:

Industry assumptions

- the projected fuel prices were estimated on the basis of export substitution principle with the year of achieving net back parity: 2014 for the test as of 31 December 2008 and 2015 for the test as of 31 December 2009.
- the fuel prices for non-exporting regions were projected in accordance with the rate of producer price increases.

Isolated companies' special assumptions

- the current system of tariff regulation "Cost+" will be preserved in the projected long-term period;
- the margin was assumed as projected by the management of the Group;
- the capital expenditure in the base year were accepted as stated in business plan, the subsequent expenditures are inflated in line with industrial producer price index

OJSC "DGK" special assumptions

- the rate of electricity price increases is subject to increase in fuel consumption costs;
- the variation of capacity charges is in line with the rate of fixed costs increases;
- in 2009 the tariffs are in compliance with those authorized by Federal Tariff Service, then they are smoothed linearly to the target level that will be achieved in the latest forecast period (cancellation of cross-subsidization);
- the capital expenditures in the base year were assumed in accordance with the business plan, then they are smoothed linearly to the target level that will be achieved in the latest forecast period – 20 USD per kWatt of established electrical power.

OJSC "DRSK" special assumptions

- the forecast of power consumption growth is prepared taking in mind each region and main groups of customers based on retrospective analysis of energy consumption and information available at the date of analysis about planned input of new customers;
- during the forecasting of margin the transfer from "Cost+" system to "Return on Assets Based" considered to occur in 2011 for the majority of OJSC "DRSK" cash generating units;

(In thousands of Russian Rubles unless noted otherwise)

Note 7. Property, Plant and Equipment (Continued)

- amount of annual capital expenditure is calculated based on amount of the year 2010 business program with allowance for inflation;
- the amount of initial and residual value of investment capital was assumed as projected by the management of the Group.

On December 31, 2009, the Group recognised an additional impairment loss in the amount of RR 7,938,394 thousand for some cash-generating units (on December 31, 2008 – RR 13,044,094 thousand), and the reversal of the previously recognized impairment loss in the amount of RR 3,656,250 thousand (on December 31, 2008 RR nil thousand).

The following table as at 31 December 2009 presents sensitivities of profit and loss to reasonably possible changes in the post-tax discount rate, inflation rate and level of electricity and capacity tariffs applied at the date of the statement of financial position relative to the impairment assumptions made by the Group, with all other variables held constant:

	Change forecast scenario factor					
	WACC		Inflation		Electricity and capacity tariffs	
Expected impact	-0,5%	+0,5%	-0,5%	+0,5%	-0,5%	+0,5%
Impact on profit or (loss)	2,518,789	(2,248,995)	2,995,086	(3,409,139)	(865,838)	866,013

Security

As at 31 December 2009 the Group's property, plant and equipment with a carrying amount of RR 634,219 thousand were pledged to secure bank loans (31 December 2008: RR 889,727 thousand) (Note 16).

Note 8. Other Intangible Assets

	2009	2008
Cost		
Balance at 1 January	104,374	101,192
Acquisitions through business combinations	6,073	-
Additions	133,671	4,537
Disposals	-	(1,355)
Balance at 31 December	244,118	104,374
Amortisation		
Balance at 1 January	(10,798)	-
Amortisation charge	(27,204)	(10,798)
Balance at 31 December	(38,002)	(10,798)
Carrying amount		
At 1 January	**93,576**	**101,192**
At 31 December	**206,116**	**93,576**

The Group's intangible assets consist of specific software. Specific software include specialized custom-made software designed to control and meter the distribution of electricity, mainly used by OJSC "Mosenergosbyt" and OJSC "Peterburgskaya sbytovaya kompaniya".

(In thousands of Russian Rubles unless noted otherwise)

Note 9. Investments in Associates

The table below summarises the movements in the carrying amount of the Group's investments in associates.

	2009	2008
Carrying amount as at 1 January	**55,899**	**70,906**
Share of profit/(loss) of associates	14,791	(15,007)
Disposal of associates	(32,248)	-
Carrying amount at 31 December	**38,442**	**55,899**

In December 2009 the Group sold its investment in OJSC "Opytno-promyshlennaya Verkhnemutnovskaya GeoES" (OJSC "OP Verkhnemutnovskaya GeoES") for RR 46,000 thousand to OJSC "Geoterm". The gain on sale before tax in amount of RR 13,753 thousand was recognised in the Consolidated Statement of Comprehensive Income. Revenue and net profit of OJSC "OP Verkhnemutnovskaya GeoES" for the period from 1 January 2009 up to the date of disposal equal to RR 34,855 thousand and RR 11,847 thousand respectively.

During the years ended 31 December 2009 and 31 December 2008 the Group did not receive dividends from associates.

As at and for the year ended 31 December 2009 the Group's interests in its principal associates and their summarised financial information, including total assets, liabilities, revenues and profit or loss, were as follows:

Name	Total assets	Total liabilities	Revenue	Profit/(loss)	Voting, %	Ownership, %
OJSC «Magadan electroset»	227,991	(185,680)	813,474	12,378	29,56%	29,56%
OJSC «ENIN»	117,809	(24,179)	471,145	22,470	30,42%	30,42%
Total	**345,800**	**(209,859)**	**1,284,619**	**34,848**		

As at and for the year ended 31 December 2008 the Group's interests in its principal associates and their summarised financial information, including total assets, liabilities, revenues and profit or loss, were as follows:

Name	Total assets	Total liabilities	Revenue	Profit/(loss)	Voting, %	Ownership, %
OJSC «OP Verkhnemutnovskaya GeoES»	66,694	(1,641)	30,873	(57,016)	36,27%	36,27%
OJSC «Magadanelectroset»	223,049	(193,116)	649,163	4,682	29,56%	29,56%
OJSC «ENIN»	244,912	(173,746)	354,405	14,098	30,42%	30,42%
Total	**534,655**	**(368,503)**	**1,034,441**	**(38,236)**		

(In thousands of Russian Rubles unless noted otherwise)

Note 10. Available-for-Sale Investments

The Group recognised available-for-sale investments at fair value. The changes in fair value, reflect changes in shares quotations, determined on MICEX Stock Exchange as at 31 December 2008 and 31 December 2009.

	1 January 2009	Additions	Disposal	Income/(loss) recognised in profit or loss	The fair value gain recognised in other comprehensive income	31 December 2009
OJSC "FGC UES"	1,579,017	-	-	-	2,495,865	4,074,882
OJSC "RusHydro"	73,360	-	-	-	64,987	138,347
OJSC "Sahalinskaya energeticheskaya company"	-	300,000	-	-	-	300,000
OJSC "Exsperimentalnaya TES"	67,632	-	-	-	-	67,632
LLC "IT Energy Service"	99,180	-	-	-	-	99,180
Other available-for-sale investments	171,882	43,313	(41,048)	(20,957)	-	153,190
Total	**1,991,071**	**343,313**	**(41,048)**	**(20,957)**	**2,560,852**	**4,833,231**

	1 January 2008	Additions	Disposals	Loss recognised in profit or loss	31 December 2008
Various available- for-sale investments	5,691,813	-	(5,691,813)	-	-
OJSC "FGC UES"	-	4,627,538	-	(3,048,521)	1,579,017
OJSC "RusHydro"	-	219,179	-	(145,819)	73,360
OJSC "Exsperimentalnaya TES"	67,632	-	-	-	67,632
LLC "IT Energy Service"	99,180	-	-	-	99,180
Other available-for-sale investments	209,121	55,270	(519)	(91,990)	171,882
Total	**6,067,746**	**4,901,987**	**(5,692,332)**	**(3,286,330)**	**1,991,071**

Loss on disposal of investments during the year ended 31 December 2008 was RR 845,096 thousand.

Note 11. Other Non-Current/Current Assets

	1 January 2009	Additions	Disposal	Income/(loss) recognised in profit or loss	Other current assets reclassified from non-current	31 December 2009
Non - current bank deposits and promissory notes	-	60,651	-	-	-	60,651
Other non - current assets	314,399	16,502	(3,010)	-	(241,501)	86,390
Current bank deposits and promissory notes	73,645	1,150,010	(73,645)	-	-	1,150,010
Other current assets	391,398	1,375,118	(259,576)	23,809	241,501	1,772,250
Total other assets	**779,442**	**2,602,281**	**(336,231)**	**23,809**	**-**	**3,069,301**

(In thousands of Russian Rubles unless noted otherwise)

Note 11. Other Non-Current/Current Assets (Continued)

	1 January 2008	Additions	Disposal	Income/(loss) recognised in profit or loss	31 December 2008
Non - current bank deposits and promissory notes	-	-	-	-	-
Other non - current assets	222,599	70,638	(4,034)	25,196	314,399
Current bank deposits and promissory notes	139,125	12,579	(78,059)	-	73,645
Other current assets	342,274	103,967	(54,843)	-	391,398
Total other assets	**703,998**	**187,184**	**(136,936)**	**25,196**	**779,442**

Other current assets as at 31 December 2009 include interest-free loan issued to OJSC "DVEUK", owned by Government of Russian Federation, in 2009 in amount of RR 1,375,118 thousand that will be repaid in July 2010. Other assets also include loans issued to other companies.

	Rating	Rating agency	Effective interest rate, %	Due	31 December 2009	31 December 2008
Long term bank deposits						
OJSC Russian Agricultural Bank	Baa1	Moody's	8.6%	2011	20,651	-
OJSC Sberbank	Baa1	Moody's	5.3%	2011	30,000	-
OJSC Sberbank	Baa1	Moody's	5.5%	2011	10,000	-
Total long-term bank deposits					**60,651**	
Current promissory notes						
OJSC Sberbank	Baa1	Moody's	0.0%	2009	-	43,645
OJSC MDM Bank	Ba2	Moody's	11.0%	2009	-	30,000
Total current promissory notes					-	**73,645**
Current bank deposits						
OJSC NOTA-Bank	A	Expert RA	12,8%-13,0%	2010	400,000	-
OJSC MDM Bank	Ba2	Moody's	14,5%-14,8%	2010	300,000	-
OJSC Promsvyazbank	Ba2	Moody's	12,7%-13,9%	2010	450,010	
Total current bank deposits					**1,150,010**	**-**
Total current bank deposits and promissory notes					**1,150,010**	**73,645**
Total non - current/current bank deposits and promissory notes					**1,210,661**	**73,645**

(In thousands of Russian Rubles unless noted otherwise)

Note 12. Inventories

	31 December 2009	31 December 2008
Fuel	8,006,143	7,639,662
Materials and supplies	3,248,373	3,170,373
Spare parts	760,619	795,262
Work in progress	365,121	391,539
Finished goods and goods for resale	266,280	229,221
Other materials	197,324	143,028
Total inventories before impairment	**12,843,860**	**12,369,085**
Provision for inventory obsolescence	**(110,491)**	**(218,672)**
Total inventories	**12,733,369**	**12,150,413**

Inventories of RR 3,058,973 thousand (31 December 2008: 1,606,000 RR thousand) have been pledged as collateral for borrowings as at 31 December 2009 (Note 16).

Note 13. Trade and Other Receivables

Non-current accounts receivables:

	31 December 2009	31 December 2008
Trade receivables	796,667	291,710
Allowance for impairment of trade receivables	(659,307)	(251,762)
VAT recoverable	-	56,087
Other receivables	282,090	208,429
Allowance for impairment of other receivables	(1,348)	(22,920)
Total non-current trade and other receivables	**418,102**	**281,544**

Current accounts receivables:

	31 December 2009	31 December 2008
Trade receivables	27,450,161	19,158,905
Allowance for impairment of trade receivables	(8,625,280)	(5,944,831)
Advances issued to suppliers	3,268,759	2,264,122
Allowance for impairment of advances issued to suppliers	(83,630)	(301,693)
Other receivables	3,644,342	4,264,065
Allowance for impairment of other receivables	(972,033)	(1,133,467)
Taxes receivable / recoverable	2,767,778	3,673,281
Total current trade and other receivables	**27,450,097**	**21,980,382**

Movement of allowance for impairment of current/non-current receivables is disclosed in Note 30.

(In thousands of Russian Rubles unless noted otherwise)

Note 14. Cash and Cash Equivalents

	31 December 2009	31 December 2008
Cash on hand	11,219	10,348
Cash at bank	4,920,215	3,465,951
Term deposits with original maturity of less than four months	4,385,770	7,577,672
Total cash and cash equivalents	**9,317,204**	**11,053,971**

Cash and cash equivalents held as at 31 December 2009 and 31 December 2008 comprised short-term bank deposits with original maturities of four months or less. The credit quality of cash and cash equivalents balances may be summarised as follows. Ratings are actual as at 31 December 2009

	Rating agency	Rating	31 December 2009	31 December 2008
Bank balances				
OJSC Sberbank	Moody's	Baa1	1,189,167	883,766
OJSC Alfa-bank	Standard & Poor's	A+	1,017,081	107,599
OJSC Bank Tavrichesky	unrated	-	581,388	906,854
OJSC Bank Narodnyi Kredit	unrated	-	219,524	-
OJSC Kolyma-bank	Moody's	Baa2	185,595	1,753
OJSC Bank VTB	Moody's	AAA	182,800	282,324
OJSC AKB Rosbank	Standard & Poor's	AA+	150,659	129,823
OJSC Baltinvestbank	unrated	-	150,021	-
CJSC Interbank Clearing Center	unrated	-	118,291	50,283
OJSC Asian - Pacific Bank	Moody's	Baa2	115,066	334
OJSC SEB Bank	unrated	-	109,671	243,186
OJSC Gazprombank	Moody's	Baa3	95,152	111,962
CJSC Regiobank	Expert RA	B++	50,133	143,483
OJSC AVANGARD Joint Stock BANK	Moody's	B2	48,960	-
OJS SCBP Primsotsbank	unrated	-	47,330	11,805
OJSC Sobinbank	Moody's	Baa2	43,188	13,788
OJSC Rosevrobank	unrated	-	-	72,150
OJSC Rosdorbank	unrated	-	-	58,342
Other	-	-	616,189	448,499
Total Bank balances			**4,920,215**	**3,465,951**
Call deposits				
OJSC Sberbank	Moody's	Baa1	1,279,050	2,189,400
OJSC MDM Bank	Moody's	Ba2	710,000	392,200
OJSC Intrustbank	unrated	-	460,000	293,400
OJSC Bank Narodnyi Kredit	unrated	-	450,000	-
OJSC GUTA-BANK	Moody's	Ba1	400,000	-
OJSC First Republic Bank	Moody's	Baa2	366,700	-

	Rating agency	Rating	31 December 2009	31 December 2008
OJSC Alfa-bank	Standard & Poor's	A+	285,000	548,600
OJSC Promsvyazbank	Moody's	Ba2	200,020	-
OJSC Gazprombank	Moody's	Baa3	100,000	-
OJSC Bank VTB	Moody's	AAA	13,000	1,280,000
Moskovsky filial AB Russia	Fitch Ratings	BB-	-	1,690,500
CJSC Raiffeisen bank	Moody's	Baa1	-	370,000
CB Renaissance Capital (LLC)	Standard & Poor's	BB-	-	344,400
OJSC AKB Primorie	unrated	-	-	300,000
OJSC Transcreditbank	Moody's	Ba1	-	145,772
Other	-	-	122,000	23,400
Total deposits			**4,385,770**	**7,577,672**

Note 15. Share Capital

	Number of outstanding shares and fully paid (in thousands)	Ordinary shares	Preference shares	Total share capital
As at 31 December 2008	43,116,903	20,520,877	1,037,575	21,558,452
As at 31 December 2009	43,116,903	20,520,877	1,037,575	21,558,452

As it was discussed in Note 1 Company was established on 1 July 2008 and as at 31 December 2008 all Company's shares were fully paid.

Nominal value per each share equal 0.5 RR for ordinary share and 0.5 RR for preference shares.

a) Ordinary shares and preference shares

The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at meetings of the Group.

Preference shares have no right of conversion or redemption, but are entitled to a minimum annual dividend of 10 percent of net statutory profit.

In total the preference dividend may not be less than the ordinary dividend and is not cumulative. Preference shares carry no voting rights except when dividends on preference shares have not been declared fully at the Annual Shareholders' meeting, in which case the preference shares acquire voting rights.

b) Contribution to Share Capital

In 2008 upon the establishment of the Company, it received rights of demand of cash consideration to purchasers of various retail utilities companies. Cash consideration in amount of RR 7,986,000 thousand was received and recorded as contribution into share capital in the consolidated statement of changes in equity for the year ended 31 December 2008.

Cash flows associated with this contribution are presented as cash flows equity contribution in the consolidated statement of cash flows for the year ended 31 December 2008

c) 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. For the year ended 31 December 2008 the Company had retained loss of RR 10,972,735 thousand.

(In thousands of Russian Rubles unless noted otherwise)

Note 15. Share Capital (Continued)

At the annual shareholders meeting held on 23 June 2010 the decision was made not to declare dividends for 2009. No dividends were declared and paid by the Company relating to 2008.

Dividends in the amount of RR 503,123 thousand relating to the year ended 31 December 2009 (for the year ended 31 December 2008: RR 95,500 thousand) were declared by the subsidiaries in favour of minority holders.

Note 16. Borrowings

Current borrowings

	Currency	Effective interest rate	31 December 2009	31 December 2008
OJSC AKB Bank of Moscow	RR	11.95-13%	7,750,000	9,000
OJSC Rosbank	RR	14-20%	6,206,214	4,485,677
OJSC BankVTB	RR	12.28-14.54%	3,580,000	3,685,000
OJSC Gasprombank	RR	12.25-17.5%	3,205,000	1,660,356
AB Bank Rossiya	RR	14.5-15.5%	3,174,000	-
OJSC Transcreditbank	RR	17-19.50%	2,555,000	638,000
OJSC Sberbank	RR	11.75-16.25%	2,003,322	2,790,730
Ministry of finance, Republic of Sakha (Yakutia)	RR	2.63%	1,044,034	1,357,155
CJSC Raiffeisenbank	RR	12.50%	855,000	-
OJSC Alfa Bank	RR	13.77-15%	600,000	272,000
OJSC Dalnevostochnuy bank	RR	14.5-19%	570,000	200,000
OJSC Vozrozhdenie Bank	RR	15.5-16%	500,000	-
OJSC NOMOS-BANK	RR	14-15.5%	355,000	-
OJSC Russian Agricultural Bank	RR	16-17%	220,000	35,000
OJSC AKB Regionbank	RR	15-17%	178,382	261,585
OJSC AKB Primorje	RR	17%	169,800	350,000
OJSC Kamchatprofitbank	RR	20%	112,000	-
OJSC Kamchatkomagroprombank	RR	-	-	365,000
Unsecured bonds issued (OJSC "DGK")	RR	-	-	5,000,000
Other	RR	12-20%	437,979	213,451
Current portion of loans and borrowings	RR		2,484,800	7,612,171
Promissory notes issued	RR		55,262	49,474
Current finance lease liabilities	RR		178,195	47,607
Total			**36,233,988**	**29,032,206**

(In thousands of Russian Rubles unless noted otherwise)

Note 16. Borrowings (Continued)

Non-current borrowings

	Currency	Effective interest rate	Year of maturity	31 December 2009	31 December 2008
OJSC Transcreditbank	RR	11.8-16%	2010-2015	3,508,850	3,558,000
OJSC Sberbank	RR	12.5-15.5%	2010-2011	2,134,038	3,530,900
OJSC Gasprombank	RR	15.5-16%	2010-2011	2,000,000	-
OJSC AKB Bank of Moscow	RR	12.99-14%	2011	1,971,188	5,215,500
OJSC Rosbank	RR	14.50%	2011	735,000	2,983,735
OJSC BankVTB	RR	12.94%	2010	260,000	1,142,000
Respublikanskaya innovacionnaya company Ltd	RR	11.00%	2011	230,000	275,000
OJSC Sviaz-Bank	RR	14.99-15.99%	2011	155,000	-
Other	RR	12-16%		235,772	415,258
Current portion of loans and borrowings	RR			(2,484,800)	(7,612,171)
Unsecured bonds issued (OJSC "Yakutskenergo")	RR	8.59 - 17%	2012	1,199,999	1,199,999
Promissory notes issued	RR			-	92,115
Current portion of promissory notes issued	RR			-	(49,474)
Non-current finance lease liabilities	RR			184,540	931,219
Total				**10,129,587**	**11,682,081**

Property, plant and equipment and inventories properties are pledged as collateral for borrowings of RR 3,693,192 thousand (2008: RR 2,495,727 thousand). Refer to Notes 7, and 12.

The Group does not apply hedge accounting and has not entered into any hedging arrangements in respect of its foreign currency obligations or interest rate exposures.

Minimum lease payments under finance leases and their present values are as follows:

	Due in 1 year	Due between 1 and 5 years	Due after 5 years	Total
Minimum lease payments at 31 December 2009	**1,040,802**	**432,549**	**-**	**1,473,351**
Less future finance charges	(194,327)	(92,166)	-	(286,493)
Present value of minimum lease payments at 31 December 2009	**846,475**	**340,383**	**-**	**1,186,858**
Minimum lease payments at 31 December 2008	**879,611**	**1,291,109**	**42,199**	**2,212,919**
Less future finance charges	(160,341)	(187,882)	(2,621)	(350,844)
Present value of minimum lease payments at 31 December 2008	**719,270**	**1,103,227**	**39,578**	**1,862,075**

Leased assets with carrying amount disclosed in Note 7 are effectively pledged for finance lease liabilities as the rights to the leased asset revert to the lessor in the event of default.

The effective interest rate used is the market interest rate applicable to the loans at the date of origination for fixed rate loans and the current market rate for floating rate loans. The Group has not entered into any hedging arrangements in respect of interest rate exposures.

(In thousands of Russian Rubles unless noted otherwise)

Note 17. Pension Benefit Obligations

The Group operates defined benefit and defined contribution pension plans. In respect of some of these plans the Group has a contract with a pension fund "Non-state pension fund of electrical energy industry" ("NPFE"), which is a separate legal entity; the other plans are operated by the Group without engaging pension funds.

The defined benefit pension plan through NPFE provides for a monthly pension benefit paid upon retirement. Annual contributions are made by the Group to the solidarity account in the non-state pension fund. The amount of the contribution is defined by the Group's budget and is considered to be enough at least to finance current pension benefits.

Additionally to the NPFE pension plan, the Group provides financial support, of a defined benefit nature, to its old-age pensioners, who have completed certain service for the Group, and other post-employment benefit such as lump-sum payments upon retirement, lump-sum material aid, etc.

Amounts recognised in the consolidated statement of financial position:

	2009	2008
Present value of defined benefit obligations (DBO)	7,590,881	6,970,037
Fair value of plan assets	(218,634)	(254,384)
Present value of unfunded obligations	7,372,247	6,715,653
Unrecognised actuarial gains	984,177	952,520
Unrecognised past service cost	(23,824)	(27,228)
Net liability in statement of financial position	**8,332,600**	**7,640,945**

Amounts recognised within operating expenses in the consolidated statement of comprehensive income:

	2009	2008
Current service cost	396,884	459,533
Interest cost	647,396	499,725
Expected return on plan assets	(23,263)	(16,900)
Net actuarial gains recognised in year	(21,258)	-
Amortisation of past service cost	3,405	-
Net expense recognised in profit or loss for the year (DB-only)	**1,003,164**	**942,358**

Movements in the net liability recognised in the consolidated statement of financial position are as follows:

	2009	2008
Net liability at start of year	7,640,945	7,059,201
Net expense recognised in profit or loss for the year	1,003,164	942,358
Contributions	(311,509)	(360,614)
Net liability at end of year	**8,332,600**	**7,640,945**

The Group expects to contribute RR 382,511 thousand to the defined benefit plans during the year beginning 1 January 2010.

(In thousands of Russian Rubles unless noted otherwise)

Note 17. Pension Benefit Obligations (Continued)

Principal actuarial assumptions at 31 December (expressed as weighted averages):

	2009	2008
Discount rate	9.00%	9.00%
Expected return on plan assets	10.16%	9.84%
Future salary increases	9.72%	10.24%
Future pension increases	5.50%	6.00%
Staff turnover	7.00%	7.00%
Employees' average remaining working life (years)	8	8
Mortality	Rosstat's Russian population table for 1998	Rosstat's Russian population table for 1998

Note 18. Government Grants

In accordance with government decrees some regions of the Russian Federation are entitled government subsidies. These government subsidies represent compensation for the low electricity tariffs at which electricity is sold in these regions. During the period the Group received government subsidies in the amount of RR 10,029,765 thousand (in 2008 in the amount of RR 9,541,778 thousand) in the following subsidised territories: Khabarovskiy region, Primorskiy region and other Far East regions.

Note 19. Other Taxes Payable

	31 December 2009	31 December 2008
Value added tax	2,026,920	1,362,835
Unified social tax	490,065	484,177
Property tax	343,578	287,685
Penalties	280,500	265,442
Personal income tax	308,295	243,776
Other taxes payable	118,731	122,320
Other taxes payable	**3,568,089**	**2,766,235**

Note 20. Provisions for Liabilities and Charges

Movements in provisions for liabilities and charges are as follows:

	2009	2008
Carrying amount at 1 January	**727,519**	**-**
Provisions raised during the year	636,315	727,519
Release of provisions during the year	(834,474)	-
Carrying amount at 31 December	**529,360**	**727,519**

Provision raised during the year include the amount of RR 446,422 thousand that is an estimate of the Group of probable outcome of the litigation of OJSC "Mosenergosbyt" with the Inspection of the Federal Tax Service #36 of Moscow city in relation to resolutions of this state body.

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 30.

(In thousands of Russian Rubles unless noted otherwise)

Note 20. Provisions for Liabilities and Charges (Continued)

All of the above provisions have been classified as current liabilities because the Group does not have an unconditional right to defer settlement beyond one year.

Note 21. Trade and Other Payables

Non-current accounts payables:

	31 December 2009	31 December 2008
Trade payables	78,580	15,123
Interest payable	2,432	61,792
Other payables and accrued expenses	15,436	95,630
Total non-current payables	**96,448**	**172,545**

Current accounts payables:

	31 December 2009	31 December 2008
Trade payables	14,843,617	11,050,878
Advances received	11,171,422	9,788,092
Payable to employees	3,824,016	3,215,288
Dividends payable	162,240	224,605
Interest payable	134,737	231,239
Other payables and accrued expenses	1,569,051	1,755,608
Total current payables	**31,705,083**	**26,265,710**

Note 22. Analysis of Revenue by Category

	2009	2008
Sale of electricity	296,844,161	245,936,501
Sale of heat	21,599,460	18,521,187
Other	9,464,360	7,887,381
Total revenue	**327,907,981**	**272,345,069**

(In thousands of Russian Rubles unless noted otherwise)

Note 23. Operating Expenses

	2009	2008
Purchased electricity for resale	136,493,706	116,498,279
Electricity distribution	102,274,372	74,037,823
Personnel expenses	31,100,709	26,574,573
Fuel cost	30,241,521	28,329,806
Repairs and maintenance	4,889,330	4,817,350
Depreciation and amortisation	4,310,760	4,133,711
Accrual of allowance for impairment of trade and other receivables	3,996,009	3,430,622
Operating lease expenses	1,641,064	1,387,167
Water usage expenses	1,323,606	1,289,808
Property tax	1,160,231	992,586
Consulting, legal, audit services including professional training	934,276	898,174
Agency services	912,114	2,659,734
Transportation	885,923	644,297
Security services	809,886	710,234
Bank commission	784,961	639,954
Other tax	257,030	553,367
Fees to Federal Grid Company, Trade System Administrator, System Operator, RAO UES	138,565	2,804,141
Other	12,041,656	11,905,919
Total operating expenses	**334,195,719**	**282,307,545**

Note 24. Other Operating Income

	2009	2008
Fines and penalties	894,448	729,913
Surplus on stock-take	333,793	84,061
Release of provisions accrued	331,392	-
Gain on disposal of property, plant and equipment	323,033	431,651
Gain on disposal of subsidiaries	194,819	-
Write-off of accounts payable	176,806	170,154
Other	487,626	878,794
Total other operating income	**2,741,917**	**2,294,573**

Note 25. Finance Income

	2009	2008
Interest income	910,670	645,650
Net foreign exchange gains	195,541	-
Net gain less loss on disposal of available-for-sale financial assets	41,904	10,825
Total finance income	**1,148,115**	**656,475**

(In thousands of Russian Rubles unless noted otherwise)

Note 26. Finance Costs

	2009	2008
Interest expense	6,100,425	4,173,607
Discount recognized on non-current financial assets	5,764	89,499
Net foreign exchange loss	-	116,881
Total finance costs	**6,106,189**	**4,379,987**

Note 27. Income Taxes

Income tax expense recorded in profit or loss comprises the following:

	2009	2008
Current tax	(969,311)	(2,531,895)
Deferred tax	504,963	3,528,560
Income tax (expense)/benefit for the year	**(464,348)**	**996,665**

The Group's applicable tax rate is the income tax rate of 20% for Russian companies (during the year ended 31 December 2008 - 24%). From 1 January 2009 the income tax rate for Russian companies was reduced from 24% to 20%. This rate of 20 percent has been used for the calculation of the deferred tax assets and liabilities as at 31 December 2009 and 31 December 2008.

Reconciliation of effective tax rate:

	2009	2008
Loss before tax	**(2,762,440)**	**(19,040,164)**
Theoretical tax charge (2009: 20%; 2008: 24%)	552,488	4,569,639
Tax effect of items which are not deductible or assessable for taxation purposes	(1,907,788)	(1,117,928)
Effect of reduction in tax rate to 20% enacted in 2008 with effect from 1 January 2009	-	(635,450)
Unrecognized deferred income tax assets movements	760,145	(2,686,629)
Other income tax effect	130,807	867,033
Income tax (expense)/benefit for the year	**(464,348)**	**996,665**

The Group has not recognised deferred tax assets in respect of temporary differences associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future. For the periods ended 31 December 2009 and 31 December 2008, the corresponding temporary tax differences were equal to RR 2,368,990 thousand, RR (7,868,288) thousand.

The impact of the change in tax rate presented above represents the effect of applying the reduced 20% tax rate to deferred tax balances at 31 December 2008.

Deferred taxes analysed by type of temporary difference

Differences between IFRS and statutory taxation regulations in Russia give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20% (2008: 20%).

(In thousands of Russian Rubles unless noted otherwise)

Note 27. Income Taxes (Continued)

In the context of the Group's current structure, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss.

Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity.

The tax effect of the movements in the temporary differences for the year ended 31 December 2009 are:

	1 January 2009	Disposal of subsidiaries	(Charged)/ credited to profit or loss	Charged to other comprehensive income	31 December 2009
Deferred income tax assets					
Property, plant and equipment	440,110	(25,319)	264,157	-	678,948
Investments	110,925	-	55,417	(116,467)	49,875
Inventory	48,292	1,459	32,284	-	82,035
Trade and other receivables	153,941	3,967	(18,470)	-	139,438
Provisions and borrowings	531,496	2,081	(294,381)	-	239,196
Loss carry forward	32,812	-	60,879	-	93,691
Deferred tax offset	(920,766)	-	192,377	-	(728,389)
Deferred income tax assets	**396,810**	**(17,812)**	**292,263**	**(116,467)**	**554,794**
Deferred income tax liabilities					
Property, plant and equipment	(4,279,115)	(404)	443,783	-	(3,835,736)
Investments	-	-	(27,873)	(395,703)	(423,576)
Inventory	(6,269)	-	6,269	-	-
Trade and other receivables	(197,052)	-	2,727	-	(194,325)
Provisions and borrowings	(12,389)	(752)	(19,829)	-	(32,970)
Deferred tax offset	920,766	-	(192,377)	-	728,389
Deferred income tax liabilities	**(3,574,059)**	**(1,156)**	**212,700**	**(395,703)**	**(3,758,218)**
Net deferred liability	**(3,177,249)**	**(18,968)**	**504,963**	**(512,170)**	**(3,203,424)**

(In thousands of Russian Rubles unless noted otherwise)

Note 27. Income Taxes (Continued)

	1 January 2008	Disposal of subsidiaries	(Charged)/ credited to profit or loss	Charged to other comprehensive income	31 December 2008
Deferred income tax assets					
Property, plant and equipment	4,068	-	436,042	-	440,110
Investments	-	-	110,925	-	110,925
Inventory	145,490	56	(97,254)	-	48,292
Trade and other receivables	88,095	(65)	65,911	-	153,941
Provisions and borrowings	1,809,895	316	(1,278,715)	-	531,496
Loss carry forward	636	-	32,176	-	32,812
Deferred tax offset	(1,831,673)	-	910,907	-	(920,766)
Deferred income tax assets	**216,511**	**307**	**179,992**	**-**	**396,810**
Deferred income tax liabilities					
Property, plant and equipment	(6,145,483)	-	1,866,368	-	(4,279,115)
Investments	(834,459)	-	834,459	-	-
Inventory	-	-	(6,269)	-	(6,269)
Trade and other receivables	(1,261,652)	-	1,064,600	-	(197,052)
Provisions and borrowings	(512,706)	-	500,317	-	(12,389)
Deferred tax offset	1,831,673	-	(910,907)	-	920,766
Deferred income tax liabilities	**(6,922,627)**	**-**	**3,348,568**	**-**	**(3,574,059)**
Net deferred tax asset/(liability)	**(6,706,116)**	**307**	**3,528,560**	**-**	**(3,177,249)**

Total amount of deductible temporary differences for which deferred income tax assets have not been recognised by the Group comprises RR 6,216,819 thousand and RR 6,976,964 thousand as at 31 December 2009 and 31 December 2008 respectively.

Current portion of net deferred tax liabilities in the amount of RR 227,295 thousand as at 31 December 2009 (31 December 2008: RR 215,706 thousand) represents the amount of deferred tax liabilities to be recovered during the year ended 31 December 2010.

Note 28. Loss Per Share

Basic earnings/(loss) per share are calculated by dividing the profit or loss attributable to shareholders by the weighted average number of ordinary and preference shares in issue during the year, excluding treasury shares.

The Company has no dilutive potential ordinary shares; therefore, the diluted earnings per share equal the basic earnings per share.

Loss per share from operations is calculated as follows:

	31 December 2009	31 December 2008
Weighted average number of ordinary shares (in thousands)	41,041,754	33,440,108
Weighted average number of preference shares (in thousands)	2,075,149	1,690,796
Loss attributable to ordinary and preference shareholders	**(3,692,542)**	**(12,223,627)**
Basic and diluted loss per share (in RR per share)	**(0.0856)**	**(0.3479)**

Note 29. Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Group may be received. On the basis of its own estimates, management is of the opinion that no material losses will be incurred in respect of claims in excess of provisions that have been made in these consolidated financial statements.

Among existing claims to the Group there are claims of Federal Antimonopoly Service (FAS) of Russian Federation to OJSC "Mosenergosbyt" for misuse of dominating position in electricity distribution market in Moscow city in the total amount of RR 1,136,484 thousand, which consists of:

- Moscow division of the Federal Antimonopoly Service (FAS) adopted a resolution dated 19 January 2010 to impose a penalty in amount of RR 706,000 thousand upon the subsidiary of the Group OJSC "Mosenergosbyt" in regard of litigation #A7-20/2009. At 23 April 2010 the Arbitration court of Moscow found the resolution of FAS to impose a penalty to be legal. An appeal has been filed in the court.

- in accordance with a resolution dated 25 January 2010 in regard of litigation # 05-21/72-09/2 an administrative penalty in amount of RR 340,000 thousand was imposed. OJSC "Mosenergosbyt" has appealed the legality of the resolution of Moscow division of FAS;

- in accordance with a resolution dated 16 June 2010 in regard of litigation # 1 14.31/45-10 a penalty in amount of RR 90,484 thousand was imposed.

The Group has not set up any provision as it estimated the risk of adverse decisions in relation to these proceedings as possible.

Tax legislation. Russian tax legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant authorities.

The Russian tax authorities may be taking a more assertive and sophisticated approach in their interpretation of the legislation and tax examinations. This includes the following guidance from the Supreme Arbitration Court for anti-avoidance claims based on reviewing the substance and business

(In thousands of Russian Rubles unless noted otherwise)

Note 29. Contingencies and Commitments (Continued)

purpose of transactions. Combined with a possible increase in tax collection efforts to respond to budget pressures, the above may lead to an increase in the level and frequency of scrutiny by the tax authorities. In particular, it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed.

Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Russian transfer pricing legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%.

Controllable transactions include transactions with interdependent parties, as determined under the Russian Tax Code, all cross-border transactions (irrespective whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. There is no formal guidance as to how these rules should be applied in practice. In the past, the arbitration court practice with this respect has been contradictory.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible with the evolution of the interpretation of the transfer pricing rules in the Russian Federation and the changes in the approach of the Russian tax authorities, that such transfer prices could be challenged. Given the brief nature of the current Russian transfer pricing rules, the impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the entity.

Capital expenditure commitments. At 31 December 2009 the Group has contractual capital expenditure commitments in respect of property, plant and equipment totalling RR 1,107,577 thousand (2008: RR 1,468,670 thousand).

Operating lease commitments. Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

	31 December 2009	31 December 2008
Not later than 1 year	467,394	569,240
Later than 1 year and not later than 5 years	1,279,990	1,706,136
Later than 5 years	4,757,088	3,163,228
Total operating lease commitments	**6,504,472**	**5,438,604**

Environmental matters. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, 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.

Compliance with covenants. The Group is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default. The Group was in compliance with covenants during years 2008 and 2009 and as at 31 December 2009 and 31 December 2008.

(In thousands of Russian Rubles unless noted otherwise)

Note 30. Financial Instruments and Financial Risks

31 December 2009	Notes	Loans and receivables	Available-for-sale assets	Other financial liabilities	Total
Assets as per consolidated statement of financial position					
Non-current trade and other receivables	13	418,102	-	-	418,102
Available-for-sale investments	10	-	4,833,231	-	4,833,231
Other non-current assets	11	147,041	-	-	147,041
Current trade and other receivable	13	21,497,190	-	-	21,497,190
Other current assets	11	2,922,260	-	-	2,922,260
Cash and cash equivalents	14	9,317,204	-	-	9,317,204
Total financial assets		**34,301,797**	**4,833,231**	**-**	**39,135,028**
Liabilities as per consolidated statement of financial position					
Non-current accounts payables	21	-	-	96,448	96,448
Current accounts trade and other payables		-	-	16,641,960	16,641,960
Non-current loans and borrowings	16	-		10,129,587	10,129,587
Current loans and borrowings	16	-		33,749,188	33,749,188
Current portion of non-current loans and borrowings	16	-		2,484,800	2,484,800
Total financial liabilities		**-**	**-**	**63,101,983**	**63,101,983**

31 December 2008	Notes	Loans and receivables	Available-for-sale assets	Other financial liabilities	Total
Assets as per consolidated statement of financial position					
Non-current trade and other receivable	13	225,457	-	-	225,457
Available-for-sale investments	10	-	1,991,071	-	1,991,071
Other non-current assets	11	314,399	-	-	314,399
Current trade and other receivable	13	16,344,672	-	-	16,344,672
Other current assets	11	465,043	-	-	465,043
Cash and cash equivalents	14	11,053,971	-	-	11,053,971
Total financial assets		**28,403,542**	**1,991,071**	**-**	**30,394,613**
Liabilities as per consolidated statement of financial position					
Non-current accounts payables	21	-	-	172,545	172,545
Current accounts trade and other payables		-	-	13,232,783	13,232,783
Non-current loans and borrowings	16			11,682,081	11,682,081
Current loans and borrowings	16	-	-	21,420,035	21,420,035
Current portion of non-current loans and borrowings	16	-	-	7,612,171	7,612,171
Total financial liabilities		**-**	**-**	**54,119,615**	**54,119,615**

(In thousands of Russian Rubles unless noted otherwise)

Note 30. Financial Instruments and Financial Risks (Continued)

The risk management function within the Group is carried out in respect of financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

Credit risk. The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group's sales of products on credit terms and other transactions with counterparties giving rise to financial assets. Maximum exposure to credit risk is RR 39,135,028 thousand and RR 30,394,613 thousand as at 31 December 2009 and 31 December 2008 respectively.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to counterparties or groups of counterparties. Limits on the level of credit risk are approved regularly by management. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

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

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

	31 December 2009	Allowance as at 31 December 2009	31 December 2008	Allowance as at 31 December 2008
Not past due	14,925,928	1,553,355	10,435,470	482,972
Past due for less than 3 months	3,732,621	437,007	3,518,652	712,933
Past due for 3 to 6 months	2,162,322	571,035	1,274,114	279,458
Past due for 6 to 1 year	4,204,713	2,312,942	2,000,064	665,612
Past due for more than one year	7,147,677	5,383,629	6,694,809	5,212,005
Total	**32,173,261**	**10,257,968**	**23,923,109**	**7,352,980**

(In thousands of Russian Rubles unless noted otherwise)

Note 30. Financial Instruments and Financial Risks (Continued)

Movements in the impairment provision for trade and other receivables are as follows:

	2009	2008
Provision for impairment at 1 January	**(7,352,980)**	**(6,858,948)**
Provision for impairment during the year	(5,456,730)	(3,430,622)
Recovery of provision for impairment during the year	1,274,811	1,969,943
Amounts written off during the year as uncollectible	1,276,931	966,647
Provision for impairment at 31 December	**(10,257,968)**	**(7,352,980)**

For movements in impairment of available for sale investments refer to Note 10.

Cash is placed in financial institutions, which are considered at time of deposit to have minimal risk of default.

Despite the fact that certain companies and banks do not have the international credit rating, they are considered as reliable counterparties that have stable positions in the financial market of the Russian Federation and meets to the commonly used criteria of credit status and solvency.

Management of capital The Group's capital risk management has as key objectives compliance with the Russian legislation requirements and policy of capital cost reduction.

The following capital requirements have been established for joint stock companies by the legislation of the Russian Federation:

- share capital cannot be lower than 1,000 minimum shares on the date of the company's registration;
- if the share capital of the entity is more than statutory net assets of the entity, such entity must decrease its share capital to the value not exceeding its net assets;
- if the minimum allowed share capital is more than statutory net assets of the entity, such entity is subject to liquidation.

As at 31 December 2009 the Company was in compliance with the above share capital requirements.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The amount of capital that the Group managed as at 31 December 2009 was RR 25,142,677 thousands, 31 December 2008: RR 27,115,104 thousands.

Market risk. The Group takes on exposure to market risks. Market risks arise from open positions in (a) foreign currencies, (b) interest bearing assets and liabilities and (c) equity products, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Sensitivities to market risks included below are based on a change in a factor while holding all other factors constant. In practice this is unlikely to occur and changes in some of the factors may be correlated – for example, changes in interest rate and changes in foreign currency rates.

Currency risk. The company operates in the Russian Federation. Transactions of the Group primarily are denominated in its functional currency, the Russian Ruble.

Interest rate risk. Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). The interest rates on all significant loans and borrowings are fixed. Management does not have a formal policy of determining how

Note 30. Financial Instruments and Financial Risks (Continued)

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.

Liquidity risk. Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. 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.

The Group manages liquidity risk operating the following factors:

- tariffs for electricity and heat are set on cost plus basis, which covered the majors of Group's entities expenses;
- the Group received continuing strong support from Government in the form of grants receive for compensation of low electricity tariff (Note 18);
- the Group consider the possibility of restructuring of current borrowings and loans to postpone the payments and increase liquidity;
- significant part of current liabilities represented by advances received for future services and electricity supply, which also guarantee the demand on Group's entities products.

The table below shows liabilities at 31 December 2009 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, including gross finance lease obligations (before deducting future finance charges), gross loan commitments. Such undiscounted cash flows differ from the amount included in the statement of financial position because the statement of financial position amount is based on discounted cash flows.

(In thousands of Russian Rubles unless noted otherwise)

For year ended 31 December 2009	Carrying amount	Contractual cash flows	0-6 months	6-12 months	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Secured bank loans	8,434,274	10,244,865	3,523,869	4,879,674	1,410,621	419,513	4,757	6,431	-
Unsecured bank loans	36,311,303	46,911,278	23,399,122	18,147,452	4,568,594	253,470	232,050	210,630	99,960
Unsecured bond issues	1,199,999	1,811,998	102,000	102,000	204,000	1,403,999	-	-	-
Promissory notes	55,262	60,343	30,172	30,171	-	-	-	-	-
Finance lease liabilities	362,736	1,473,351	453,462	587,340	250,743	153,486	27,327	993	-
Trade and other payables	16,738,409	17,290,631	16,017,800	967,260	251,250	49,633	276	276	4,136
	63,101,983	**77,792,466**	**43,526,425**	**24,713,897**	**6,685,208**	**2,280,101**	**264,410**	**218,330**	**104,096**

For year ended 31 December 2008	Carrying amount	Contractual cash flows	0-6 months	6-12 months	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Secured bank loans	3,618,829	5,925,765	490,505	3,829,372	757,672	691,259	131,540	25,417	-
Unsecured bank loans	29,824,516	30,730,322	857,184	19,359,008	7,154,973	2,816,322	114,435	223,125	205,275
Unsecured bond issues	6,200,000	6,462,500	6,462,500	-	-	-	-	-	-
Promissory notes	92,115	97,449	-	49,474	47,975	-	-	-	-
Finance lease liabilities	978,826	2,212,919	465,890	413,721	680,057	319,917	229,163	61,972	42,199
Trade and other payables	13,405,329	14,200,038	11,813,313	2,214,553	86,958	65,029	20,185	-	-
	54,119,615	**59,628,993**	**20,089,392**	**25,866,128**	**8,727,635**	**3,892,527**	**495,323**	**310,514**	**247,474**

Note 30. Financial Instruments and Financial Risks (Continued)

Fair values versus carrying amounts

The fair value of available-for-sale investments is discussed in Note 10. Management believes that the fair value of other financial assets and financial liabilities is not significantly different from their carrying amounts.

Financial instruments carried at fair value with quotation at free and open market (available for sale investments) are related to Level 1 in fair value hierarchy.

The fair value of assets and liabilities carried at amortised cost equal to their caring value.

Note 31. Events After the Reporting Period

In April 2010 the Board of Directors made a decision to dispose of shares of the following entities (minute #40 as of 2 April 2010):

- OJSC "Mosenergosbyt"
- OJSC "Peterburgskaya sbytovaya kompaniya"
- OJSC "Altayenergosbyt"
- OJSC "Tambovskaya energosbytovaya kompaniya"
- OJSC "Saratovenergo"
- OJSC "Objedinennaya energosbytovaya kompaniya"

On 27 May 2010, in compliance with the share sale agreements the shares of the companies mentioned above were transferred to OJSC "RusHydro" that resulted in loss of control of the Group over the companies. The Group did not retain any interest in the companies.

The sale consideration amounted to RR 7,831,500 thousand and was fully paid in cash.

The disposed companies distributed electricity to the customers on the territory of Moscow, Leningradskoy, Tambovskoy, and Saratovskoy regions, Altay Territory and Republic of Altay, Moscow and Saint-Petersburg cities, and represented a separate reporting segment of the Group (Note 5).