JSC QUADRA – POWER GENERATION (FORMERLY TGC–4)

Consolidated financial statements for the year ended 31 December 2009

JSC QUADRA – POWER GENERATION (FORMERLY JSC TGC–4)

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

The following statement, which should be read in conjunction with the independent auditors' report set out on the page 2, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the consolidated financial statements of Joint Stock Company Quadra – Power Generation (formerly Joint Stock Company TGC−4 or "Company") and its subsidiaries (the "Group").

Management is responsible for the preparation of consolidated financial statements that present fairly the consolidated financial position of the Group as at 31 December 2009, and results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- selecting suitable accounting principles and applying them consistently;
- making judgements and estimates that are reasonable and prudent;
- stating whether IFRS have been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- preparing the consolidated financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

Management is also responsible for:

- designing, implementing and maintaining an effective system of internal controls, throughout the Group;
- maintaining statutory accounting records in compliance with the legislation and accounting standards of the Russian Federation;
- taking steps to safeguard the assets of the Group; and
- detecting and preventing fraud and other irregularities.

The consolidated financial statements for the year ended 31 December 2009 were approved on 1 July 2010 by:

G.N. Bakaev	I.A. Lapitskaya
First Deputy General Director	Chief Accountant

Tula, Russia
1 July 2010

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INDEPENDENT AUDITORS' REPORT

To the shareholders of Joint Stock Company Quadra – Power Generation:

We have audited the accompanying consolidated financial statements of Joint Stock Company Quadra – Power Generation (formerly Joint Stock Company TGC−4) and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2009, and the results of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte & Touche

Moscow, Russia
1 July 2010

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2009
in thousands of Russian Roubles, unless otherwise stated

	Notes	31/12/2009	31/12/2008
ASSETS			
Non-current assets			
Property, plant and equipment	5	22,382,576	21,878,279
Intangible assets		56,014	61,327
Investments in associates		13,602	13,445
Available-for-sale investments		52,645	28,494
Accounts receivable and advances paid	7	38,108	82,988
Deferred tax assets	8	488,669	542,178
Other assets		27,307	111,995
		23,058,921	**22,718,706**
Current assets			
Inventories	6	1,738,319	1,859,247
Accounts receivable and advances paid	7	5,817,444	4,304,594
Income tax receivable		84,912	1,719
Bank deposits	9	712,345	4,500,000
Cash and cash equivalents	10	3,053,110	4,592,694
Other assets		462	353
		11,406,592	**15,258,607**
TOTAL ASSETS		**34,465,513**	**37,977,313**
EQUITY AND LIABILITIES			
Capital and reserves			
Ordinary shares	11	19,125,056	19,125,056
Preferred shares	11	752,729	752,729
Treasury shares	11	–	(1,069)
Share premium	11	10,921,097	10,921,097
Merger reserve	11	(1,807,993)	(1,807,993)
Revaluation reserve for property, plant and equipment		7,301,163	3,485,857
Revaluation reserve for available-for-sale investments		19,321	–
Accumulated deficit		(8,212,670)	(5,706,177)
Equity attributable to owners of the Company		**28,098,703**	**26,769,500**
Non-controlling interests		(1,283)	3,401
TOTAL EQUITY		**28,097,420**	**26,772,901**
Non-current liabilities			
Loans and borrowings	12	–	858,304
Obligations under finance leases	13	73,501	220,240
Pension liabilities	14	750,634	805,449
Deferred tax liabilities	8	256,925	566,698
		1,081,060	**2,450,691**
Current liabilities			
Loans and borrowings	12	1,957,832	5,700,328
Obligations under finance leases	13	145,260	170,298
Accounts payable and accruals	15	1,547,920	1,261,144
Provision for legal claims	16	807,215	812,591
Income tax payable		86,214	249,745
Other taxes payable	17	742,592	559,615
		5,287,033	**8,753,721**
TOTAL LIABILITIES		**6,368,093**	**11,204,412**
TOTAL EQUITY AND LIABILITIES		**34,465,513**	**37,977,313**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2009
in thousands of Russian Roubles, unless otherwise stated

	Notes	Year ended 31/12/2009	Year ended 31/12/2008
Revenue			
Electricity and capacity		15,314,488	14,973,092
Heat energy		15,559,813	13,431,258
Other revenue		760,774	818,427
Total revenue		**31,635,075**	**29,222,777**
Operating (expenses)/income			
Fuel		(14,902,496)	(14,510,652)
Impairment of property, plant and equipment	5	(6,855,426)	(10,600,862)
Staff costs	18	(4,387,162)	(4,070,580)
Purchase of electricity		(2,643,129)	(2,429,482)
Depreciation and amortisation		(1,593,855)	(3,498,538)
Repair and maintenance		(1,032,298)	(1,159,138)
Materials and spare parts		(855,027)	(866,721)
Water usage expenses		(682,759)	(597,642)
Taxes, other than income tax		(382,159)	(441,336)
Rent expenses		(302,173)	(256,078)
OREM services		(282,486)	(228,831)
Change in allowance for doubtful receivables	7	(165,661)	(490,104)
Security services		(151,813)	(164,411)
Change in provision for legal claims		5,204	(787,821)
Other operating income		241,817	119,730
Other operating expenses		(911,868)	(1,205,441)
Operating loss		**(3,266,216)**	**(11,965,130)**
Interest income		212,001	540,216
Finance costs, net	19	(600,271)	(923,267)
Foreign currency gain, net		287,291	165,790
Share of results of associates and impairment		459	(4,923)
Impairment of available-for-sale investments		–	(46,268)
Loss before income tax		**(3,366,736)**	**(12,233,582)**
Income tax benefit	20	507,529	2,489,715
LOSS FOR THE YEAR		**(2,859,207)**	**(9,743,867)**
Attributable to:			
Owners of the Company		(2,854,523)	(9,719,880)
Non-controlling interests		(4,684)	(23,987)
		(2,859,207)	**(9,743,867)**
OTHER COMPREHENSIVE INCOME/(LOSS)			
Revaluation/(impairment) of property, plant and equipment	5	4,961,928	(7,945,855)
Attributable income tax	20	(796,007)	1,899,300
		4,165,921	**(6,046,555)**
Revaluation of available-for-sale investments		24,151	–
Attributable income tax	20	(4,830)	–
Other comprehensive income/(loss) for the year, net of income tax		**4,185,242**	**(6,046,555)**
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		**1,326,035**	**(15,790,422)**
Attributable to:			
Owners of the Company		1,330,719	(15,766,435)
Non-controlling interests		(4,684)	(23,987)
		1,326,035	**(15,790,422)**
LOSS PER SHARE			
Basic and diluted loss per share (in Roubles)	11	(0.002)	(0.006)

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2009
in thousands of Russian Roubles, unless otherwise stated

	Year ended 31/12/2009	Year ended 31/12/2008
OPERATING ACTIVITIES		
Loss before income tax	**(3,366,736)**	**(12,233,582)**
Adjustments for:		
Depreciation of property, plant and equipment	1,575,301	3,444,199
(Gain)/loss from disposal of property, plant and equipment	(16,231)	1,259
Impairment of property, plant and equipment	6,855,426	10,600,862
Amortisation of intangible assets	18,554	54,339
Interest income	(212,001)	(540,216)
Finance costs, net	600,271	923,267
Foreign currency gain, net	(287,291)	(165,790)
Share of results of associates and impairment	(459)	4,923
Impairment of available-for-sale investments	–	46,268
Change in allowance for doubtful receivables	165,661	490,104
Change in provision for legal claims	(5,204)	787,821
Overdue accounts payable written-off	(47,903)	(7,977)
Other	(65,339)	(21,646)
Operating profit before working capital changes	**5,214,049**	**3,383,831**
Decrease in inventories	139,063	304,775
Increase in accounts receivable and advances paid	(1,646,112)	(1,605,910)
Decrease/(increase) in other assets	56,360	(52,586)
(Decrease)/increase in pension liabilities	(133,117)	88,605
Increase/(decrease) in accounts payable and accruals	269,631	(89,129)
Increase in other taxes payable	182,977	345,326
Cash generated from operations	**4,082,851**	**2,374,912**
Interest paid	(552,033)	(881,976)
Interest received	248,835	488,863
Income tax paid	(796,295)	31,173
Net cash generated from operating activities	**2,983,358**	**2,012,972**
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(3,877,538)	(5,428,932)
Proceeds from disposal of property, plant and equipment	13,341	28,264
Purchase of intangible assets	(13,247)	(86,897)
Cash placed on bank deposits	(757,131)	(8,000,000)
Proceeds from repayment of bank deposits	4,500,000	3,500,000
Dividend received	302	250
Net cash used in investing activities	**(134,273)**	**(9,987,315)**
FINANCING ACTIVITIES		
Proceeds from loans and borrowings	21,671,980	30,815,183
Repayments of loans and borrowings	(26,239,775)	(34,228,456)
Cash receipt on issuance of additional shares	–	15,822,000
Cash receipt on re-issuance of treasury shares	247	–
Buy back of treasury shares	–	(33,463)
Dividends paid	(1,931)	(7,760)
Repayments of finance leases	(152,564)	(165,821)
Net cash (used in)/generated from financing activities	**(4,722,043)**	**12,201,683**
Effect of exchange rates changes on the balance of cash held in foreign currencies	333,374	166,717
Net (decrease)/increase in cash and cash equivalents	**(1,539,584)**	**4,394,057**
Cash and cash equivalents at beginning of the year	**4,592,694**	**198,637**
Cash and cash equivalents at end of the year	**3,053,110**	**4,592,694**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2009
in thousands of Russian Roubles, unless otherwise stated

	Equity attributable to owners of the Company										
	Ordinary shares	Preferred shares	Treasury shares	Share premium	Merger reserve	Revaluation reserve for property, plant and equipment	Revaluation reserve for available-for-sale investments	Accumulated deficit	Total	Non-controlling interests	Total
Balance at 1 January 2008	**13,212,020**	**752,729**	**–**	**959,867**	**(1,807,993)**	**10,664,296**	**–**	**2,890,448**	**26,671,367**	**27,388**	**26,698,755**
Dividends	–	–	–	–	–	–	–	(5,587)	**(5,587)**	–	**(5,587)**
Loss for the year	–	–	–	–	–	–	–	(9,719,880)	**(9,719,880)**	(23,987)	**(9,743,867)**
Other comprehensive loss	–	–	–	–	–	(6,046,555)	–	–	**(6,046,555)**	–	**(6,046,555)**
Total comprehensive loss for the year	**–**	**–**	**–**	**–**	**–**	**(6,046,555)**	**–**	**(9,719,880)**	**(15,766,435)**	**(23,987)**	**(15,790,422)**
Issuance of additional shares	5,860,000	–	–	9,962,000	–	–	–	–	**15,822,000**	–	**15,822,000**
Bay back of treasury shares	–	–	(14,029)	(19,434)	–	–	–	–	**(33,463)**	–	**(33,463)**
Merger of JSC TGC−4 Holding	53,036	–	12,960	18,664	–	–	–	(3,042)	**81,618**	–	**81,618**
Transfer of realised revaluation reserve for property, plant and equipment to accumulated deficit	–	–	–	–	–	(1,414,855)	–	1,414,855	**–**	–	**–**
Income tax attributable to transfer	–	–	–	–	–	282,971	–	(282,971)	**–**	–	**–**
Balance at 31 December 2008	**19,125,056**	**752,729**	**(1,069)**	**10,921,097**	**(1,807,993)**	**3,485,857**	**–**	**(5,706,177)**	**26,769,500**	**3,401**	**26,772,901**
Dividends	–	–	–	–	–	–	–	(1,763)	**(1,763)**	–	**(1,763)**
Loss for the year	–	–	–	–	–	–	–	(2,854,523)	**(2,854,523)**	(4,684)	**(2,859,207)**
Other comprehensive income	–	–	–	–	–	4,165,921	19,321	–	**4,185,242**	–	**4,185,242**
Total comprehensive income/(loss) for the year	**–**	**–**	**–**	**–**	**–**	**4,165,921**	**19,321**	**(2,854,523)**	**1,330,719**	**(4,684)**	**1,326,035**
Re-issuance of treasury shares	–	–	1,069	–	–	–	–	(822)	**247**	–	**247**
Transfer of realised revaluation reserve for property, plant and equipment to accumulated deficit	–	–	–	–	–	(438,269)	–	438,269	**–**	–	**–**
Income tax attributable to transfer	–	–	–	–	–	87,654	–	(87,654)	**–**	–	**–**
Balance at 31 December 2009	**19,125,056**	**752,729**	**–**	**10,921,097**	**(1,807,993)**	**7,301,163**	**19,321**	**(8,212,670)**	**28,098,703**	**(1,283)**	**28,097,420**

1. GENERAL INFORMATION

Organisation

Open Joint Stock Company Territorial Generation Company №4 (the "TGC−4") was established on 18 April 2005, as a subsidiary of Open Joint Stock Company RAO "UES of Russia" (the "RAO UES") within the framework of Russian electricity sector restructuring. On 18 May 2010, the Company's name was changed to Open Joint Stock Company Quadra – Power Generation ("Quadra" or the "Company").

The principal business activity of the Company and its subsidiaries (the "Group") is generation and sale of electricity (capacity) and heat energy. The major operational facilities of the Group are located on the territory of the Russian Federation in the following regions: Belgorod, Bryansk, Voronezh, Kaluga, Kursk, Lipetsk, Oryol, Ryazan, Smolensk, Tambov and Tula.

The Company's registered office is located at: 99v, Timiryazev str., 300012, Tula, Russian Federation.

The major subsidiaries of the Company and their principal business activities are the following:

		Ownership, as %	
Name of subsidiary	**Principal activity**	**31/12/2009**	**31/12/2008**
JSC Belgorodskaya Heat Network Company	Heat generation and distribution	100.0	100.0
JSC Orlovskaya Heat Network Company	Heat generation and distribution	100.0	100.0
JSC Smolenskaya Heat Network Company	Heat generation and distribution	100.0	100.0
JSC Kurskaya Heat Network Company	Heat generation and distribution	100.0	100.0
JSC Smolenskteploenergoremont	Repairs of heat- and electro-mechanical equipment of power stations	100.0	100.0
JSC Tulenergokomplekt[1]	Procurement and logistic services	50.0	50.0

[1] Control of the Group is achieved through majority at the Board of Directors of the subsidiary.

As at 31 December 2009, the number of the Group's employees was 13,979 (2008: 16,462).

The Company's associates and their principal business activities are the following:

		Ownership, as %	
Name of associate	**Principal activity**	**31/12/2009**	**31/12/2008**
JSC Energetic Health Centre	Health and recreation services	49.0	49.0
JSC Technotest-Energo	Assembly and repair works	49.0	49.0
JSC Schekinskiye PGU	Technical supervision services	41.0	41.0

As at 31 December 2009 and 2008, Onexim Holding Limited, the major shareholder of the Group, was an owner of 50.0% of the Company's ordinary shares.

Operating environment

As an emerging market, the Russian Federation does not possess a fully developed business and regulatory infrastructure including stable banking and judicial systems, which would generally exist in a more mature market economy. The economy of the Russian Federation is characterized by a currency that is not freely convertible outside of the country, currency controls, low liquidity levels for debt and equity markets, and continuing inflation. As a result, operations in the Russian Federation involve risks that are not typically associated with those in more developed markets. Stability and success of Russian economy and the Group's business mainly depends on the effectiveness of economic measures undertaken by the government as well as the development of legal and political systems.

In recent years a number of major economies around the world have experienced volatile capital and credit markets. A number of major global financial institutions have either been placed into bankruptcy, taken over by other financial institutions and/or supported by government funding.

As a consequence of the recent market turmoil in capital and credit markets both globally and in Russia, notwithstanding any potential economic stabilisation measures that may be put into place by the Russian government, there exist as at the date these consolidated financial statements are authorised for issue economic uncertainties surrounding the continual availability, and cost of credit both for the Group and its counterparties, the potential for economic uncertainties to continue in the foreseeable future and, as a consequence, the potential that certain assets may not be recovered at their carrying amount in the ordinary course of business. In addition, in development of certain critical estimates of the Group and areas of critical judgement, management uses projected cash flows. These projected cash flows are dependent on various assumptions including historical experience and growth rates. As a result of the volatility in the global and Russian financial markets, management's estimates may change and result in a significant impact on the Group.

Relations with the State and current regulation

The government directly affects the Group's operations by regulating its wholesale energy sales through the Federal Service on Tariffs ("FST"), and its retail sales of electricity and heat through Regional Energy Commissions ("RECs").

The operations of all generating facilities are coordinated by the System Operator of the Unified Energy System ("SO UES") in order to meet system requirements in a more efficient manner. Operations of SO UES are controlled by the state.

Although certain volumes of electric power and capacity are traded at open market, tariffs for major volumes of electric and heat power sold by the Group entities are governed by regulations specific to the electricity and heat generation and by regulations applicable to natural monopolies. Historically, such tariffs have been based on a "cost-plus" system, meaning cost of service plus a margin, where costs are determined under the Regulations on Accounting and Reporting of the Russian Federation, a basis of accounting which significantly differs from International Financial Reporting Standards ("IFRS"). In practice, tariff decisions were impacted significantly by social and political considerations, causing significant delays in tariff determinations and tariff increases that were lower than required to compensate for cost increases.

Russian government's economic, social and other policies could have a material effect on the Group's operations.

2. BASIS OF PRESENTATION

Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS"), which includes standards and interpretations approved by the International Accounting Standards Board, including International Accounting Standards and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

The entities of the Group maintain their accounting records in accordance with the laws, accounting and reporting regulations of the Russian Federation, where entities of the Group are incorporated and registered. Accounting principles and financial reporting procedures in the Russian Federation differ substantially from those generally accepted under IFRS. Accordingly, financial statements of individual entities of the Group have been adjusted to ensure that the consolidated financial statements are presented in accordance with IFRS.

Basis of presentation

The consolidated financial statements have been prepared on the historical cost basis except for:

- mark-to-market valuation of certain financial instruments, in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*; and
- revaluation of property, plant and equipment in accordance with IAS 16 *Property, Plant and Equipment*.

Adoption of new and revised standards and interpretations

In preparation of the consolidated financial statements for the year ended 31 December 2009, the Group has adopted all of the standards that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2009.

The principal changes arising from adoption of these standards are as follows:

IAS 1 *Presentation of Financial Statements* (revised and effective 1 January 2009)

This revised standard separates owner and non-owner changes in the statement of changes in equity. Based on revised standard the statement of changes in equity includes only details of transactions with owner, with non-owner changes in equity presented as a single line item. In addition, the standard introduces the statement of comprehensive income and other terminology changes. All information presented in these consolidated financial statements was amended accordingly.

IAS 23 *Borrowing Costs* (revised and effective 1 January 2009)

This standard requires that all borrowing cost attributable to the acquisition and construction of qualifying assets should be capitalised. Before adoption of the revised standard the Group expensed all borrowings costs immediately. The Group has adopted the revised standard in respect of borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. The adoption of the revised standard with corresponding change in accounting policy led to capitalisation of RUB 382 thousand borrowing costs that is not significant for the Group.

IFRS 7 *Financial Instruments: Disclosures* (revised and effective 1 January 2009)

This amended standard requires additional disclosure about fair value measurement and liquidity risk. Fair value measurements are to be disclosed by source of inputs using a three level hierarchy for each class of financial instrument. In addition, reconciliation between the beginning and ending balance for Level 3 fair value measurements is now required, as well as significant transfers between Level 1 and Level 2 fair value measurements. The amendments also clarify the requirements for liquidity risk disclosures. The Group has elected not to provide comparative information for these expanded disclosures in the current year in accordance with the transitional reliefs offered in these amendments. Additional information and disclosure about fair value are presented in note 24.

IFRS 8 *Operating Segments* (effective 1 January 2009)

This standard requires disclosure of financial information about the Group’s operating segments based on management reporting system and replaces the requirements to determine primary (business) and secondary (geographical) reporting segments of the Group. Adoption of this standard did not have any effect on financial position or performance of the Group since the majority of the Group’s operations are in one segment, being generation and sale of electricity (capacity) and heat energy. The Group’s other operations are insignificant and were not presented as separate operating segment in these consolidated financial statements.

Early adoption of standards and interpretations

The Group has elected to adopt IAS 27 (2008) *Consolidated and Separate Financial Statements* (as revised in 2008 and effective from 1 July 2009) in advance of the effective date for adoption. The revision of IAS 27 principally affects the accounting for non-controlling interest in the Group’s subsidiaries. Under revised standard total comprehensive income is attributable to the owners of the Company and to non-controlling interests even if this results in non-controlling interests having a deficit balance.

Adoption of the revised standard resulted in recognition as at 31 December 2009 of non-controlling interests in the accumulated deficit of RUB 1,283 thousand, which would not be recognised under previous version of the standard.

Standards and interpretations adopted or early adopted with no effect on the consolidated financial statements of the Group

The revisions and amendments to the followings standards and interpretations presented below did not have any impact on the accounting policies, financial position or performance of the Group:

- IAS 16 *Property, Plant and Equipment*;
- IAS 18 *Revenue*;
- IAS 19 *Employee Benefits*;
- IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*;
- IAS 28 *Investments in Associates* (adopted in advance of the effective date of 1 July 2009);
- IAS 29 *Financial Reporting in Hyperinflationary Economies*;
- IAS 31 *Interest in Joint Ventures* (adopted in advance of the effective date of 1 July 2009);
- IAS 32 *Financial Instruments: Presentation*;
- IAS 36 *Impairment of Assets*;
- IAS 38 *Intangible Assets*;
- IAS 39 *Financial Instruments: Recognition and Measurement*;
- IAS 40 *Investments Property*;
- IFRS 2 *Share-based Payment*;
- IFRS 3 *Business Combinations* (adopted in advance of the effective date of 1 July 2009);
- IFRIC 13 *Customer Loyalty Programs*.

Standards and interpretations in issue but not yet adopted

At the date of authorisation of these consolidated financial statements, the following standards and interpretations were in issue but not yet effective:

Standards and Interpretations	Effective for annual periods beginning on or after
IAS 1 *Presentation of Financial Statements* (amended)	1 January 2010
IAS 7 *Statement of Cash Flows* (amended)	1 July 2009 and 1 January 2010
IAS 17 *Leases* (amended)	1 January 2010
IAS 21 *The Effect of Changes in Foreign Exchange Rates* (amended)	1 July 2009
IAS 24 *Related Parties: Disclosures* (amended)	1 January 2011
IAS 32 *Financial Instruments: Presentation* (amended)	1 February 2010
IAS 36 *Impairment of Assets* (amended)	1 January 2010
IAS 38 *Intangible Assets* (amended)	1 July 2009
IAS 39 *Financial Instruments: Recognition and Measurement* (amended)	1 July 2009 and 1 January 2010
IAS 40 *Investment Property* (amended)	1 January 2010
IFRS 1 *First-time Adoption of International Financial Reporting Standards* (amended)	1 July 2009
IFRS 2 *Share-based Payment* (amended)	1 July 2009 and 1 January 2010
IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* (amended)	1 January 2010
IFRS 9 *Financial Instruments*	1 January 2013
IFRIC 14 *IAS 19: The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction* (amended)	1 January 2011
IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*	1 July 2009
IFRIC 17 *Distribution of Non-cash Assets to Owners*	1 July 2009
IFRIC 18 *Transfers of Assets from Customers*	1 July 2009
IFRIC 19 *Extinguishment Financial Liabilities with Equity Instruments*	1 July 2010

Management anticipate that all of the above standards and Interpretations will be adopted in the Group's consolidated financial statements for the respective periods. The impact of their adoption in the preparation of the consolidated financial statements in future periods is currently being assessed by management.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements include financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in consolidated subsidiaries are indentified separately from the Group's equity therein. The interests of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Differences, if any, between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between:

- the aggregate of the fair value of the consideration received and the fair value of any retained interest; and
- the previous carrying amount of the assets (including goodwill, if any) and liabilities of the subsidiary and any non-controlling interests.

Amount previously recognised in other comprehensive income in relation to the subsidiary are accounted for (i.e. reclassified to profit or loss or transferred directly to retained earnings) in the same manner as would be required if the relevant assets or liabilities were disposed off. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 *Financial Instruments: Recognition and Measurement* or, when applicable, the cost on initial recognition of an investments in associate or jointly controlled entity.

Business combinations

Acquisitions of subsidiaries and businesses, other then those arising from entities under common control (see below), are accounted for using the purchase method. The consideration for each acquisition is measured at the aggregate of the fair value (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquire. Acquisition-related costs are recognised in profit or loss as incurred.

Where applicable, the consideration for the acquisition includes any assets or liabilities resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments (see below). All other subsequent changes in the fair value of contingent consideration classified as an asset or liability and are accounted for in accordance with relevant IFRSs. Changes in the fair value of contingent consideration classified as equity are not recognised.

Where a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to fair value at the acquisition date (i.e. the date the Group attained control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed off.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 (2008) are recognised at the fair value at the acquisition date, except for:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits*, respectively;
- liabilities or equity instruments related to the replacement by the Group of an acquiree's share-based payment awards are measured in accordance with IFRS 2 *Share-based Payment*; and
- assets (or disposal group) that are classifies as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would affect the amount recognised as of that date.

Common control transactions

In the consolidated financial statements of the combined entity purchase of subsidiaries from parties under common control is 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. Related goodwill, if any, inherent in the predecessor entity's original acquisitions is also recorded in these consolidated financial statements. Any difference between the carrying amount of net assets, including goodwill, and the consideration for the acquisition is accounted for in these consolidated financial statements within consolidated statement of changes in equity as *Merger reserve*.

Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.
The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a Group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Foreign currencies

The functional currency of the Company and its subsidiaries operating on the territory of the Russian Federation is the Russian Rouble ("RUB").

In preparing financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. Monetary items denominated in foreign currencies are retranslated at the rates prevailing at the each reporting dates. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise.

Exchange rates used in the preparation of the consolidated financial statements are as follows:

	31/12/2009	31/12/2008
RUB to 1 US Dollar		
Year end rates	30.24	29.38
RUB to 1 Euro		
Year end rates	43.39	41.44

Property, plant and equipment

Property, plant and equipment are stated at revalued amounts less any subsequent accumulated depreciation and impairment losses.

Before 31 December 2009, the revaluation model was applied in relation to all classes of property, plant and equipment except for: communications, motor vehicles, computer equipment, instruments, tools, measuring equipment and other machinery. Those classes of property, plant and equipment were measured at cost less accumulated depreciation and impairment losses.

Starting from 31 December 2009, all classes of property, plant and equipment are presented in the consolidated statement of financial position at their revalued amounts determined by an independent and qualified appraiser. The basis of valuation was fair value. In some instances, when items of property, plant and equipment are of a specialised nature, they were valued at depreciated replacement cots. For such items of property, plant and equipment the new replacement cost was established as the current cost to replace the assets with a functionally equivalent asset. The new replacement cost was then adjusted for accrued depreciation, including physical depreciation and functional obsolescence.

Revaluations are performed with sufficient regularity such that the carrying amounts do not differ substantially from those that would be determined using fair values at end of the reporting period. Any revaluation increase arising on revaluation of such property, plant and equipment is recognised in other comprehensive income, except to the extend that it reverses a revaluation decreases for the same assets previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation of such property, plant and equipment is recognised in profit or loss to the extent that it exceeds the balance, if any, held in the *Revaluation reserve for the property, plant and equipment* relating to a previous revaluation of that asset.

Depreciation on revalued property, plant and equipment is recognised in profit or loss. The *Revaluation reserve for the property, plant and equipment* is transferred directly to retained earnings when the surplus is realised either on the subsequent sale or retirement of the asset or as the asset is used by the Group; in the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount was restated to the revalued amount of the asset.

Construction-in-progress comprise costs directly related to the construction or acquisition of property, plant and equipment including an appropriate allocation of directly attributable variable overheads that are incurred in construction as well as costs of purchase of other assets (i.e. software that is integral part of related equipment) that require installation or preparation for their use. Finance costs that are attributable to the acquisition or construction of assets, that necessary takes a substantial period of time to get ready for its intended use or sale, are capitalised as part of the cost of that asset. Depreciation of these assets commences when the assets are put into operation.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment. The Group recognises the cost of replacing part in the carrying amount of an item of property, plant and equipment if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in profit or loss as an expense as incurred.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sale proceeds and the carrying amount of the assets and is recognised in profit or loss.

Depreciation

Depreciation is calculated on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Assets held under finance lease arrangements and operating leasehold improvements are depreciated over the shorter of their estimated useful lives and lease terms. If there is reasonable certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use is useful life of the asset. Land is not depreciated.

The estimated useful lives (in years) for the major classes of property, plant and equipment used in determination of depreciation charge for the year ended 31 December 2009 are as follows:

	Acquired before 31/12/2006	**Acquired after 31/12/2006**
Electricity and heat generation	4−54	9−32
Electricity distribution	3−28	9−21
Heating networks	3−36	5−25
Other	1−63	3−28

As a result of revaluation of property, plant and equipment as of 31 December 2009, the management of the Group has reassessed remaining useful lives for majority of property, plant and equipment.

Starting from 1 January 2010, the remaining useful lives (in years) for the major classes of property, plant and equipment will be as follows:

Electricity and heat generation	1−52
Electricity distribution	1−31
Heating networks	1−28
Other	1−54

The abovementioned remaining useful lives will be used in determination of the Group's depreciation charge for the year ending 31 December 2010.

Depreciation methods, useful lives and residual values (if any) are reviewed at each reporting date, with the effect of any changes in estimates being accounted for on a prospective basis.

Intangible assets

Intangible assets are carried at cost less accumulated amortisation and impairment losses. Amortisation is charged on a straight-line basis over their estimated useful lives.

For the year ended 31 December 2009, the following useful lives (in years) are used in the calculation of amortisation charge:

Computer software	1−10
Licences	1−9

The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Impairment of tangible and intangible assets, excluding goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease (see above).

Where an impairment loss is subsequently reversed, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase (see above).

Financial assets

Financial assets are recognised and derecognised on a trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs.

Financial assets of the Group are classified into the following specified categories:

- available-for-sale ("AFS") financial assets; and
- loans and receivables.

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

AFS financial assets

Listed and unlisted shares held by the Group are classified as being AFS and are stated at fair value. Fair value of AFS is determined as follows:

- the fair value of AFS financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- the fair value of other AFS financial assets are determined in accordance with generally accepted pricing model based on discounted cash flow analysis using prices from observable current market transactions.

Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the *Revaluation reserve for available-for-sale investments* with the exception of impairment losses, which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the *Revaluation reserve for available-for-sale investments* is reclassified to profit or loss.

Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive payments is established.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For listed and unlisted shares classified as AFS, a significant or prolonged decline in the fair value of the securities below their cost is considered to be evidence of impairment.

For loans and receivables objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For loans and receivables (financial assets carried at amortised cost), the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial assets is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying value is reduced through the use of an allowance account. Subsequent recoveries of amounts previously written-off are credited against the allowance account. Change in the carrying amount of the allowance account is recognised in profit or loss.

When an AFS is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

With the exception of AFS financial assets, if in subsequent period the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment is reversed through profit or loss to the extant that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS investments in shares, impairment loss previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes appropriate portion of fixed and variable overheads, are assigned to inventories by the following methods:

- *cost of fuel* is determined on the weighted average basis;
- *other inventories* − specific identification of the individual items.

Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Financial liabilities

Financial liabilities, including trade and other payables and loans and borrowings, are initially measured at fair value, net of transaction costs. Financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Provisions and contingencies

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Contingencies

Contingencies attributable to specific events are disclosed unless the probability of an outflow of resources embodying economic benefit is remote. Contingent assets are not recognised in the consolidated financial statements but are disclosed when an inflow of economic benefit is probable.

Government grants

Government grants are not recognised as income until there is a reasonable assurance that the Group is in compliance with the conditions attached to them.

Government grants are recognised as income over the period necessary to match them with the cost for which they are intended to compensate. Grants received as compensation for expenses or losses already incurred with no future related costs and obligations are recognised in profit or loss in the period in which they became receivable.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, excluding value added tax. Revenue is recognised to the extent that it is probable that economic benefit will flow to the Group and the revenue can be reliably measured. Cash received in advance from customers is not treated as current year revenue, and is recognised within liabilities.

Revenue from provision of heat and electricity

Revenue from provision of heat and electricity, is recognised when heat and electricity energy were supplied to customers.

Other revenue

Other revenue from sales of goods and services are recognised when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Dividend and interest income

Dividend income from investments is recognised when the Group's right to receive payment has been established.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Leasing

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease agreement. Initial direct costs, if any, incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over lease term.

The Group as lessee

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Employee benefit obligations

Remuneration to employees in respect if services rendered during the reporting period, including accruals for unused vacation, bonuses and related unified social tax ("UST"), is recognised as an expense in the period when it is earned.

Defined contribution plan

The Group's subsidiaries are legally obliged to make defined contributions to the Russian Federation State Pension Fund. Contributions to the Russian Federation State Pension Fund are collected through a unified social tax ("UST") calculated by the application of a regressive rate varying from 26% to 2% of the annual gross remuneration of each employee.

Defined benefit plan

The Group established partially funded defined benefit plan for its employees.

For defined benefit plan, the cost of providing benefits is determined using the Project Unit Credit Method with actuarial valuation being carried out at the end of each reporting period. Actuarial gains and losses that exceed 10 per cent of the greater of the present value of the Group's defined obligation and the fair value of plan assets as at the end of the prior year are amortised over expected average remaining working lives of the participating employees. Past service costs are recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over average period until the benefit become vested.

The retirement benefit obligation recognised in the consolidated statement of financial position represents the present value of the defined benefit obligations as adjusted for:

- unrecognised actuarial gains and losses;
- unrecognised past service costs; and
- reduced by the fair value of plan assets.

Any assets resulting from this calculation is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reductions in future contributions to the plan.

Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liabilities for current tax is calculated using tax rates that have been enacted or substantially enacted by the end of reporting period.

Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the rates that are expected to apply in the period in which the liability is settled or the asset realised, based on the tax rates that have been enacted or substantially enacted by the end of reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of reporting period, to recover or settle the carrying amount of its assets and liabilities.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Preparation of the consolidated financial statements in accordance with the IFRS requires the Group's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The determination of estimates requires judgements which are based on historical experience, current and expected economic conditions, and all other available information. Actual results could differ from those estimates.

The most significant areas requiring the use of management estimates and assumptions relate to:

- useful economic lives of property, plant and equipment;
- impairment of property, plant and equipment;
- allowance for doubtful receivables;
- employee benefit obligations; and
- income tax.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Useful economic lives of property, plant and equipment

The estimation of the useful lives of items of property, plant and equipment is a matter of judgement based on the Group's experience with similar assets. The future economic benefits embodied in property, plant and equipment are consumed principally through use. However, other factors, such as technical or commercial obsolescence and condition of property, plant and equipment (including operational factors and utilisation of maintenance programs), often will result in a change of the economic benefits from these assets.

Management periodically reviews the appropriateness of assets' useful economic lives. Revision to estimate of the useful lives of property, plant and equipment is recognised prospectively in the period of the revision and where applicable, future periods. Accordingly, this may impact the amount of depreciation charge and carrying amount of property, plant and equipment in the future.

Impairment of property, plant and equipment

The Group reviews the carrying amounts of its property, plant and equipment to determine whether there is any indication that those assets are impaired. In making the assessment for impairment, assets that do not generate independent cash flows are allocated to an appropriate cash-generating unit. Management necessarily applies its judgement in allocating assets that do not generate independent cash flows to appropriate cash-generating units, and also in estimating the timing and value of underlying cash flows within the value in use calculation. In determination the value in use calculation, future cash flows estimated at each cash-generating unit are based on a cash flow projection utilising the latest budgeted information available to the management.

Subsequent changes to the cash-generating unit allocation or to the timing of cash flows could impact the carrying value of the respective assets.

Further details, including sensitivity analysis in regard of key estimates and assumptions applied in determination of value in use are presented in note 5.

Allowance for doubtful receivables

The Group creates an allowance for doubtful receivables to account for estimated losses resulting from the inability of customers to make required payments. As at 31 December 2009, the allowance for doubtful receivables amounted to RUB 763,685 thousand (2008: RUB 635,980 thousand).

When evaluating the adequacy of an allowance for doubtful receivables, management bases its estimates on the current overall economic conditions, the ageing of accounts receivable balances, historical write-off experience, customer creditworthiness and changes in payment terms.

Changes in the economy, industry or specific customer conditions may require adjustments to the allowance for doubtful receivables recorded in the consolidated financial statements.

Employee benefit obligations

The expected costs of providing pensions and post retirement benefits under defined benefit plan and related employee current service cost during the period are charged to profit or loss.

Assumptions in respect of the expected costs are set after consultation with actuaries. While management believes that the assumptions used are appropriate, a change in the assumptions used would impact the result of the Group's operations.

The principal assumptions used for the purpose of the actuarial valuation were the following:

	31/12/2009	31/12/2008
Discount rate	9.0%	9.0%
Expected salary increase	8.0%	8.0%
Inflation	6.5%	7.0%
Mortality table	Russia 1998	Russia 1998

Income tax

The Group is subject to income taxes in the Russian Federation. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determinations are made.

Deferred tax assets are reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. The estimation of that probability includes judgements based on the expected performance. Various factors are considered to assess the probability of the future utilisation of deferred tax assets, including past operating results, operational plan, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from that estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be affected.

in thousands of Russian Roubles, unless otherwise stated

5. PROPERTY, PLANT AND EQUIPMENT

	Electricity and heat generation	Electricity distribution	Heating networks	Other	Construction-in-progress	Total
Cost or valuation						
Balance at 31 December 2007	**20,996,159**	**721,052**	**9,245,983**	**6,444,862**	**4,426,130**	**41,834,186**
Additions	217,976	–	5,589	47,574	5,230,351	**5,501,490**
Transfers from construction-in-progress	867,175	51,044	818,011	361,030	(2,097,260)	**–**
Disposals	(18,114)	(126)	(1,015)	(18,869)	(88,459)	**(126,583)**
Balance at 31 December 2008	**22,063,196**	**771,970**	**10,068,568**	**6,834,597**	**7,470,762**	**47,209,093**
Additions	220,887	681	85,951	36,254	3,670,160	**4,013,933**
Transfers from construction-in-progress	1,432,605	144,281	286,025	389,354	(2,252,265)	–
Disposals	(47,968)	(45)	(8,017)	(40,108)	(15,537)	**(111,675)**
Revaluation increase/(decrease)	3,287,029	1,166,645	(818,801)	1,398,157	(71,102)	**4,961,928**
Reclassification of accumulated depreciation and impairment as a result of revaluation	(17,496,236)	(450,179)	(8,955,396)	(4,710,534)	(2,044,212)	**(33,656,557)**
Balance at 31 December 2009	**9,459,513**	**1,633,353**	**658,330**	**3,907,720**	**6,757,806**	**22,416,722**
Accumulated depreciation and impairment						
Balance at 31 December 2007	**(1,654,203)**	**(67,524)**	**(971,720)**	**(654,948)**	**–**	**(3,348,395)**
Depreciation charge for the year	(1,728,811)	(77,802)	(1,045,010)	(592,576)	–	**(3,444,199)**
Eliminated on disposals	2,539	68	122	5,768	–	**8,497**
Impairment	(8,839,815)	(239,716)	(5,115,414)	(2,676,383)	(1,675,389)	**(18,546,717)**
Balance at 31 December 2008	**(12,220,290)**	**(384,974)**	**(7,132,022)**	**(3,918,139)**	**(1,675,389)**	**(25,330,814)**
Depreciation charge for the year	(807,581)	(47,416)	(461,290)	(259,014)	–	**(1,575,301)**
Eliminated on disposals	27,623	46	7,755	32,665	2,749	**70,838**
Impairment	(4,069,182)	19,118	(1,357,113)	(476,451)	(971,798)	**(6,855,426)**
Reclassification of impairment due to transfer from construction-in-progress	(434,364)	(37,609)	(12,726)	(101,110)	585,809	–
Reclassification of accumulated depreciation and impairment as a result of revaluation	17,496,236	450,179	8,955,396	4,710,534	2,044,212	**33,656,557**
Balance at 31 December 2009	**(7,558)**	**(656)**	**–**	**(11,515)**	**(14,417)**	**(34,146)**
Carrying value						
Balance at 31 December 2008	**9,842,906**	**386,996**	**2,936,546**	**2,916,458**	**5,795,373**	**21,878,279**
Balance at 31 December 2009	**9,451,955**	**1,632,697**	**658,330**	**3,896,205**	**6,743,389**	**22,382,576**

in thousands of Russian Roubles, unless otherwise stated

Property, plant and equipment pledged as security

The Group leases property, plant and equipment under a number of finance lease agreements. At the end of the term of the lease the Group takes automatic ownership of the assets or has an option to purchase leased assets at a beneficial price. Finance leases obligations are secured by the lessors' title to the leased assets.

	31/12/2009	31/12/2008
Carrying value of leased equipment (refer to note 13)	1,601,563	850,361

Certain items of property, plant and equipment have been pledged to secure bank loans and borrowings granted to the Group:

	31/12/2009	31/12/2008
Carrying value of pledged property, plant and equipment (refer to note 12)	1,217,009	–

Property, plant and equipment carried at fair value

As at 31 December 2009, the Group's property, plant and equipment were revalued by an independent and qualified appraiser, results of which were presented in these consolidated financial statements. As part of valuation, which conforms to International Valuation Standards, new fair values of property, plant and equipment were tested for impairment. In certain instances value in use, determined for separate cash-generating units, being production facilities located in Belgorod, Bryansk, Voronezh, Kaluga, Kursk, Lipetsk, Oryol, Ryazan, Smolensk, Tambov and Tula, was below the fair value of these assets, the results of valuation were adjusted for impairment loss.

The key estimates and assumptions used in determination of value in use are presented below.

Had the Group's property, plant and equipment been measured on a historical (deemed) cost, their carrying value would have been as follows:

	31/12/2009	31/12/2008
Electricity and heat generation	3,958,059	8,765,233
Electricity distribution	303,495	358,138
Heating networks	234,094	1,630,412
Other	1,293,629	1,910,236
Construction-in-progress	6,659,898	5,640,482
Total	**12,449,175**	**18,304,501**

Construction-in-progress

Construction-in-progress represents the carrying amount of property, plant and equipment that was not yet available for use and advances to construction companies and suppliers of property, plant and equipment. The amount of such advances was presented as follows:

	31/12/2009	31/12/2008
Advances to construction companies and suppliers of property, plant and equipment	2,657,006	4,502,718

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Annual test for impairment

As at 31 December 2009, as part of revaluation of the Group's property, plant and equipment management together with an independent and qualified appraiser conducted an impairment test for its property, plant and equipment.

The most significant estimates and assumptions used in determination of value in use are presented as follows:

Cash flows were projected based on budgeted amounts for the year ended 31 December 2010, taking into accounts actual results for the previous years. Cash flows were forecasted up to 2020, which is generally in line with expected remaining weighted average useful life of property, plant and equipment of the respective Group's subsidiaries and branches.

Increase of electricity tariffs was based on actual tariffs effective from 1 January 2010 and approved by FST. Management expects that regulated tariffs will be a subject for indexation in line with the increase of natural gas prices (principal technological fuel). Annual growth of electricity prices on open market is estimated to be in line with the increase of natural gas and coal prices.

The summary of the expected increase/(decrease) of natural gas and coal prices is presented as follows:

	Increase/(decrease) compared to preceding year, %	
	Natural gas	**Coal**
2010	27.7	12.1
2011	15.0	9.9
2012	15.0	8.2
2013	10.4	7.7
2014	5.0	7.8
Thereafter (2015-2020)	(1.4) – 3.2	7.8 – 7.9
Average for the period up to 2020	**7.1**	**8.5**

Increase of heat tariffs was based on actual tariffs effective from 1 January 2010 and approved by the respective Regional Authorities. Management expects that tariffs will be a subject for indexation in line with the increase of natural gas prices and purchase power price index ("PPPI") in regard of fuel and fixed fee components, respectively.

Increase of capacity tariffs was based on actual tariffs effective from 1 January 2010 and approved by FST. Management expects that tariffs will be a subject for indexation in line with expected inflation and PPPI increase.

The summary of the expected inflation and PPPI increase is presented as follows:

	Increase compared to preceding year, %	
	PPPI	**Inflation**
2010	8.2	2.4
2011	7.1	6.8
2012	7.5	6.5
2013	6.7	5.7
2014	5.3	5.3
Thereafter (2015-2020)	3.0 – 4.6	2.8 – 4.8
Average for the period up to 2020	**5.3**	**4.5**

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The *volumes of electricity and heat production* for the following years are estimated by management of the Group as follows:

	Increase/(decrease) compared to preceding year, %	
	Electricity	**Heat energy**
2010	–	(0.2)
2011	1.5	(0.2)
2012	3.6	(0.2)
2013	3.2	(0.2)
2014	2.8	(0.2)
Thereafter (2015-2020)	2.8 – 3.3	1.3 – 1.4
Average for the period up to 2020	**2.7**	**0.7**

Such trends and forecasts are generally in line with the external sources of information and agree to the long-term management's vision of future development of the utility market in the Russian Federation in general and in the regions where the Group's production facilities are located.

Expected increase of other operating expenses will be subject for indexation not exceeding PPPI for the respective years of projection.

A post-tax discount rate of 16.59% was calculated based on Weighted Average Cost of Capital ("WACC") that reflects management's assessment of the risks specific to the utility business in the Russian Federation.

As a result of annual impairment test as at 31 December 2009, an impairment loss in the amount of RUB 6,855,426 thousand (2008: RUB 18,546,717 thousand) was recognised. Impairment loss was presented in these consolidated financial statements as follows:

	Year ended 31/12/2009	**Year ended 31/12/2008**
Charge to profit or loss	6,855,426	10,600,862
Recognised within other comprehensive income	–	7,945,855
Total impairment loss	**6,855,426**	**18,546,717**

Sensitivity analysis

For certain cash-generating units changes in key assumptions such as *post-tax discount factor or WACC*, *inflation or PPPI rates* and *annual growth of natural gas prices* could result in the carrying value exceeding their recoverable amount.

As at 31 December 2009, the implication of the key assumptions and potential outcome for the recoverable amount and impact on carrying value of property, plant and equipment are presented as follows:

	WACC		**Inflation or PPPI**		**Natural gas price**	
	+1%	**-1%**	**+1%**	**-1%**	**+1%**	**-1%**
(Decrease)/increase in carrying value	**(458,909)**	**537,855**	**555,658**	**(511,283)**	**(450,457)**	**387,942**

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6. INVENTORIES

	31/12/2009	31/12/2008
Fuel	1,259,266	1,368,541
Raw materials	318,942	303,475
Other inventories	166,218	200,145
Total inventories, at cost	**1,744,426**	**1,872,161**
Less: allowance for obsolete and slow moving items	(6,107)	(12,914)
Total	**1,738,319**	**1,859,247**

Certain inventories were pledged to secure bank loans and borrowings granted to the Group:

	31/12/2009	31/12/2008
Fuel (refer to note 12)	1,257,352	1,260,739

Certain inventories, which are expected to be recovered after one year are presented as follows:

	31/12/2009	31/12/2008
	119,121	119,762

7. ACCOUNTS RECEIVABLE AND ADVANCES PAID

	31/12/2009	31/12/2008
Trade accounts receivable	4,696,865	3,112,879
Other accounts receivable	74,547	185,387
Less: allowance for doubtful receivables	(763,685)	(635,980)
Total financial assets	**4,007,727**	**2,662,286**
Advances paid and prepaid expenses	1,394,724	1,699,742
VAT reimbursable	451,022	22,438
Other taxes receivable	2,079	3,116
Total non-financial assets	**1,847,825**	**1,725,296**
Total non-current accounts receivable and advances paid	**38,108**	**82,988**
Total current accounts receivable and advances paid	**5,817,444**	**4,304,594**

The average credit period for the Group's customers is 44 days (2008: 30 days). During this period no interest was charged on the outstanding balances. Thereafter, in regard of the agreements for supply of electricity and capacity, interest is charged at the 1/225 of Central Bank of Russian Federation ("CB RF") refinancing rate per day. As at 31 December 2009, the CB RF refinancing rate was established at 8.75% per annum (2008: 13% per annum).

Trade and other receivables are provided for based on estimated irrecoverable amounts, determined by reference to past experience and are regularly reassessed based on the facts and circumstances existing at the end of each reporting period.

There is no formal credit rating analysis performed by the Group entities before accepting new customers due to the fact that majority of the counterparties were accepted long time ago and/or such counterparties are monopolists for further distribution and sales of electricity and heat energy. In addition, utility services are the monopoly services provided by the Group subsidiaries in the regions where they operate.
When a commercial enterprise, a customer of the Group, fails to settle the amount due within 30 days

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after the date of invoice, the Group has a right to restrict or temporary discontinue provision of services to this customer. Such a right does not exist in respect of individuals and certain state controlled entities. As at 31 December 2009, of the accounts receivable and advances paid, the Group's five largest counterparties represented 30.7% (2008: 30.8%) of the outstanding balance.

The summary of outstanding balances of the Group's top five counterparties is presented as follows:

Name of counterparty	Account balance	31/12/2009	31/12/2008
JSC TSFR	Trade receivables	699,454	272,272
LLC Lipetskregiongaz	Advances paid and prepaid expenses	391,701	311,771
LLC Tularegiongaz	Advances paid and prepaid expenses	336,095	483,981
MUP Gorteploset, Kursk	Trade receivables	324,446	244,936
MUP RMPTS, Ryazan	Trade receivables	266,033	206,799
Total		**2,017,729**	**1,519,759**

Ageing of trade and other receivables are presented as follows:

	31/12/2009		31/12/2008	
	Outstanding balance	Impairment provision	Outstanding balance	Impairment provision
Not past due	3,608,126	(2,001)	2,344,036	(8,100)
From 30 to 90 days	192,298	(86,750)	213,508	–
From 91 to 180 days	85,173	(42,153)	121,438	(93,214)
From 181 to 360	442,194	(265,978)	297,452	(219,058)
More than 361 days	443,621	(366,803)	321,832	(315,608)
Total	**4,771,412**	**(763,685)**	**3,298,266**	**(635,980)**

Movement in allowance for doubtful receivables in respect of trade and other receivables is presented as follows:

	31/12/2009	31/12/2008
Balance at beginning of the year	**635,980**	**382,279**
Additional allowance provision recognised	331,887	521,648
Reversal of previously recognised allowance provision	(160,128)	(16,365)
Unwinding of discount on long-term accounts receivable	(6,098)	(15,179)
Total recognised in profit or loss	**165,661**	**490,104**
Amounts written-off as uncollected	(37,956)	(236,403)
Total	**763,685**	**635,980**

The Group's management believes that allowance for doubtful receivables recorded in the consolidated financial statements is sufficient to cover its credit risk.

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8. DEFERRED TAX

Movements in deferred tax assets and liabilities of the Group for the years ended 31 December 2009 and 2008 are presented as follows:

	31/12/2009	Recognised in profit or loss	Recognised in other comprehensive income	31/12/2008	Recognised in profit or loss	Recognised in other comprehensive income	31/12/2007
Deferred tax assets							
Accounts payable and accruals	**236,741**	28,927	–	**207,814**	142,364	–	**65,450**
Property, plant and equipment	**122,421**	(3,050)	125,471	**–**	–	–	**–**
Doubtful receivables	**54,697**	(38,866)	–	**93,563**	(38,179)	–	**131,742**
Finance leases	**43,752**	(34,356)	–	**78,108**	(56,386)	–	**134,494**
Pension	**25,412**	(135,678)	–	**161,090**	(8,155)	–	**169,245**
AFS investments in shares	**4,424**	9,254	(4,830)	**–**	–	–	**–**
Other	**1,222**	(381)	–	**1,603**	1,603	–	**–**
Total deferred tax assets	**488,669**	**(174,150)**	**120,641**	**542,178**	**41,247**	**–**	**500,931**
Deferred tax liabilities							
Property, plant and equipment	**251,055**	(1,210,493)	921,478	**540,070**	(2,820,119)	(1,899,300)	**5,259,489**
Other	**5,870**	(20,758)	–	**26,628**	(858)	–	**27,486**
Total deferred tax liabilities	**256,925**	**(1,231,251)**	**921,478**	**566,698**	**(2,820,977)**	**(1,899,300)**	**5,286,975**

Unrecognised deferred tax assets are presented as follows:

	31/12/2009	31/12/2008
Temporary differences associated with impairment of property, plant and equipment	6,511	247,295
Temporary differences associated with impairment of AFS investments in shares	–	9,254
Temporary differences associated with uncompensated losses of subsidiaries and associates	130,131	286,659
Total	**136,642**	**543,208**

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9. BANK DEPOSITS

Bank name	Rating agency	Rating	31/12/2009	31/12/2008
JSC AKB International Financial Club	–	–	712,345	–
JSC Sberbank of the Russian Federation	Fitch Ratings	BBB	–	1,500,000
JSC AKB Rosbank	Fitch Ratings	BBB+	–	3,000,000
Total			**712,345**	**4,500,000**

International Financial Club – USD-denominated deposit bearing interest at 5.0% per annum maturing on 10 February 2010. The deposit was redeemed on due date.

Sberbank of the Russian Federation – RUB-denominated deposit bearing interest at 9.5% per annum and original maturity on 8 June 2009. The deposit was redeemed on 15 January 2009 with the effective interest rate at 9.1% per annum.

Rosbank – RUB-denominated deposit bearing interest at 9.7% per annum and original maturity on 19 May 2009. The deposit was redeemed on 23 January 2009 with the effective interest rate at 9.5% per annum.

10. CASH AND CASH EQUIVALENTS

	31/12/2009	31/12/2008
Bank deposits	2,846,912	1,994,596
Current bank accounts, including:		
RUB-denominated	205,618	157,035
USD-denominated	–	2,440,748
Other cash equivalents	580	315
Total	**3,053,110**	**4,592,694**

The summary below shows credit quality analysis and outstanding balances for cash and cash equivalents:

Bank name	Rating agency	Rating	31/12/2009	31/12/2008
JSC Gazprombank	S&P	BB	2,877,512	2,441,795
JSC VTB	Fitch Ratings	BBB	103,183	74,227
JSC Alfa-bank	Fitch Ratings	BB-	20,356	19,142
JSC Bank of Moscow	Fitch Ratings	BBB-	18,602	12,292
JSC Sberbank of the Russian Federation	Fitch Ratings	BBB	15,989	30,643
JSC MI&B	–	–	15,672	14,332
JSC AKB Rosbank	Fitch Ratings	BBB+	1,330	1,999,189
Other			466	1,074
Total			**3,053,110**	**4,592,694**

Bank deposits

Bank name	Currency	Due date	31/12/2009	31/12/2008
JSC Gazprombank	USD	19/01/2010	2,846,912	–
JSC AKB Rosbank	USD	11/01/2009	–	1,994,596
Total			**2,846,912**	**1,994,596**

As at 31 December 2009 and 2008, USD-denominated bank deposits placed in Gazprombank and Rosbank bearing interest rates at 0.2% per annum with original maturity of less than three months.

11. CAPITAL AND RESERVES

Ordinary shares

	31/12/2009		31/12/2008	
	Number of shares, in thousands	Balance	Number of shares, in thousands	Balance
Balance at beginning of the year	**1,912,505,578**	**19,125,056**	**1,321,201,965**	**13,212,020**
20/05/2008: issuance of additional shares	−	−	586,000,000	5,860,000
25/08/2008: issuance of additional shares	−	−	5,303,613	53,036
Balance at end of the year	**1,912,505,578**	**19,125,056**	**1,912,505,578**	**19,125,056**

The holders of the Company's ordinary shares of RUB 0.01 at par, carry one vote per share on the shareholders meetings and the right to dividends, which are subject for approval at shareholders meeting.

At the extraordinary general shareholders meeting held 31 August 2007 TGC−4 shareholders decided to increase the equity capital of TGC−4 by placing 586,000,000 thousand of additional ordinary registered shares. The placement was executed in May 2008 by public subscription.

In August 2008, the Company issued 5,303,613 thousand of non-documentary ordinary shares under the framework of the merger with JSC TGC-4 Holding.

Preferred shares

	31/12/2009		31/12/2008	
	Number of shares, in thousands	Balance	Number of shares, in thousands	Balance
Balance at beginning and end of the year	75,272,939	752,729	75,272,939	752,729

The holders of the Company's preferred shares of RUB 0.01 at par, are entitled to receive (per one share) 40% from net profit (determined under local accounting standards) divided by number of ordinary and preferred shares of the Company during reporting period but not less than dividends declared for the Company's ordinary shares. They do not have right to vote at the shareholders meetings if dividends are declared and carrying one vote per share, if not.

In case of the Company liquidation, the holders of preferred shares are entitled to receive any declared unpaid dividends and then the nominal value of the shares ("liquidation value"). Following this, holders of preferred shares participate equally with holders of the Company's ordinary shares in the distribution of the remaining assets.

Share premium

	31/12/2009	31/12/2008
Balance at beginning of the year	**10,921,097**	**959,867**
February 2008: excess of consideration paid over par value of treasury shares	−	(19,434)
May 2008: issuance of additional ordinary shares	−	9,962,000
August 2008: issuance of additional ordinary shares	−	18,664
Balance at end of the year	**10,921,097**	**10,921,097**

Treasury shares

	31/12/2009		31/12/2008	
	Number of shares, in thousands	Balance	Number of shares, in thousands	Balance
Balance at beginning of the year	**106,836**	**1,069**	–	–
January 2009:				
Re-issuance of ordinary shares	(202)	(3)	–	–
Re-issuance of preferred shares	(106,634)	(1,066)	–	–
February 2008:				
Buy-back of ordinary shares	–	–	1,296,247	12,963
Buy-back of preferred shares	–	–	106,634	1,066
July 2008: re-issuance of ordinary shares	–	–	(1,296,045)	(12,960)
Balance at end of the year	–	–	**106,836**	**1,069**

In February 2008, the Company’s shares were bought back from shareholders of TGC−4 as part of the mandatory reorganisation procedure, including:

- 1,296,247 thousand ordinary shares at the buy-back price of RUB 0.0244 per share and total consideration of RUB 31,629 thousand; and
- 106,634 thousand preferred shares at the buy-back price of RUB 0.0172 per share and total consideration of RUB 1,834 thousand.

In July 2008, according to the agreement on the merger of JSC TGC−4 Holding 1,296,045 thousand of the Company’s ordinary shares were re-issued from treasury stock for the purpose of converting JSC “TGC−4 Holding” shares in the merger process.

In January 2009, the Company’s shares held in treasury stock were re-issued, including:

- 202 thousand ordinary shares at the price of RUB 0.0055 per share and total consideration of RUB 1 thousand; and
- 106,634 thousand preferred shares at the price of RUB 0.0023 per share and total consideration of RUB 246 thousand.

Merger reserve

The merger reserve was created in the year ended 31 December 2005, in the course of re-organisation of RAO UES operations and formation of the Group.

Dividends and retained earning

The statutory financial statements of the Company are the basis for profit distribution and other appropriations. As at 31 December 2009 and 2008, the Company’s retained earnings in the financial statements prepared under legislation and accounting and reporting standards of the Russian Federation, which may potentially be distributed between shareholders in the form of dividends, amounted to RUB 3,008,288 thousand and RUB 883,330 thousand, respectively.

During the years ended 31 December 2009 and 2008, the Company declared dividends in respect of preferred shares, which were fully paid in the same year.

	Year ended 31/12/2009		Year ended 31/12/2008	
	Dividends per share, RUB	Declared dividends	Dividends per share, RUB	Declared dividends
Dividends declared	0.00002342	1,763	0.00007433	5,587

In respect of the year ended 31 December 2009, Board of Directors proposed a dividend of RUB 0.00042913 per preferred share. Dividends were approved be shareholders at the annual general meeting on 27 April 2010, and have not been included as liabilities in these consolidated financial statements. The total estimated dividends in the amount of RUB 32,302 thousand should be paid during 2010 and will not have any tax consequences for the Group.

Loss per share

Loss per share for the years ended 31 December 2009 and 2008 were calculated based on weighted average number of the Company's ordinary shares outstanding during respective periods and losses for the years, attributable to owners of the Company as presented as follows:

	Year ended 31/12/2009	Year ended 31/12/2008
Loss for the year attributable to owners of the Company	**(2,854,523)**	**(9,719,880)**
Less: earnings attributable to the holders of the Company's preferred shares	(32,302)	(1,763)
Loss for the year used in the calculation of loss per share	**(2,886,825)**	**(9,721,643)**
Weighted average number of the Company's ordinary shares, in thousands	1,912,505,561	1,664,262,546
Loss per share, in RUB	**(0.002)**	**(0.006)**

12. LOANS AND BORROWINGS

	31/12/2009		31/12/2008	
	Rate, as %	Balance	Rate, as %	Balance
Secured bank loans:				
JSC Sberbank of the Russian Federation	11.25 – 13.75	381,700	11.25 – 13.75	381,700
JSC Gazpombank	10.70 – 17.00	759,200	10.70 – 17.00	1,667,223
Unsecured bank loans:				
JSC Sberbank of the Russian Federation	8.40 – 14.25	779,643	8.40 – 14.25	562,325
JSC Gazpombank	–	–	11.00 – 17.00	808,906
JSC AKB Rosbank	–	–	10.25 – 16.50	473,708
RUB-denominated Corporate bonds	7.60	30,018	7.60	2,624,495
Interest payable on loans and borrowings	N/A	7,271	N/A	40,275
		1,957,832		**6,558,632**
Long-term portion of loans and borrowings		**–**		**858,304**
Current portion repayable in one year and shown under current liabilities		**1,957,832**		**5,700,328**

Unused credit facilities

The following committed credit facilities provided by the financial institutions to the Group were unused at the end of respective reporting periods:

	31/12/2009	31/12/2008
Secured credit facilities and credit lines	6,981,700	7,237,700
Unsecured credit facilities and credit lines	8,600,000	9,100,000
Overdrafts	100,000	100,000
Less: amounts obtained by the Group	(1,920,543)	(3,893,862)
Total unused credit facilities	**13,761,157**	**12,543,838**

All bank loans are RUB-denominated and represent credit facilities provided to the Group. Interest rates are fixed for each tranches at set up in credit facility agreements and respective addendums.

in thousands of Russian Roubles, unless otherwise stated

Certain bank loans are subject to the restrictive covenants, including but not limited to:

- prohibition of issuance of additional Group's promissory notes and debentures without bank pre-approval; and
- pre-approval of guaranties issued.

All bank loan agreements have accelerated clauses, allowing creditors to request early repayment of outstanding amounts in case of non-compliance with these covenants.

The following items of property, plant and equipment and inventories were pledged to secure bank loans:

	31/12/2009	31/12/2008
Property, plant and equipment (refer to note 5)	1,217,009	–
Inventories (refer to note 6)	1,257,352	1,260,739
Total	**2,474,361**	**1,260,739**

As at 31 December 2009, the Group pledged future cash proceeds from certain significant customers of RUB 763,035 thousand (2008: RUB 1,676,350 thousand).

13. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	31/12/2009	31/12/2008	31/12/2009	31/12/2008
Due within one year	188,130	284,876	145,260	170,298
Due from second to fifth year	89,083	277,213	73,501	220,240
	277,213	**562,089**	**218,761**	**390,538**
Less: future finance charge	(58,452)	(171,551)	N/A	N/A
Present value of lease obligations	**218,761**	**390,538**	**218,761**	**390,538**
Total long-term portion of finance leases obligation			**73,501**	**220,240**
Total short-term portion of finance leases obligations			**145,260**	**170,298**

The Group leases property, plant and equipment under a number of finance lease agreements. The average lease term is 54 months. For the year ended 31 December 2009, the weighted average effective interest rate was 43% (2008: 37%). All leases are on a fixed repayment basis and denominated in RUR. The Group's obligations under finance leases are secured by the lessors' title to the leased assets, carrying value of which as at 31 December 2009 was RUB 1,601,563 thousand (2008: RUB 850,361 thousand).

in thousands of Russian Roubles, unless otherwise stated

14. PENSION LIABILITIES

The Group operates partially funded defined benefit pension plan for qualifying employees. The actuarial valuation of the Group's defined benefit obligations as at 31 December 2009 and 2008 was performed by an independent actuary.

Amounts recognised in profit or loss in respect of defined benefit plan are presented as follows:

	Year ended 31/12/2009	**Year ended 31/12/2008**
Current service cost	58,148	73,365
Interest on obligation	78,303	59,147
Actuarial losses	5,094	5,985
Past service cost	9,255	9,255
Gain arising from curtailment	(91,822)	–
Immediate recognition of vested prior service cost	12,444	–
Total	**71,422**	**147,752**

Curtailment gain recognised for the year ended 31 December 2009 was due to decrease in operations in Belgorod region with corresponding decrease in the number of employees.

Amounts included in the statement of financial position arising from the Group's obligations in respect to its defined benefit plan are presented as follows:

	31/12/2009	**31/12/2008**
Present value of unfunded defined benefit obligations	855,920	891,630
Actuarial losses not recognised	(43,472)	(5,276)
Past services costs not recognised	(61,814)	(80,905)
Total	**750,634**	**805,449**

Movements in the present value of defined benefit obligations were as follows:

	31/12/2009	**31/12/2008**
Defined benefit obligations at beginning of the year	**891,631**	**863,322**
Current service cost	58,148	73,365
Interest on obligation	78,303	59,147
Actuarial losses/(gains)	48,729	(56,713)
Past service cost	12,444	–
Benefit paid	(126,237)	(47,490)
Gain arising from curtailment	(107,098)	–
Defined benefit obligations at end of the year	**855,920**	**891,631**

During the year ending 31 December 2010, the Group expects to make contribution of RUB 54,963 thousand (2009: RUB 53,091 thousand) to defined benefit plan.

The history of experience adjustments is presented as follows:

	31/12/2009	**31/12/2008**	**31/12/2007**	**31/12/2006**	**31/12/2005**
Present value of defined benefit obligations	855,920	891,631	863,321	746,645	463,422
Experience adjustments on plan liabilities	40,502	110,589	7,322	(14,095)	(20,557)

in thousands of Russian Roubles, unless otherwise stated

15. ACCOUNTS PAYABLES AND ACCRUALS

	31/12/2009	31/12/2008
Trade accounts payable	862,719	650,659
Dividends payable	8,283	12,244
Other accounts payable	49,020	83,325
Total financial liabilities	**920,022**	**746,228**
Accrued employee benefits	496,286	374,935
Advances received	131,612	139,981
Total non-financial liabilities	**627,898**	**514,916**
Total	**1,547,920**	**1,261,144**

Accrued employee benefits included unpaid salaries and wages, provisions for unused vacations and bonuses.

The average credit period is 16 days (2008: 15 days).

16. PROVISION FOR LEGAL CLAIMS

	31/12/2009	31/12/2008
Balance at beginning of the year	**812,591**	**38,558**
Additional provision recognised	122,540	802,339
Reversal of previously recognised provision	(127,744)	(14,518)
Settled in cash	(172)	(13,788)
Balance at end of the year	**807,215**	**812,591**

17. OTHER TAXES PAYABLE

	31/12/2009	31/12/2008
Value added tax	478,206	338,395
Unified social tax	115,472	78,132
Property tax	80,488	75,788
Personal income tax	32,393	32,353
Land tax	14,214	13,940
Other taxes	21,819	21,007
Total	**742,592**	**559,615**

18. STAFF COSTS

	Year ended 31/12/2009	Year ended 31/12/2008
Wages and salaries	3,482,535	3,079,370
Unified social tax	750,332	710,984
Financial assistance to employees and retired persons	161,176	164,230
Defined benefit expenses	(6,881)	88,605
Defined contribution expenses	–	27,391
Total	**4,387,162**	**4,070,580**

Unified social tax for the year ended 31 December 2009 included contribution to the Pension Fund of the Russian Federation of RUB 575,857 thousand (2008: RUB 546,665 thousand).

in thousands of Russian Roubles, unless otherwise stated

19. FINANCE COSTS

	Year ended 31/12/2009	Year ended 31/12/2008
Interest expense on loans and borrowings	390,034	687,109
Interest expense on obligations under finance leases	132,316	177,011
Interest expense on pension liabilities	78,303	59,147
Total interest expense	**600,653**	**923,267**
Less: amount included in the cost of qualifying assets	(382)	–
Total finance costs	**600,271**	**923,267**

20. INCOME TAX

Income tax recognised in profit or loss

	Year ended 31/12/2009	Year ended 31/12/2008
Impact of change in income tax rate	–	223,046
Deferred tax benefit relating to origination and reversal of temporary differences	(1,057,101)	(3,085,270)
Total deferred tax benefit	**(1,057,101)**	**(2,862,224)**
Current income tax	549,572	372,509
Total	**(507,529)**	**(2,489,715)**

A reconciliation of statutory income tax to the amount of actual income tax expense recorded in profit or loss is presented as follows:

	Year ended 31/12/2009	Year ended 31/12/2008
Loss for the year	**(3,366,736)**	**(12,233,582)**
Income tax at statutory rate of 20% (2008: 24%)	673,347	2,936,060
Expenses not deductible for tax purposes	(219,477)	(162,200)
Effect of previously unrecognised deferred tax assets	53,659	–
Impact of change in income tax rate	–	(223,046)
Deferred tax assets not recognised	–	(61,099)
Total	**507,529**	**2,489,715**

As a result of the change of statutory income tax rate from 24% to 20% that was enacted on 26 November 2008 and effective from 1 January 2009, deferred taxes as at 31 December 2008 were remeasured applying 20% income tax rate.

Income tax recognised in other comprehensive income

Deferred taxes arising on income and expenses recognised in other comprehensive income are presented as follows:

	Year ended 31/12/2009	Year ended 31/12/2008
(Revaluation)/impairment of property, plant and equipment	(992,386)	1,907,005
Revaluation of available-for-sale investments	(4,830)	–
Effect of previously unrecognised deferred tax assets	196,379	–
Impact of change in income tax rate	–	227,950
Deferred tax assets not recognised	–	(235,655)
Total	**(800,837)**	**1,899,300**

in thousands of Russian Roubles, unless otherwise stated

21. RELATED PARTIES

Related parties include shareholders, associates, entities under common ownership and control with the Group and members of key management personnel. The Company and its subsidiaries, in the ordinary course of business, enter into various sale, purchase and service transactions with related parties. Transactions between the Company and its subsidiaries have been eliminated on consolidation and are not disclosed in these consolidated financial statements.

As a result of change in the shareholding structure, starting from 30 June 2008 RAO EUS and its subsidiaries are no longer considered to be related parties of the Group.

Details of transactions between the Group and other related parties are presented as follows:

	Sales of electricity and heat energy		Purchase of goods and services	
Transactions with related parties	**Year ended 31/12/2009**	**Year ended 31/12/2008**	**Year ended 31/12/2009**	**Year ended 31/12/2008**
RAO UES and its subsidiaries	–	1,583,682	–	318,615
JSC Tul'skaya Distribution Company	583,282	2,289,471	1,774	8,477
LLC SK Soglasiye	–	–	72,816	–
	583,282	**3,873,153**	**74,590**	**327,092**

During the year ended 31 December 2009, the Group placed USD-denominated deposit in the amount of RUB 712,345 thousand in JSC AKB International Financial Club, a company related by means of common control and ownership. The deposit is bearing interest at 5.0% per annum and maturing on 10 February 2010. Interest income earned by the Group in respect of this deposit for the year ended 31 December 2009 amounted to RUB 13,461 thousand and should be paid off at maturity date.

There are no significant outstanding balances with related parties as at 31 December 2009 and 2008, except for as disclosed above information in regard of deposits and accrued interest in JSC AKB International Financial Club.

Compensation of key management personnel

Remuneration of the key management personnel of the Group is presented as follows:

	Year ended 31/12/2009	**Year ended 31/12/2008**
Salary and performance bonuses	114,197	81,807
Termination benefits	7,200	25,994
Post-employment benefits	2,143	459
Other benefits, including social security taxes	1,979	9,495
Total	**125,519**	**117,755**

As at 31 December 2009, unsettled obligations with regard to compensation of key management personnel were RUB 27,231 thousand (2008: RUB 16,887 thousand).

in thousands of Russian Roubles, unless otherwise stated

22. COMMITMENTS AND CONTINGENCIES

Capital commitments

As at 31 December 2009, the Group's contractual capital commitments amounted to RUB 9,460,138 thousand (2008: RUB 18,396,958 thousand).

Future capital expenditures under contractual obligations are related to the following projects:

	31/12/2009	31/12/2008
Enlargement of Novomoskovskaya GRES	6,493,859	7,669,759
Reconstruction of Voronezhskaya TETs-2	1,399,876	1,802,725
Reconstruction of the boiler in North-West region of the town of Kursk	1,365,218	1,974,691
Reconstruction of Dyagilevskaya TETs	–	5,781,021
Other	201,185	1,168,762
Total	**9,460,138**	**18,396,958**

Operating leases: Group as a lessee

The land on which the Group's production facilities are located is partially owned by the state. The Group leases land through operating lease agreements, which expire in various years through 2058. According to the term of lease agreements rent fees are revised annually by reference to an order issued by the relevant local authorities. The Group entities have a renewal option at the end of the lease period and an option to buy land at any time, at a price established by the local authorities. The Group also leases other property, plant and equipment. The respective lease agreements have an average life of 1 to 50 years and generally do not have renewal option at the end of the term. There are no restrictions placed upon the lessee by entering into these agreements.

Future minimum rental expenses under non-cancellable operating leases are as follows:

	31/12/2009	31/12/2008
Due within one year	228,791	157,125
Due from second to fifth year	489,698	439,358
Due thereafter	2,056,887	1,649,987
Total	**2,775,376**	**2,246,470**

Purchase commitments

The Group entities concluded a number of long-term contracts with JSC Gazprom and its subsidiaries for the purchase in 2009-2012 of the limited gas with guaranteed volumes and delivery terms. Purchase volumes are determined on the basis of estimated production demands. The purchase price of gas is determined by *Federal Service on Tariffs*. The gas demand that is not covered by the limited volumes set up by JSC Gazprom shall be satisfied by commercial gas purchases under short-term (up to one month) supply contracts entered into by results of tenders held on the electronic platform of LLC Mezhregiongaz and at prices determined by the tender.

Guaranties given

The total amount of outstanding guaranties given by the Group is presented as follows:

	31/12/2009	31/12/2008
JSC Russian Bank of Development	46,032	190,032
JSC Gazpombank	2,424	238,409
Total	**48,456**	**428,441**

The management of the Group estimates the maximum exposure in the event of non-performance by parties above mentioned to be limited by the contractual amounts. As at 31 December 2009, management assessed the risk on non-performance by parties to these financial guaranties as remote.

Social commitments

The Group contributes to the maintenance and upkeep of the local infrastructure and the welfare of its employees, including contributions to development and maintenance of housing, hospitals, transport services, recreation and other social needs in the geographical areas in which it operates.

Taxation contingencies in the Russian Federation

The taxation system in the Russian Federation is at a relatively early stage of development, and is characterised by numerous taxes, frequent changes and inconsistent enforcement at federal, regional and local levels.

The government of the Russian Federation has commenced a revision of the Russian tax system and passed certain laws implementing tax reform. The new laws reduce the number of taxes and overall tax burden on businesses and simplify tax litigation. However, these new tax laws continue to rely heavily on the interpretation of local tax officials and fail to address many existing problems. Many issues associated with practical implication of new legislation are unclear and complicate the Group's tax planning and related business decisions.

Russian tax authorities have a period of up to three years to re-open tax declarations for further inspection. Changes in the tax system that may be applied retrospectively by authorities could affect the Group's previously submitted and assessed tax declarations. While management believes that it has adequately provided for tax liabilities based on its interpretation of current and previous legislation, the risk remains that tax authorities in the Russian Federation could take differing positions with regard to interpretive issues. This uncertainty may expose the Group to additional taxation, fines and penalties that could be significant.

Environmental matters

The Group is subject to extensive federal, state and local environmental controls and regulations in the regions in which it operates. The Group's operations involve the discharge of materials and contaminants into the environment that could potentially impact on flora and fauna, and give rise to other environmental concerns. The Group's management believes that its production facilities are in compliance with the existing environmental legislation of the regions in which it operates. However, environmental laws and regulations continue to evolve.

The Group is unable to predict the timing or extent to which those laws and regulations may change. Such change, if it occurs, may require that the Group modernise technology and upgrade production equipment to meet more stringent standards.

Insurance

The insurance industry in the Russian Federation is in a developing stage and many forms of insurance protection common in developed markets are not generally available.

The Group's entities do not have full coverage for property damage, business interruption and third party liabilities. Until the Group obtains adequate insurance coverage, there is a risk that losses from business interruption and third party liabilities could have a material adverse effect on the Group's operations and financial position.

23. FINANCIAL RISK MANAGEMENT

Capital risk management

The Group manages its capital to ensure that entities of the Group will be able to continue as a going concern while maximising the return to the equity holder through the optimisation of the debt and equity balance. The management of the Group reviews the capital structure on a regular basis. Based on the results of this review, the Group takes steps to balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

in thousands of Russian Roubles, unless otherwise stated

Consistent with other companies in the industry, the Group monitors capital on the basis of the gearing ratio, and ensures that the ratio is not more than 1.0. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total loans and borrowings and obligations under finance leases less cash and cash equivalents, as shown in the consolidated statement of financial position. Capital is calculated as total equity, as shown in the consolidated statement of financial position.

	31/12/2009	31/12/2008
Debt	2,176,593	6,949,170
Less: cash and cash equivalents	(3,053,110)	(4,592,694)
Net debt	**(876,517)**	**2,356,476**
Equity	28,097,420	26,772,901
Gearing ratio	**(0.03)**	**0.09**

The Group's policy of capital risk management is based on the following financial ratios: debt to adjusted EBITDA ratio and borrowing costs coverage by adjusted EBITDA. Adjusted EBITDA equal to operating loss adjusted for depreciation and amortisation charge and impairment of property, plant and equipment, as most significant non-cash items. Borrowing costs consist of interest on loans and borrowings and obligations under finance leases.

	31/12/2009	31/12/2008
Operating loss	(3,266,216)	(11,965,130)
Impairment of property, plant and equipment	6,855,426	10,600,862
Depreciation and amortisation	1,593,855	3,498,538
Adjusted EBITDA	**5,183,065**	**2,134,270**
Debt	2,176,593	6,949,170
Borrowing costs	521,968	864,120
Debt / Adjusted EBITDA	**0.42**	**3.26**
Borrowing costs / Adjusted EBITDA	**0.10**	**0.40**

Major categories of financial instruments

The Group's principal financial liabilities comprise loans and borrowings, finance leases and accounts payable. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various financial assets such as accounts receivable, available-for-sale investments, deposits and cash and cash equivalents.

	31/12/2009	31/12/2008
Financial assets		
Available-for-sale investments	52,645	28,494
Accounts receivable	4,007,727	2,662,286
Bank deposits	712,345	4,500,000
Cash and cash equivalents	3,053,110	4,592,694
Total financial assets	**7,825,827**	**11,783,474**
Financial liabilities		
Loans and borrowings	1,957,832	6,558,632
Obligations under financial leases	218,761	390,538
Accounts payable	920,022	746,228
Total financial liabilities	**3,096,615**	**7,695,398**

The main risks arising from the Group's financial instruments are foreign currency, liquidity and credit risks.

in thousands of Russian Roubles, unless otherwise stated

Foreign currency risk

Currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed. The majority of the Group financial assets and liabilities are nominated in Russian Roubles. At the same time certain deposits and cash in bank accounts are nominated in US Dollars.

The table below details the Group's sensitivity analysis to a 10% (2008: 30%) increase and decrease in the Russian Rouble against the US Dollar. The analysis was applied to all monetary items at the end of each reporting period denominated in USD. (A positive number below indicates an increase in profit).

	31/12/2009		31/12/2008	
	+10%	**-10%**	**+30%**	**-30%**
Profit or loss before income tax	355,926	(355,926)	1,330,588	(1,330,588)

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle its liabilities as they fall due. The Group's liquidity position is carefully monitored and managed. The Group has in place a detailed budgeting and cash forecasting process to help ensure that it has adequate cash available to meet its payment obligations.

Presented below is the maturity profile of the Group's loans and borrowings, finance leases obligations and accounts payable as at 31 December 2009 based on undiscounted contractual payments, including future interest payments:

	Total	Due within one month	Due from one to three months	Due from three to twelve months	From one to five years
Loans and borrowings	**2,037,838**	7,095	1,580,949	449,794	–
Obligations under finance leases	**277,213**	26,020	38,118	123,992	89,083
Accounts payable	**920,022**	493,347	275,499	151,176	–
Total	**3,235,073**	**526,462**	**1,894,566**	**724,962**	**89,083**

Presented below is the maturity profile of the Group's loans and borrowings, finance leases obligations and accounts payable as at 31 December 2008 based on undiscounted contractual payments, including future interest payments:

	Total	Due within one month	Due from one to three months	Due from three to twelve months	From one to five years
Loans and borrowings	**7,103,568**	93,529	1,784,358	4,149,714	1,075,967
Obligations under finance leases	**562,089**	29,572	42,623	212,681	277,213
Accounts payable	**746,228**	683,189	34,331	28,708	–
Total	**8,411,885**	**806,290**	**1,861,312**	**4,391,103**	**1,353,180**

Credit risk

Credit risk is the risk that a customer may default or not meet its obligations to the Group on a timely basis, leading to financial losses of the Group.

Trade receivables consist of a large number of customers spread across different industries and geographical areas of the Russian Federation. The Group's credit risk in respect of significant counterparties, with outstanding balances representing more than 4% of total accounts receivable and advances paid balance, was disclosed in note 7.

in thousands of Russian Roubles, unless otherwise stated

The maximum exposure of the Group to credit risk is presented as follows:

	31/12/2009	31/12/2008
Accounts receivable	4,007,727	2,662,286
Bank deposits	712,345	4,500,000
Cash and cash equivalents	3,053,110	4,592,694
Financial guarantees issued	48,456	428,441
Total	**7,821,638**	**12,183,421**

24. FAIR VALUE OF FINANCIAL INSTRUMENTS

Carrying value of available-for-sale investments determined with reference to quoted market prices, approximate their fair value. Management of the Group believes that the carrying value of other financial instruments, which are accounted for at amortised cost, such as cash and cash equivalents (refer to note 10), bank deposits (refer to note 9), accounts receivable (refer to note 7), loans and borrowings (refer to note 12), obligations under financial leases (refer to note 13) and accounts payable (refer to note 15) approximate their fair value, except for Corporate Bonds information about fair value of which is presented as follows:

	31/12/2009		31/12/2008	
	Carrying value	Fair value	Carrying value	Fair value
Corporate Bonds	30,018	29,718	2,624,495	2,498,520

Fair value of Corporate Bonds was determined by reference to the market quotations.

25. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

Declared dividends

On 27 April 2010, dividends of RUB 0.00042913 per preferred share of the Company were approved by shareholders at the annual general meeting. The total estimated dividends in the amount of RUB 32,302 thousand are to be paid during the year ended 31 December 2010.

Establishment of joint venture

On 18 February 2010, the Group contributed RUB 2,450 thousand in exchange for 49.0% interest in share capital of a newly created joint venture LLC Kursk Energy. The principal business activities of LLC Kursk Energy will include generation and distribution of heat energy on the territory of Kursk city.