OGK-2 GROUP
CONSOLIDATED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) FOR THE YEAR ENDED 31 DECEMBER 2008

PRICEWATERHOUSECOOPERS

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Board of Directors of Open Joint Stock Company "The Second Generating Company of the Wholesale Electric Power Market" (OJSC "OGK-2")

We have audited the accompanying consolidated financial statements of OJSC "OGK-2" and its subsidiaries (the "OGK-2 Group") which comprise the consolidated balance sheet as at 31 December 2008 and the consolidated income statement, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the OGK-2 Group as of 31 December 2008, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw your attention to Notes 1, 2 and 5 to the accompanying consolidated financial statements. The Government of the Russian Federation has an ultimate controlling interest in the OGK-2 Group and Governmental economic and social policies affect the Group's financial position, results of operations and cash flows.

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
29 April 2009

OGK-2 Group
Consolidated Balance Sheet as at 31 December 2008
(in thousands of Russian Roubles)

	Notes	31 December 2008	31 December 2007
ASSETS			
Non-current assets			
Property, plant and equipment	6	34,785,137	18,107,520
Intangible assets	7	1,941,330	678,442
Other non-current assets	8	5,546,197	4,129,686
Total non-current assets		**42,272,664**	**22,915,648**
Current assets			
Cash and cash equivalents	9	3,161,417	21,476,918
Trade and other receivables	10	2,670,803	2,068,636
Inventories	11	2,500,469	1,975,648
Current income tax prepayments		896,309	236,211
Other current assets	12	66,160	100,013
Total current assets		**9,295,158**	**25,857,426**
TOTAL ASSETS		**51,567,822**	**48,773,074**
EQUITY AND LIABILITIES			
Equity			
Share capital			
Ordinary shares	13	11,872,828	11,872,231
Treasury shares		(5,579)	(23,155)
Share premium		23,916,508	23,865,543
Merger reserve		(377,383)	(377,383)
Retained earnings		913,542	1,298,746
Total equity		**36,319,916**	**36,635,982**
Non-current liabilities			
Deferred income tax liabilities	14	2,411,788	2,561,979
Non-current debt	15	4,908,978	16,802
Retirement benefit obligations	19	502,026	355,820
Restoration provision	20	410,486	-
Total non-current liabilities		**8,233,278**	**2,934,601**
Current liabilities			
Current debt and current portion of non-current debt	16	2,712,529	6,841,078
Trade and other payables	17	3,682,172	2,005,731
Other taxes payable	18	448,777	355,682
Restoration provision	20	57,254	-
Provision for current income tax payable	14	113,896	-
Total current liabilities		**7,014,628**	**9,202,491**
Total liabilities		**15,247,906**	**12,137,092**
TOTAL EQUITY AND LIABILITIES		**51,567,822**	**48,773,074**

General Director S.V. Neveynitsyn

Chief Accountant L.V. Klisch

27 April 2009

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

OGK-2 Group

Consolidated Income Statement for the year ended 31 December 2008

(in thousands of Russian Roubles, except for (loss) per ordinary share information)

	Notes	Year ended 31 December 2008	Year ended 31 December 2007
Revenues	21	40,556,305	33,785,684
Operating expenses	22	(41,196,312)	(33,228,362)
Other operating items		(57,096)	(14,393)
Operating (loss)/profit		**(697,103)**	**542,929**
Finance income	23	708,915	317,988
Finance cost	24	(710,384)	(952,703)
Loss before income tax		**(698,572)**	**(91,786)**
Total income tax reversal/(charge)	14	313,487	(174,549)
Loss for the year		**(385,085)**	**(266,335)**
Attributable to:			
Shareholders of OJSC OGK-2		(385,085)	(266,335)
Minority interest		-	-
Loss per ordinary share for loss attributable to the shareholders of OJSC OGK-2 – basic and diluted (in Russian Roubles)	25	**(0.01)**	**(0.01)**

General Director S.V. Neveynitsyn

Chief Accountant L.V. Klisch

27 April 2009

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OGK-2 Group
Consolidated Cash Flow Statement for the year ended 31 December 2008
(in thousands of Russian Roubles)

	Notes	Year ended 31 December 2008	Year ended 31 December 2007
CASH FLOW FROM OPERATING ACTIVITIES:			
Loss before income tax		**(698,572)**	**(91,786)**
Adjustments to reconcile profit before income tax to net cash provided by operations:			
Impairment loss for property, plant and equipment	6	287,903	-
Depreciation of property, plant and equipment	6	1,276,427	1,026,848
Amortisation of intangible assets	7	24,065	13,382
Reversal of provision for impairment of trade and other receivables		(55,780)	(86,550)
Increase / (decrease) of provision for inventory obsolescence		4,869	(14,429)
Finance income	23	(708,915)	(317,988)
Finance costs	24	710,384	952,703
Increase / (decrease) in retirement benefit obligations	22	190,507	(85,449)
Employee share option plan	13	61,863	80,507
Loss / (gain) on disposal of assets	22	22,079	(4,643)
Foreign exchange differences	23, 24	30,624	(8,158)
Other non-cash items		2,338	28,234
Operating cash flows before working capital changes and income tax paid		**1,147,792**	**1,492,671**
Working capital changes:			
Increase in trade and other receivables		(687,591)	(26,334)
Payments in respect of retirement benefit obligations		(154,309)	(64,226)
(Increase) / decrease in inventories		(509,483)	14,702
Decrease in other current assets		14	441,695
Increase in long-term input VAT from advances paid		(3,024,242)	-
Increase in trade and other payables		1,696,991	564,195
Increase / (decrease) in taxes payable, other than income tax		93,095	(1,911)
Income tax paid in cash		(384,643)	(309,745)
Net cash (used in) / generated from operating activities		**(1,822,376)**	**2,111,047**
CASH FLOW FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(17,821,141)	(1,484,839)
Proceeds from sale of property, plant and equipment		1,545	10,323
Purchase of intangible assets		(1,286,953)	(396,083)
Increase in deposits		(4,413,160)	(2,112,400)
Proceeds from deposits		6,559,400	-
Interest received		636,135	224,861
Increase in other non-current assets		-	(2,113,927)
Proceeds from disposal of subsidiary, net		11,500	14,414
Net cash used in investing activities		**(16,312,674)**	**(5,857,651)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from short-term borrowings		7,302,000	5,949,050
Proceeds from long-term borrowings		2,260,950	5,000,000
Repayment of short-term debt		(6,402,000)	(8,932,725)
Repayment of long-term debt		(2,384,968)	(1,000,000)
Interest paid		(812,835)	(262,654)
Payments under finance lease		(92,296)	(132,792)
Proceeds from share issue		-	24,967,108
Expenses for share issue		-	(652,363)
Purchase of treasury shares		(52,357)	(23,155)
Proceeds from sale of treasure shares		1,055	-
Premium paid to secure settlement of share-based payments	13	-	(709,688)
Dividend paid by the Group to shareholders of OJSC OGK-2		-	(157,829)
Net cash (used in) / generated from financing activities		**(180,451)**	**24,044,952**
Net (decrease) / increase in cash and cash equivalents		(18,315,501)	20,298,348
Cash and cash equivalents at the beginning of the year	9	21,476,918	1,178,570
Cash and cash equivalents at the end of the year	9	**3,161,417**	**21,476,918**

General Director S.V. Neveynitsyn

Chief Accountant L.V. Klisch

27 April 2009

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

OGK-2 Group
Consolidated Statement of Changes in Equity for the year ended 31 December 2008
(in thousands of Russian Roubles)

	Share capital	Treasury shares	Share premium	Merger reserve	Retained earnings	Total
At 1 January 2007	**26,480,896**	**-**	**1,818,408**	**(17,508,697)**	**2,284,262**	**13,074,869**
Loss for the year	-	-	-	-	(266,335)	(266,335)
Dividends (Note 13)	-	-	-	-	(90,000)	(90,000)
Decrease in share capital (Note 13)	(16,876,275)	-	-	16,876,275	-	-
Increase in share capital (Note 13)	2,267,610	-	22,047,135	-	-	24,314,745
Treasury shares	-	(23,155)	-	-	-	(23,155)
Employee share option plan (Note 13)	-	-	-	-	(629,181)	(629,181)
Other movements (Note 6)	-	-	-	255,039	-	255,039
At 31 December 2007	**11,872,231**	**(23,155)**	**23,865,543**	**(377,383)**	**1,298,746**	**36,635,982**
At 1 January 2008	**11,872,231**	**(23,155)**	**23,865,543**	**(377,383)**	**1,298,746**	**36,635,982**
Loss for the year	-	-	-	-	(385,085)	(385,085)
Purchase of treasury shares	-	(52,357)	-	-	-	(52,357)
Employee share option plan (Note 13)	-	-	-	-	61,863	61,863
Exchange of shares transaction	597	68,878	50,965	-	-	120,440
Sale of treasury shares	-	1,055	-	-	-	1,055
Change in fair value of available-for-sale investments	-	-	-	-	(61,982)	(61,982)
At 31 December 2008	**11,872,828**	**(5,579)**	**23,916,508**	**(377,383)**	**913,542**	**36,319,916**

General Director S.V. Neveynitsyn

Chief Accountant L.V. Klisch

27 April 2009

Note 1. The Group and its operations

Open Joint Stock Company "The Second Generating Company of the Wholesale Electric Power Market" (OJSC "OGK-2", or the "Company" and together with subsidiaries – the "Group") was established on 9 March 2005 within the framework of Russian electricity sector restructuring in accordance with the Resolution No. 1254-r adopted by the Russian Federation Government on 1 September 2003.

The Group's primary activities are generation and sale of electric and heat power. The Group consists of the following power stations (plants): Troitskaya GRES, Stavropolskaya GRES, Pskovskaya GRES, Serovskaya GRES and Surgutskaya GRES-1.

The Company is registered by the Izobilnensk District Inspectorate of the RF Ministry of Taxation of Stavropol Region.

The Company's office is located at 56, Profsoyuznaya str., 117393, Moscow, Russia.

Operating environment of the Group. The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation. Despite strong economic growth in recent years, the financial situation in the Russian market significantly deteriorated during 2008, particularly in the fourth quarter. As a result of global volatility in financial and commodity markets, among other factors, there has been a significant decline in the Russian stock market since mid-2008. Since September 2008, there has been increased volatility in currency markets and the Russian Rouble (RR) has depreciated significantly against some major currencies. The official US Dollar (USD) exchange rate of the Central Bank of the Russian Federation ("CBRF") increased from RUR 25.3718 at 1 October 2008 to RR 29.3804 at 31 December 2008.

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes. Furthermore, the need for further developments in the bankruptcy laws, the absence of formalised procedures for the registration and enforcement of collateral, and other legal and fiscal impediments contribute to the challenges faced by legal entities currently operating in the Russian Federation. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the government, together with tax, legal, regulatory, and political developments.

Management is unable to predict all developments which could have an impact on the utilities sector and the wider economy and consequently what effect, if any, they could have on the financial position of the Group.

Impact of the ongoing global financial and economic crisis. The ongoing global financial and economic crisis that emerged out of the severe reduction in global liquidity which commenced in the middle of 2007 (often referred to as the "Credit Crunch") has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector and wider economy, and, at times, higher interbank lending rates and very high volatility in stock and currency markets. The uncertainties in the global financial markets have also led to failures of banks and other corporates, and to bank rescues in the United States of America, Western Europe, Russia and elsewhere. The full extent of the impact of the ongoing financial crisis is proving to be difficult to anticipate or completely guard against.

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

Impact on debtors. Debtors of the Group may be adversely affected by the financial and economic environment, which could in turn impact their ability to repay the amounts owed or fulfill the obligations undertaken. Deteriorating economic conditions for customers may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, management has properly reflected revised estimates of expected future cash flows in its impairment assessments.

Impact on revenues. The uncertainty in the global markets combined with other local factors has during 2008 led to very high volatility in the Russian Stock Markets.

Management is unable to reliably estimate the effects on the Group's financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Management believes it is taking all the necessary measures to support the sustainability and growth of the Group's business in the current circumstances.

Relations with the state and current regulation. Until 1 July 2008, Russian Open Joint Stock Company for Energy and Electrification Unified Energy System of Russia ("RAO UES") owned 65.47% of the Company. In turn 52.68% of RAO UES was owned by the Russian Federation.

On 1 July 2008 as part of electric industry restructuring process RAO UES ceased to exist as a separate legal entity. Also as a result of the restructuring process Gazprom Group has obtained control over the Company at this date. Gazprom Group, in its turn, is controlled by the Russian Federation; therefore, the Russian government is the ultimate controlling party of the Group.

The Group's customer base includes a large number of entities controlled by or related to the state. The list of the Group's major fuel suppliers includes subsidiaries of Gazprom Group which is ultimately controlled by the state.

The state directly affects the Group's operations through regulation by the Federal Service for Tariffs ("FST") with respect to its wholesale energy sales under the terms of Regulated Contracts, and by the Regional services for tariffs ("RSTs") with respect of its heat sales. Operations of all generation facilities are centrally coordinated by OJSC "System operator of the Unified energy system" ("SO UES") in order to meet system requirements in an efficient manner. SO UES is controlled by the Russian Federation.

Tariffs which the Group may charge for sales of electric energy and heat are governed by regulations specific to the electricity and heat industry and by regulations applicable to natural monopolies in the Russian Federation. Historically the tariffs have been based on a "cost-plus" basis, meaning tariffs are based on the cost of service plus a margin, where costs are determined under the Regulations on Accounting and Reporting of the Russian Federation ("RAR"), 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.

As described in Notes 2 and 27, the government's economic, social and other policies could have material effects on the operations of the Group.

Sector restructuring. The Russian electric utilities industry was undergoing a restructuring process designed to introduce competition into the electricity and capacity sector and to create an environment in which the successor companies of RAO UES (including OJSC "OGK-2") can raise the capital required to maintain and expand current capacity.

A crucial step in developing a competitive wholesale electricity (capacity) market was the adoption of the new Wholesale Electric Power (capacity) Market (NOREM) Rules of the Transitional Period ("Rules") approved by Resolution of the Government of the Russian Federation No. 529 dated 31 August 2006 and which came into force on 1 September 2006. Under the new wholesale market framework three sectors of the electricity market were introduced: sector of Regulated Contracts (sales of pre-determined volumes are performed at tariffs (prices) approved by FST), day-ahead market (electricity competitive trading, non-regulated prices) and balancing (deviation) electricity market (non-regulated prices). Also, mechanism of the sale (purchase) of electricity at non-regulated prices was determined. No mechanism of sale (purchase) of capacity at non-regulated prices was introduced.

The period from 1 September 2006 to the end of 2010 is a "transitional period" pending full liberalisation of the new wholesale market.

At the beginning of the "transitional period" Regulated Contracts covered almost all volume of electricity and power produced and sold. During the "transitional period" the share of the Regulated Contracts sector is planned to gradually reduce in accordance with the schedule incorporated into the government Resolution No. 205 dated 7 April 2007 in the following way: 70 – 85% in 2008, 65 – 70% in the first half of 2009 and 45 - 50% after 1 July 2009.

By 2011 it is expected that a fully competitive market will be developed and as the result, electricity and capacity will be traded at non-regulated prices, excluding sales to the households which will continue to be regulated by the state until at least 2011.

On 28 June 2008 the amendments to the above mentioned Rules were approved by the government Resolution No. 476, which stipulated the introduction of competitive mechanisms of trade of capacity on the new wholesale market. Starting 1 July 2008 a respective portion of capacity (as defined in the schedule referred to above) could be traded at non-regulated prices.

The competitive mechanisms of capacity trade under the Rules ensure suppliers guaranteed payment at regulated tariffs approved by FST for capacity accounted for in the annual forecast balance, including payment for the capacity of the new generating facilities put into operation after 2007. Currently the comprehensive model of the future competitive market for capacity is being discussed and developed by relevant stakeholders.

Management believes that ultimately a stable regulatory regime and a competitive power market will be put in place such that the Group will be able to raise required financing to sustain the business. However, there can be no assurance in this regard.

Note 2. Financial condition

As at 31 December 2008, the Group's current assets exceeded its current liabilities by Russian Roubles ("RR") 2,280,530 thousand (as at 31 December 2007 the Group's current assets exceeded its current liabilities by RR 16,654,935 thousand).

As discussed above the Group is affected by government policy through the control of tariffs and other factors. The FST does not always permit tariff increases in line with increases in the Group's costs and thus some tariffs are insufficient to cover all the costs of generation. Moreover, these tariffs consider costs only on a Russian statutory basis and, accordingly, exclude additional costs recognized under an IFRS basis of accounting. As a result, tariffs may not always allow for an adequate return on investment and currently do not provide sufficient funds for the full replacement of property, plant and equipment.

The Group is also affected by the ongoing liquidity and economic crisis.

The Group's management has been taking the following actions in order to address the issues noted above and sustain or further improve the Group's financial position:

- introduction of improved financial budgeting procedures, a strong focus on timely cash collection of current and old debtor balances;
- negotiations with federal and regional governments and regulators for real increases in tariffs to support adequate long term investment into the Group's generation assets;
- refinancing of short-term debts at rates appropriate for the Group;
- negotiations with suppliers to agree reduction of purchase prices and more favourable payment schedules for the Group;
- negotiations with the government bodies to defer and/or cut the Group's investment programme to reflect the fall in demand and less favourable forecasts of future demand dynamics;
- negotiations with lenders/investors to raise long-term debt/equity financing for investments in new generation assets.

Note 3. Basis of preparation

Statement of compliance. These consolidated financial statements ("Financial Statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS") and related interpretations adopted by the International Accounting Standards Board ("IASB").

The Company and each subsidiary of the Company individually maintains its own books of accounts and prepares its statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation. The accompanying Financial Statements are based on the statutory records and adjusted and reclassified for the purpose of fair presentation in accordance with IFRS.

Functional and presentation currency. The national currency of the Russian Federation is the Russian rouble ("RR"), which is the functional currency of the Company and its subsidiaries and the currency in which these financial statements are presented. All financial information presented in RR has been rounded to the nearest thousand.

Accounting for the effects of hyperinflation. The Russian Federation has previously experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29"). IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. Hyperinflation in the Russian Federation ceased effective from 1 January 2003. Restatement procedures of IAS 29 are therefore only applied to assets acquired or revalued and liabilities incurred or assumed prior to that date. For these balances, the amounts expressed in the measuring unit current at 31 December 2002 are treated as the basis for the carrying amounts of these financial statements.

New accounting developments. Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods and which the Group has not early adopted:

IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). The standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments, with segment information presented on a similar basis to that used for internal reporting purposes. The Group expects the revised IFRS 8 to have effect on the presentation of information about its operating segments but to have no impact on the recognition or measurement of transactions and balances.

Puttable Financial Instruments and Obligations Arising on Liquidation—IAS 32 and IAS 1 Amendment (effective for annual periods beginning on or after 1 January 2009). The amendment requires classification as equity of some financial instruments that meet the definition of financial liabilities. The Group does not expect the amendment to affect its financial statements.

IAS 23, Borrowing Costs (revised March 2007; effective for annual periods beginning on or after 1 January 2009). The main change to IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset. The revised standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. The Group is currently assessing the impact of the amendment to the standard on its financial statements.

IAS 1, Presentation of Financial Statements (revised September 2007; effective for annual periods beginning on or after 1 January 2009). The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Group expects the revised IAS 1 to affect the presentation of its financial statements but to have no impact on the recognition or measurement of specific transactions and balances.

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

Vesting Conditions and Cancellations—Amendment to IFRS 2, Share-based Payment (issued in January 2008; effective for annual periods beginning on or after 1 January 2009). The amendment clarifies that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group does not expect the amendment to have a material effect on its financial statements.

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer will have to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The Group does not expect the amendment to affect its financial statements.

IFRIC 13, Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC 13 is not relevant to the Group's operations because no Group companies operate any loyalty programmes.

IFRIC 15, Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 1 January 2009). The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. It also provides criteria for determining when entities should recognise revenue on such transactions. IFRIC 15 is not relevant to the Group's operations because it does not have any agreements for the construction of real estate.

IFRIC 16, Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008). The interpretation explains which currency risk exposures are eligible for hedge accounting and states that translation from the functional currency to the presentation currency does not create an exposure to which hedge accounting could be applied. The IFRIC allows the hedging instrument to be held by any entity or entities within a group except the foreign operation that itself is being hedged. The interpretation also clarifies how the gain or loss recycled from the currency translation reserve to profit or loss is calculated on disposal of the hedged foreign operation. Reporting entities will apply IAS 39 to discontinue hedge accounting prospectively when their hedges do not meet the criteria for hedge accounting in IFRIC 16. IFRIC 16 does not have any impact on these financial statements as the Group does not apply hedge accounting.

Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate—IFRS 1 and IAS 27 Amendment (issued in May 2008; effective for annual periods beginning on or after 1 January 2009). The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous GAAP carrying value as deemed cost in the separate financial statements. The amendment also requires distributions from pre-acquisition net assets of investees to be recognised in profit or loss rather than as a recovery of the investment. The Group does not expect the amendment to have any material effect on the Group's consolidated financial statements.

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

Improvements to International Financial Reporting Standards (issued in May 2008). In 2007, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting.

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

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

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

Improving Disclosures about Financial Instruments - Amendment to IFRS 7, Financial Instruments: Disclosures (issued in March 2009; effective for annual periods beginning on or after 1 January 2009). The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity will be required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (b) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. The Group does not expect the amended standard to have a material effect on its financial statements.

Embedded Derivatives - Amendments to IFRIC 9 and IAS 39 (effective for annual periods ending on or after 30 June 2009). The amendments clarify that on reclassification of a financial asset out of the 'at fair value through profit or loss' category, all embedded derivatives have to be assessed and, if necessary, separately accounted for. The Group does not expect the amendments to have effect on the Group's financial statements.

Going concern. The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realisation of assets and the satisfaction of liabilities in the normal course of business. The recoverability of the Group's assets, as well as the future operations of the Group, may be significantly affected by the current and future economic environment. The accompanying financial statements do not include any adjustments should the Group be unable to continue as a going concern.

Critical accounting estimates and assumptions. The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgments, apart from those involving estimations, in the process of applying the accounting policies. Judgments that have the most significant effect on the amounts recognized in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Provision for impairment of trade and other receivables

Provision for impairment of trade and other receivables is based on the Group's assessment of whether the collectibility of specific customer accounts worsened compared to prior estimates. If there is deterioration in a major customer's creditworthiness or actual defaults are higher than the estimates, the actual results could differ from these estimates. See effect of these critical accounting estimates and assumptions in Note 10.

Provision for impairment of property, plant and equipment and assets under construction

At each balance sheet date the Group assesses whether there is any indication that the recoverable amount of the Group's property, plant and equipment and assets under construction has declined below the carrying value. The recoverable amount of property, plant and equipment and assets under construction is the higher of an asset's fair value less costs to sell and its value in use. When such a decline is identified, the carrying amount is reduced to the recoverable amount. The amount of the reduction is recorded in the consolidated income statement in the period in which the reduction is identified. If conditions change and management determines that the value of property, plant and equipment and assets under construction has increased, the impairment provision will be fully or partially reversed. See effect of these critical accounting estimates and assumptions in Note 6. As described in Notes 1, 2, and 27, the government's economic, social and other policies could have material effects on the operations of the Group.

Useful lives of property, plant and equipment

The estimation of the useful lives of an item of property, plant and equipment is a matter of management judgment based upon experience with similar assets. In determining the useful life of assets, management considers the expected usage, estimated technical obsolescence, physical wear and tear and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments for future depreciation rates. See effect of these critical accounting estimates and assumptions in Note 6.

Tax contingencies

Russian tax legislation is subject to varying interpretations and changes, which can occur frequently. Where the Group management believes it is probable that their interpretation of the relevant legislation and the Group's tax positions cannot be sustained, an appropriate amount is accrued for in these IFRS financial statements. See effect of these critical accounting estimates and assumptions in Note 27.

Note 4. Summary of significant accounting policies

Principles of consolidation. The Financial Statements comprise the financial statements of OJSC "OGK-2" and the financial statements of those entities whose operations are controlled by OJSC "OGK-2". Control is presumed to exist when OJSC "OGK-2" controls, directly or indirectly through subsidiaries, more than 50% of voting rights.

A) Subsidiaries

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases. The minority interest is disclosed as part of equity.

B) Transactions eliminated on consolidation

Inter-company balances and transactions, and any unrealized gains arising from inter-company transactions, are eliminated in preparing the consolidated financial statements.

Transfers of businesses from parties under common control. The Group was formed by the combination of a number of businesses under common control. Contributions to share capital of shares in subsidiaries (businesses) from parties under common control are accounted for using predecessors basis of accounting. The assets and liabilities of the subsidiary transferred under common control are accounted at the predecessor entity's carrying amounts. Because of the consequent use of the predecessor basis of accounting, the principal component of the net equity recognised for the Group is based on the historic carrying value of the net assets of the businesses contributed as recorded in the IFRS financial records of the predecessor enterprises, rather than the fair values of those net assets. To account for mergers of the subsidiaries transferred under common control the equity statement reflects additions to share capital in the amount equal to the statutory nominal value of the shares issued and share premium which is based on the fair value of the net assets of the businesses contributed. In accordance with the predecessor basis of accounting any difference between the carrying amount of net assets and the nominal value of share capital contributed and share premium is accounted for in these consolidated financial statements as a merger reserve.

Foreign currency. Monetary assets and liabilities, held by the Group and denominated in foreign currencies at the balance sheet date, are translated into RR at the exchange rates prevailing at that date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Gains and losses resulting from the settlement of such transactions and from the translation of the monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

The official Russian Rouble ("RR") to US dollar ("USD") exchange rates as determined by the Central Bank of the Russian Federation were 29.3804 and 24.5462 as of 31 December 2008 and 31 December 2007, respectively. The official RR to EURO exchange rates as determined by the Central Bank of the Russian Federation were 41.4411 and 35.9332 as of 31 December 2008 and 31 December 2007, respectively.

Dividends. Dividends are recognized as a liability and deducted from equity at the balance sheet date only if they are declared (approved by shareholders) before or on the balance sheet date. Dividends are disclosed when they are declared after the balance sheet date, but before the financial statements are authorized for issue.

Property, plant and equipment. Following predecessor basis of accounting property, plant and equipment were recognized at the carrying value determined in accordance with IFRS by the predecessors.

Property, plant and equipment are stated at depreciated cost less impairment. Deemed cost was initially determined by a third party valuation as at 31 December 1997 and restated for the impact of inflation until 31 December 2002. Adjustments are made for additions, disposals and depreciation charges. At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the difference is recognised as an expense (impairment loss) in the income statement. An impairment loss recognised in prior years is reversed if there has been an increase in the estimated fair value or value in use used to determine an asset's recoverable amount.

The amounts determined by the third party valuation represent an estimate of depreciated replacement cost. The third party valuation was performed in order to determine a basis for cost, because the historical accounting records for property, plant and equipment were not readily available, in accordance with paragraph 16 of IAS 29. Therefore, this third party valuation is not a recurring feature since it was intended to determine the initial cost basis of property, plant and equipment and the Group has not adopted a policy of revaluation on subsequent measurement.

Renewals and improvements are capitalised and the assets replaced are retired. The cost of repair and maintenance are expensed as incurred. Gains and losses arising from the retirement of property, plant and equipment are included in the income statement as incurred.

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

Depreciation of property, plant and equipment is calculated on a straight-line basis over the estimated useful life of the asset when it is available for use. Depreciation of fixed assets, evaluated by the independent appraisers at 31 December 1997, was calculated using depreciation rates based on remaining useful lives identified on the date of evaluation. The remaining useful lives of property, plant and equipment are reviewed annually.

(in thousands of Russian Roubles)

The remaining useful lives, used for depreciation calculation for 2008, in years, are as follows:

Classes of property, plant and equipment in accordance with new classification	At 1 January 2008 (min - max)	At 1 January 2008 (about 75% of carrying amount)
Production buildings	2-59	29-39
Constructions	2-39	3-24
Energy machinery and equipment	2-26	6-19
Other machinery and equipment	2-36	2-11
Other	2-28	2-6

The remaining useful lives, used for depreciation calculation for 2008 approximate the remaining useful lives re-assessed at 1 January 2007.

Financial assets.

Classification. The Group classifies its financial assets into the following categories: at fair value through profit or loss, loans and receivables and available-for-sale investments. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Loans and receivables. Loans and receivables are non-derivarive financial assets with fixed or determinable payments, which are not quoted on an active market. These assets are included into the current assets except when the maturity is greater than 12 months after the balance sheet date. These assets are classified as non-current assets. Loans and receivables include trade and other receivables (Notes 8 and 10), bank deposits (Notes 8 and 12), cash and cash equivalents (Note 9).

(b) Available-for-sale investments. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Recognition and measurement. Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale investments are initially recognised at fair value plus transaction costs. Available-for-sale investments are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement within finance costs.

The fair values of quoted investments are based on current bid prices. The group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment testing of trade receivables is described below.

Cash and cash equivalents. Cash comprises cash in hand and cash deposited on demand at banks. Cash equivalents comprise short-term highly liquid investments that are readily convertible into cash and have a maturity of three months or less from the date of acquisition and are subject to insignificant changes in value.

Trade and other receivables. Trade and other receivables are recorded inclusive of value added taxes. Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. In practice, the entity has estimated that the nominal amount of trade and other receivables approximates the fair value at inception. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate for similar borrowers. The carrying amount of the asset is reduced through the use of an impairment provision account, and the amount of the loss is recognised in the income statement within operating expenses. When a receivable is uncollectible, it is written off against the impairment provision account for receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in the income statement.

Environmental liabilities. Liabilities for environmental remediation are recorded where there is a present legal or constructive obligation as a result of past events, the payment is probable and reliable estimates can be made. The Group has an obligation to restore the surface of ash dumps when they are full. The Group recognises liability for these restoration expenses as they become reasonably estimable.

Value added tax on purchases and sales (VAT). Output VAT related to sales is payable to tax authorities on the earlier of (a) receipt of advance from customer or (b) delivery of goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of goods or services and the respective VAT invoice. Input VAT from advances paid to suppliers after 1 January 2009 is recoverable upon advance payment provided the receipt of respective VAT invoice.

The tax authorities permit the settlement of VAT on net basis. VAT related to sales and purchases is recognized in the balance sheet at nominal value on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

Inventories. Inventories are valued at the lower of net realizable value and weighed average acquisition cost. Provision is made for potential losses on obsolete or slow-moving inventories, taking into account their expected use and future realizable value. Materials and other supplies held for use in the production of finished products are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost.

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

Income tax. The income tax expense represents the sum of the tax currently payable and deferred income tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement 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 Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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

Deferred tax movements are recorded in the income statement except when they are related to the items directly charged to the shareholders' equity. In this case deferred taxes are recorded as part of the shareholders' equity.

Prepayments/Advances paid. Prepayments/advances paid are carried at cost less provision for impairment. A prepayment/advance paid is classified as non-current when the goods or services relating to the prepayment/advance paid are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments/advances paid to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Advances paid to capital contractors and to acquire intangible assets are included into carrying amount of construction in progress balance of property, plant and equipment and intangible assets balance, respectively, excluding related input VAT. Input VAT from the advances paid is included into carrying amount of other non-current assets. The input VAT is stated at its nominal. Other prepayments/advances paid are written off to profit or loss when the goods or services relating to the prepayments/advance paid are received. If there is an indication that the assets, goods or services relating to a prepayment/advances paid will not be received, the carrying value of the prepayment/ advance paid is written down accordingly and a corresponding impairment loss is recognised in profit or loss.

Trade and other payables and accrued charges. Trade and other payables are stated inclusive of value added tax. Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method. If trade and other payables are restructured and the discounted present value of the cash flows under the restructured terms discounted using the original effective interest rate differs by more than ten percent from the discounted present value of the remaining cash flows of the original financial liability, then the fair value of the restructured payable is measured as the discounted present value of the cash flows under the restructured terms. In this case the amount of the discount is credited to the income statement (finance costs) as a gain on restructuring, and the non-current portion of the discounted payable is classified as other non-current liabilities. The discount is amortized as an interest expense.

Debt. Debt is recognized initially at its' fair value. If it is significantly different from the transaction price, fair value is determined using the prevailing market interest rate for a similar instrument. In subsequent periods, debt is stated at amortized cost using the effective yield method; any difference between the fair value at initial recognition (net of transaction costs) and the redemption amount is recognized in the income statement as an interest expense over the period of the debt obligation.

Borrowing costs. The Group applies the benchmark treatment of IAS 23 "Borrowing costs" and recognises all borrowing costs as an expense in the period in which they are incurred.

Finance leases. Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The corresponding rental obligations, net of future finance charges, are included in debts. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest cost is charged to the income statement over the lease period using the effective interest method.

Operating leases. Where the Group is a lessee in a lease which does not transfer substantially all the risk and rewards incidental to ownership from the lessor to the Group, the total lease payments, including those on expected termination, are charged to profit or loss on a straight-line basis over the period of the lease.

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

Pension and post-employment benefits. In the normal course of business the Group contributes to the Russian Federation defined contribution state pension scheme on behalf of its employees. Mandatory contributions to the governmental pension scheme are expensed when incurred and included in employee benefit expenses and payroll taxes in the income statement.

Benefit plans define the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognised in the balance sheet in respect of defined benefit pension plans operated by the Group is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses. The defined benefit obligations are calculated using the projected unit credit method. The present value of the defined benefit obligations are determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid associated with the operation of the plans, and that have terms to maturity approximating the terms of the related retirement benefit obligations.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligations are charged or credited to the income statement over the employees' expected average remaining working lives.

The effect of curtailment or settlement of a defined benefit plan is recognised immediately in the income statement.

Share-based payment transactions. The share option plan allows Company's employees to acquire shares of the Company. The fair value of the options is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options is measured based on the Black-Scholes formula, taking into account the terms and conditions upon which the instruments were granted.

Revenue recognition. Revenue is recognized on the delivery of electricity, capacity and heat during the period. Revenues are measured at the fair value of consideration received or receivable. Revenue amounts are represented exclusive of value added tax.

Segment reporting. The Group's major activity is electric power and heat generation, sales proceeds from which comprises 99.8% of total Group's revenues. The electricity, power and heat generation technology are subject to the same risks and returns thus the Group has only one reportable business segment. The Group also has other operations which nether cumulative nor individually form reporting segments.

The Group operates in Russian Federation and does not recognise separate geographical segments as the source and characteristics of risks and returns of operations on wholesale electricity market are similar for the whole Russian Federation.

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

Fair value measurement. The fair value of trade and other receivables for disclosure purposes is measured by discounting the value of expected cash flows at the market rate of interest for similar borrowers at the reporting date.

The fair value of financial liabilities and other financial instruments (except if publicly quoted) for disclosure purposes is measured by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments. The fair value of publicly quoted financial instruments for disclosure purposes are measured based on current market value at the close of business on the reporting date.

Note 5. Related Parties

Information on significant transactions and balances with related parties is presented below. All transactions were made in Russian Federation and in Russian Roubles. Transactions with related parties have been made on the same terms and conditions as similar operations with the parties external to the Group . Prices for natural gas, electricity and heat are based on tariffs set by FST. Bank loans are granted at market rates. Bank deposits are put at market rates.

(in thousands of Russian Roubles)

Transactions with Gazprom Group

Transactions with Gazprom Group were as follows:

	6 months ended 31 December 2008	6 months ended 30 June 2008*	12 months ended 31 December 2007*
Sales:			
Sales of electricity and capacity	314,481	70,476	99,999
Sales of heat	97	169	257
Other income	5,774	-	-
Purchases:			
Purchases of fuel	6,138,768	5,635,969	6,232,877
Other expenses	7,212	7,336	5,353

* Over the period from 1 January 2007 to 30 June 2008 the Group was not controlled by Gazprom Group.

Gazprom Group is in its turn controlled by the state.

Balances with Gazprom Group were as follows:

	31 December 2008	30 June 2008*	31 December 2007*
Trade and other receivables	595,275	436,328	481,436
Trade and other payables	251,395	438	243,617

* Over the period from 1 January 2007 to 30 June 2008 the Group was not controlled by Gazprom Group.

Deposits held in banks related to Gazprom Group were as follows (including interest receivable):

	31 December 2008	30 June 2008*	31 December 2007*
OJSB "Gazprombank"	-	-	4,025,885
CJSB "Gazenergoprombank"	502,869	900,000	1,100,000
Total	502,869	900,000	5,125,885

* Over the period from1 January 2007 to 30 June 2008 the Group was not controlled by Gazprom Group.

Interest income on bank deposits accrued for the year ended 31 December 2008 was RR 66,187 thousand (for the year ended 31 December 2007: RR 33,311 thousand).

Transactions with RAO UES

RAO UES ceased to exist as a separate legal entity as at 1 July 2008 (see also Note 1, section "Relations with the state and current regulation"). RAO UES was a state – controlled entity.

Transactions with RAO UES were as follows:

	6 months ended 30 June 2008	12 months ended 31 December 2007
Dividends accrued	-	72,837

Balances with RAO UES were as follows:

	30 June 2008	31 December 2007
Trade and other payables	97,384	97,384

(in thousands of Russian Roubles)

Transactions with RAO UES subsidiaries

Transactions with RAO UES subsidiaries were as follows:

	6 months ended 30 June 2008	12 months ended 31 December 2007
Sales:		
Sales of electricity and capacity	11,309,332	21,673,137
Sales of heat	205,434	318,585
Other sales	15,579	24,476
Purchases:		
Dispatcher's fees	285,983	440,254
Repair, building and construction work	78,571	254,841
Electricity and heat	8,208	8,433
Other purchases	114,093	168,084
Charge of provision for impairment of trade and other receivables	-	2,439
Reversal of provision for impairment of trade and other receivables	106,184	81,328

Balances with RAO UES subsidiaries were as follows:

	30 June 2008	31 December 2007
Trade and other receivables, gross	705,709	649,582
Provision for impairment of trade and other receivables	(266,156)	(372,339)
Trade and other payables	57,345	154,148

Transactions with state-controlled entities

In the normal course of business the Group enters into transactions with other entities under government control (in addition to transactions with Gazprom Group and RAO UES).

Significant transactions with state-controlled entities were as follows:

	12 months ended 31 December 2008*	12 months ended 31 December 2007
Sales:		
Sales of electricity, capacity, heat and other utility services	1,553,713	67,089
Other income	2,739	-
Purchases:		
Dispatcher's fees	285,983	-
Other expenses	10,920	-
Charge of provision for impairment of trade and other receivables	8,237	17,601
Reversal of provision for impairment of trade and other receivables	7,770	-

* Include transactions with state-controlled entities from 1 July 2008 to 31 December 2008, which are ex-RAO UES subsidiaries.

(in thousands of Russian Roubles)

Significant balances with state-controlled entities were as follows:

	31 December 2008*	31 December 2007
Trade and other receivables	75,934	93,073
Provision for impairment of trade and other receivables	(60,410)	(59,943)
Available-for-sale investments	27,182	-
Trade and other payables	155,843	86,417
Current debt to OJSB "Sberbank"	1,503,553	500,000

* Include balances with state-controlled entities from 1 July 2008 to 31 December 2008, which are ex-RAO UES subsidiaries.

Interest expense accrued in respect of debt owed to state-controlled banks for the year ended 31 December 2008 was RR 159,954 thousands (for the year ended 31 December 2007: RR 71,900 thousands).

Deposits held in state-controlled banks were as follows (including interest receivable):

	31 December 2008	31 December 2007
OJSB "Sberbank"	503,066	1,013,716

Interest income on bank deposits accrued for the year ended 31 December 2008 was RR 43,025 thousand (for the year ended 31 December 2007: RR 1,685 thousand).

Transactions with key management

Compensation is paid to members of the Management Board of the Company for their services in full time management positions. The compensation is made up of a contractual salary and a performance bonus depending on results for the period according to Russian statutory financial statements. The compensation is approved by the Board of Directors. Discretionary bonuses are also payable to members of the Management Board, which are approved by the Chairman of the Management Board according to his perception of the value of their contribution.

Fees, compensation or allowances to the members of the Board of Directors for their services in that capacity and for attending Board meetings are paid depending on results for the year.

Total remuneration accrued to the members of the Board of Directors and Management Board is presented below:

	12 months ended 31 December 2008		12 months ended 31 December 2007	
	Expense	Accrued liability	Expense	Accrued liability
Remuneration	87,094	2,054	176,634	47,090
Payroll taxes	4,008	65	4,784	478
Medical insurance	1,107	-	934	-
Benefits termination	332,214	-	-	-
Share option plan	(2,783)	-	27,360	-

In 2007 the Group started implementation of employee share option program. For more details see Note 13, section "Employee share option plan").

The Board of Directors decided to terminate the contract with the General Director from 30 May 2008. In addition a number of senior management personnel decided to have their contracts terminated with effect from 29 May 2008. The amount of termination benefits arising from this is RR 510,573 thousand, out of which RR 332,214 thousand relate to former members of the Company's Management Board. This is expensed in 2008.

The Group has issued a guarantee to a third party in respect of the obligation of one member of the Management Board in amount of RR 5,940 thousand.

(in thousands of Russian Roubles)

Note 6. Property, plant and equipment

Cost	Production buildings	Construc-tions	Energy machinery and equipment	Other machinery and equipment	Other	Construction in progress	Total
Opening balance as at 1 January 2008	10,676,052	3,820,845	10,796,868	2,331,812	397,371	2,516,670	30,539,618
Additions	9,311	468,973	51,117	41,440	60,483	17,654,873	18,286,197
Transfer	32,049	167,974	299,472	240,317	19,564	(759,376)	-
Disposals	(4,356)	(4,860)	(14,880)	(15,326)	(15,243)	(362,993)	(417,658)
Closing balance as at 31 December 2008	**10,713,056**	**4,452,932**	**11,132,577**	**2,598,243**	**462,175**	**19,049,174**	**48,408,157**
Accumulated depreciation (including impairment)							
Opening balance as at 1 January 2008	(2,995,140)	(2,029,359)	(5,658,689)	(940,736)	(210,058)	(598,116)	(12,432,098)
Charge for the period	(263,069)	(205,341)	(507,320)	(230,550)	(70,147)	-	(1,276,427)
Impairment loss	-	-	-	-	-	(287,903)	(287, 903)
Disposals	991	4,430	7,673	12,583	13,090	334,641	373,408
Closing balance as at 31 December 2008	**(3,257,218)**	**(2,230,270)**	**(6,158,336)**	**(1,158,703)**	**(267,115)**	**(551,378)**	**(13,623,020)**
Net book value as at 31 December 2008	**7,455,838**	**2,222,662**	**4,974,241**	**1,439,540**	**195,060**	**18,497,796**	**34,785,137**
Net book value as at 31 December 2007	**7,680,912**	**1,791,486**	**5,138,179**	**1,391,076**	**187,313**	**1,918,554**	**18,107,520**

Cost	Production buildings	Construc-tions	Energy machinery and equipment	Other machinery and equipment	Other	Construction in progress	Total
Opening balance as at 1 January 2007	10,602,651	3,787,386	10,508,491	1,760,848	319,022	1,779,314	28,757,712
Additions	15,215	-	84,978	48,262	62,746	1,604,279	1,815,480
Transfer	58,186	33,462	203,940	531,959	22,492	(850,039)	-
Disposals	-	(3)	(541)	(3,136)	(5,690)	(1,854)	(11,224)
Disposal of subsidiaries	-	-	-	(6,121)	(1,199)	(15,030)	(22,350)
Closing balance as at 31 December 2007	**10,676,052**	**3,820,845**	**10,796,868**	**2,331,812**	**397,371**	**2,516,670**	**30,539,618**
Accumulated depreciation (including impairment)							
Opening balance as at 1 January 2007	(2,793,015)	(1,862,809)	(5,185,253)	(807,500)	(164,994)	(598,116)	(11,411,687)
Charge for the period	(202,125)	(166,552)	(473,847)	(135,913)	(48,411)	-	(1,026,848)
Disposals	-	2	411	2,604	2,527	-	5,544
Disposal of subsidiaries	-	-	-	73	820	-	893
Closing balance as at 31 December 2007	**(2,995,140)**	**(2,029,359)**	**(5,658,689)**	**(940,736)**	**(210,058)**	**(598,116)**	**(12,432,098)**
Net book value as at 31 December 2007	**7,680,912**	**1,791,486**	**5,138,179**	**1,391,076**	**187,313**	**1,918,554**	**18,107,520**
Net book value as at 31 December 2006	**7,809,636**	**1,924,577**	**5,323,238**	**953,348**	**154,028**	**1,181,198**	**17,346,025**

The assets received by the Group as a result of the merger with its predecessors did not include the land on which the Group's buildings and facilities are situated. The Group has the right for rent of this land. In accordance with Russian legislation this right should be formalized either into purchase of this land upon application to the state registration body, or into lease of this land before 1 January 2010 (in 2007 the date was extended from 1 January 2008 to 1 January 2010).

As at 31 December 2008 the Group owns of 0.7 hectares of land plot (included in group "Other") with cost of RR 18,033 thousand that was purchased in 2007.

During 2007 additions of property, plant and equipment include assets identified during annual stock take in amount of RR 255,039 thousand, which were recognised in accounting at fair values determined by independent appraisers using depreciation replacement cost method. Replacement cost was identified with the reference to market price of existing analogues. All these assets were inherited by OJSC "OGK-2" from its predecessors.

2008 additions to property, plant and equipment includes capitalization of ash dump restoration costs (see Note 20).

In the framework of investment programme implementation (see also Note 26) in 2008 the Group made advance payments to its major contractors OJSC "E4 Group" and CJSC "QUARTZ-Tyumen" (subsequently renamed into CJSC "QUARTZ-Novie Technologii") in amount of RR 7,494,364 thousand (net of VAT) and 9,633,399 thousand (net of VAT), respectively. These advances paid are recognised within construction in progress balance. The respective input VAT is recognised within other non-current assets balance (see Note 8). The return of advance payments made to OJSC "E4 Group" in amount of RR 3,783,987 thousand and EURO 138,999 thousand (RR 5,760,271 thousand at EURO/RR exchange rate at 31 December 2008) (both are including VAT) in case the contractor fails to fulfil its obligations prescribed by the general construction contract with the Group was guaranteed to the Group by OJSC "Bank of Moscow". The return of advance payments made to CJSC "QUARTZ-Tyumen" in amount of RR 220,568 thousand (including VAT) in case the contractor fails to fulfil its obligations prescribed by the general construction contract with the Group was guaranteed to the Group by OJSC "Alfa-bank".

Impairment provision for property, plant and equipment

The impairment provision balance included in accumulated depreciation balance as at 31 December 2008 is RR 551,378 thousand (as at 31 December 2007 – RR 598,116 thousand) relates to the assets under construction that have been indefinitely suspended for further construction and are not included in the Group's investment program (see Note 26). In 2008 the management of the Group assessed that additional provision of RR 287,903 thousand is necessary to certain construction in progress objects which is not currently planned for completion. The impairment loss in amount of RR 287,903 thousand was recognised within operating expenses. See Note 22.

In addition to this the management of the Group performed an impairment test for property, plant and equipment to assess if the carrying value of property, plant and equipment is not less than the recoverable amount of property, plant and equipment. For the purposes of the impairment test, each of the Group's power plants was used as the relevant cash-generating unit. The recoverable amount was generally based on value in use, which was assessed based on estimated future cash flows using various assumptions. Based on the results of the test performed taken into account current economic conditions in the Russian Federation the management of the Group has concluded that no impairment provision for cash-generating units is necessary and that the existing provision balance represents the best estimate of impairment for property, plant and equipment balance.

The estimates used by management for 2009 cash flows forecast are based on the Company's business-plan for 2009. Assumption and estimates for further period of projections are in accordance with the "Scenario of Economic Performance of power industry of the Russian Federation for 2009-2020", developed by the Agency for the energy balance forecasts and approved by the Ministry of energy of the Russian Federation. The management used the following assumptions:

- period of projections is from 2009 to 2030, terminal value was assessed using 3.1% growth rate;
- post-tax discount rate of 16.57% was applied for the whole period of projections.

The recoverable amounts assessed for all cash-generating units with the exception of Pskovskaya GRES are significantly above their carrying values. As a result, these cash-generating units are not sensitive to variations of the assumptions and, therefore, sensitivity analysis for these cash-generating units is not provided in the financial statements.

(in thousands of Russian Roubles)

Sensitivity analysis for the major assumptions for Pskovskaya GRES is provided below. In sensitivity analysis for Pskovskaya GRES each assumption was varied other assumptions being constant. Sensitivity analysis proved the following results:

- Should the annual growth rate of the selling price for electricity on one-day-ahead market decrease by 1%, the carrying value of the property, plant and equipment would be RR 1,755 million lower;
- Should the annual growth rate of the selling price for electricity on regulated market decrease by 1%, the carrying value of the property, plant and equipment would be RR 220 million lower;
- Should the annual growth rate of the gas purchase price increase by 1%, the carrying value of the property, plant and equipment would be 2,056 million lower;
- Should the discount rate increase by 1%, the carrying value of the property, plant and equipment would be RR 200 million lower.

Leased property, plant and equipment

The Group leased certain equipment under a number of finance lease agreements. At the end of the leases the Group has the option to purchase the equipment at a beneficial price or receives the ownership on equipment without additional payments. The net book value of leased property, plant and equipment is presented below:

	31 December 2008	31 December 2007
Energy machinery and equipment	63,352	67,278
Other machinery and equipment	77,130	103,272
Other	17,875	26,237
Total	**158,357**	**196,787**

The leased equipment secures lease obligations.

Operating lease

The Group leases a number of land plots owned by local governments under operating leases. Land lease payments are determined by lease agreements. Lease agreements are concluded for the different periods. Part of the lease contracts is concluded for a year with right of future prolongation, maximum lease period is 48 years.

Operating lease rentals are payable as follows:

	31 December 2008	31 December 2007
Not later than one year	52,724	15,114
Later than one year and not later than five years	109,961	57,791
Later than five years and not later than ten years	104,825	71,367
Later than ten years	230,034	407,451
Total	**497,544**	**551,723**

The land areas leased by Group are the territories on which the Group's electric power stations, heating stations and other assets are located. Lease payments are reviewed regularly to reflect market rentals.

(in thousands of Russian Roubles)

Note 7. Intangible assets

	SAP R-3 software	System NSI software	Other intangibles	Total intangible assets
Cost				
Balance as at 1 January 2008	**612,663**	**33,300**	**45,861**	**691,824**
Additions	561,007	585,750	140,197	1,286,954
Disposals	-	-	(1)	(1)
Balance as at 31 December 2008	**1,173,670**	**619,050**	**186,057**	**1,978,777**
Balance as at 1 January 2007	**294,747**	-	**4,114**	**298,861**
Additions	321,036	33,300	41,747	396,083
Disposals	(3,120)	-	-	(3,120)
Balance as at 31 December 2007	**612,663**	**33,300**	**45,861**	**691,824**
Amortisation				
Balance as at 1 January 2008	**(4,539)**	-	**(8,843)**	**(13,382)**
Charge for the period	(5,331)	-	(18,734)	(24,065)
Balance as at 31 December 2008	**(9,870)**	-	**(27,577)**	**(37,447)**
Balance as at 1 January 2007	-	-	-	-
Charge for the period	(4,539)	-	(8,843)	(13,382)
Balance as at 31 December 2007	**(4,539)**	-	**(8,843)**	**(13,382)**
Net book value as at 31 December 2008	**1,163,800**	**619,050**	**158,480**	**1,941,330**
Net book value as at 31 December 2007	**608,124**	**33,300**	**37,018**	**678,442**

The amount of intangible assets includes advances paid to contractors in amount of RR 591,499 thousand as at 31 December 2008 (as at 31 December 2007: nil).

In 2008 the Group continued an implementation of subsystems of SAP R-3. The Group is also implementing of a Unified Reference Information (NSI) Management System. These activities resulted in an increase of intangible assets carrying value.

(in thousands of Russian Roubles)

Note 8. Other non-current assets

	31 December 2008	31 December 2007
Restructured trade and other receivables (net of provision for impairment of trade and other receivables of 199,721 thousand as at 31 December 2008 and 261,818 thousand as at 31 December 2007)	416,680	202,229
Promissory notes (nominal value of promissory notes is RR 2,190,524 thousand as at 31 December 2008 and 2,116,396 thousand as at 31 December 2007)	1,820,500	1,640,005
Long-term input VAT from advances paid	3,024,242	-
Prepayments / deposits for pensions (Note 19)	244,383	134,375
Long-term bank deposits	-	2,112,400
Other	40,392	40,677
Total	**5,546,197**	**4,129,686**

As at 31 December 2008 the Group has long-term non-interest bearing promissory notes of OJSC "NOMOS-Bank" with nominal value of RR 2,116,396 thousand maturing on 31 May 2011, OJSC "Eurofinance Mosnarbank" with nominal value of RR 62,434 thousand maturing on 5 March 2011 and OJSC "Ulaynovskenergo" with nominal value of RR 11,694 thousand maturing during the period from December, 2011 to December, 2020. As at 31 December 2008, promissory notes are stated at amortised cost in amount of RR 1,820,500 thousand (in 2007: RR 1,640,005 thousand). Difference between nominal value and fair value of the long-term non-interest bearing promissory notes at the date of their initial recognition in 2008 in the amount of RR 24,812 thousand (in 2007: RR 484,420 thousand) was recognised as discounting effect within finance costs (see Note 24). The amortisation of the long-term non-interest bearing promissory notes in 2008 in the amount of RR 131,179 thousand (in 2007: RR 8,030 thousand) was recognised as a release of discounting effect within finance income (Note 23).

Under service agreement with OJSC "NOMOS-Bank" in relation to stock option program, on 30 May 2008 the Group pledged non-interest bearing promissory notes of OJSC "NOMOS-Bank" with total nominal value of RR 1,000,000 thousand.

The long-term input VAT from advances paid is recognised at nominal value.

Assets on solidarity accounts and on individual accounts in non-state pension fund in respect of current employees were recognized as "Prepayments / deposits for pensions". The prepayments are intended to be used for settlement of defined benefit pension obligations.

Credit quality of bank deposits is presented below:

Long-term bank deposits	Interest rate	Credit rating	31 December 2008	31 December 2007
CJSC "Gazenergoprombank"	8.8%	Ba3*	-	1,100,000
OJSC "Sberbank"	8%	Baa2*	-	1,012,400
Total long-term bank deposits			**-**	**2,112,400**

Long-term rating of foreign currency deposits, determined by Moody's Investors Service.

Note 9. Cash and cash equivalents

	Currency	31 December 2008	31 December 2007
Cash in hand	RR	-	37
Current bank accounts	RR	1,361,303	1,529,613
Current bank accounts	USD	-	47,128
Current bank accounts	EURO	114	-
Bank deposits with maturity of 3 months or less	RR	1,800,000	19,900,000
Other cash equivalents	RR	-	140
Total		**3,161,417**	**21,476,918**

(in thousands of Russian Roubles)

The Group has current bank accounts in the following banks:

Cash in bank	Credit rating on 31 December 2008	31 December 2008	Credit rating on 31 December 2007	31 December 2007
OJSC "Sberbank"	D+/Stable*	63,039	D+/Stable*	352,564
OJSC "Eurofinance Mosnarbank"	E+/Stable*	187,278	E+/Stable*	342,092
OJSC "NOMOS-bank"	D-/Positive*	65,085	D-/Positive*	789,795
OJSC KB "Agroimpuls"	E+/Stable*	2,762	E+/Stable*	3,961
NKO "Raschetnaya Palata RTS"	-	-	-	88,326
CJSC "Mezhdunarodny promishleny bank"	E+/Stable*	356,811	-	-
CJSC "Gazenergoprombank"	E+/Stable*	581,635	-	-
OJSC "TransCreditBank"	-	-	D-/Stable*	1
AKB "Moskovski Delovoi Mir"	-	-	D+/Stable*	1
OJSC "Alfa-bank"	D+/Stable*	104,807	D+/Stable*	1
Total cash in bank		**1,361,417**		**1,576,741**

* - The bank financial strength rating / the outlook on all of the bank's ratings, determined by Moody's Investor Service.

Credit quality of bank deposits is presented below:

Bank deposits with maturity of 3 months or less	Interest rate	Credit rating	31 December 2008	Interest rate	Credit rating	31 December 2007
OJSC "NOMOS-bank"	-	-	-	8.5%	Not-Prime*	5,700,000
CJSC "Mezhdunarodny promishleny bank"	11.0%	Not-Prime*	400,000	7.5% – 8.5%	Not-Prime*	2,300,000
OJSC KB "Agroimpuls", Branch "Moskovski"	-	-	-	8.5%	Not-Prime*	450,000
OJSC "Sberbank"	10.2%	Prime2*	500,000	-	-	-
CSC "Vneshprombank"	13.0%	Not-Prime*	400,000	-	-	-
CJSC "Gazenergo-prombank"	10.5%	Not-Prime*	500,000	-	-	-
CJSC "Gazbank"	-	-	-	10.5%	Not-Prime*	850,000
OJSC "Alfa-bank"	-	-	-	6.5% – 8.45%	Not-Prime*	5,600,000
OJSC "Gazprombank"	-	-	-	6.5% – 7.2%	Prime2*	4,000,000
OJSC "Uralsib"	-	-	-	8.6%	Not-Prime*	1,000,000
Total Bank deposits with maturity of 3 months or less			**1,800,000**			**19,900,000**

* - Short-term rating of foreign currency deposits, determined by Moody's Investors Service;

(in thousands of Russian Roubles)

According to the contract with CJSC "Gazenergoprombank" the Group agrees not to withdraw deposits in full or partially before the maturity date. The other deposits in CSC "Vneshprombank", CJSC "Mezhdunarodni Promishleni bank" and OJSC "Sberbank" could be withdrawn before the maturity date at the Group's request.

Note 10. Trade and other receivables

	31 December 2008	31 December 2007
Trade receivables	1,686,381	739,434
(net of provision for impairment of trade receivables of RR 295,446 thousand as at 31 December 2008 and RR 351,082 thousand as at 31 December 2007)		
Interest receivable on deposits	14,478	104,068
Promissory notes	1,833,873	1,655,192
(nominal value of promissory notes is RR 2,203,897 thousand as at 31 December 2008 and 2,132,150 thousand as at 31 December 2007)		
Other receivables	161,220	216,530
(net of provision for impairment of other receivables of RR 89,775 thousand as at 31 December 2008 and 106,018 thousand as at 31 December 2007)		
Financial assets	**3,695,952**	**2,715,224**
Advances to suppliers	730,001	1,088,179
Prepayments	201,377	7,215
Prepaid value-added tax and other tax	6,895	20,381
Input VAT	3,298,000	79,871
(net of provision for impairment of VAT 0 - at 31 December 2008 and 2,397 thousand as at 31 December 2007)		
Total	**7,932,225**	**3,910,870**
Less: Restructured trade and other receivables (net of provision for impairment of trade and other receivables of 199,721 thousand as at 31 December 2008 and 261,818 thousand as at 31 December 2007)	(416,680)	(202,229)
Promissory notes	(1,820,500)	(1,640,005)
(nominal value of promissory notes is RR 2,190,524 thousand as at 31 December 2008 and 2,116,396 thousand as at 31 December 2007)		
Long-term input VAT from advances paid	(3,024,242)	-
Total	**2,670,803**	**2,068,636**

Note 11. Inventories

	31 December 2008	31 December 2007
Fuel supplies	1,261,252	945,969
Materials and supplies	457,264	457,284
Spare parts	781,953	572,395
Total	**2,500,469**	**1,975,648**

The above inventory balances are recorded net of an obsolescence provision of RR 25,523 thousand and RR 20,654 thousand as at 31 December 2008 and 31 December 2007, respectively.

There is no inventory pledged as collateral at 31 December 2008 and at 31 December 2007.

(in thousands of Russian Roubles)

Note 12. Other current assets

	31 December 2008	31 December 2007
Short-term deposits	65,500	100,000
Short term loans issued	660	-
Other short-term investments	-	13
Total	**66,160**	**100,013**

Credit quality of bank deposits is presented below:

Bank deposits with maturity more than 3 months but within one year	Interest rate	Credit rating on 31 December 2008	31 December 2008	Credit rating on 31 December 2007	31 December 2007
CJSC "Gazbank"	11.0%	Not-Prime*	12,500	-	-
OJSC KB "Agroimpuls", Branch "Moskovski"	7.5%	Not-Prime*	53,000	Not-Prime*	100,000
Total bank deposits with maturity more than 3 months but within one year			**65,500**		**100,000**

* - Short-term rating of foreign currency deposits, determined by Moody's Investors Service.

According to the contracts with OJSC KB "Agroimpuls", Branch "Moskovski" and CJSC "Gazbank" the respective deposits could be withdrawn before the maturity date only upon the agreement with the respective bank.

Note 13. Equity

Share capital

In March 2007 the Extraordinary Shareholders Meeting of OJSC "OGK-2" approved the decrease of the Company's share capital by RR 16,876,275 thousand to RR 9,604,621 thousand by decreasing the nominal value of the shares issued. The Company's share capital was decreased to comply with legal capital requirements.

The nominal value of ordinary shares after the decrease is RR 0.3627 per share. The decrease in capital was achieved by the conversion of the shares to ones of the same category (type) with a lower nominal value.

In October 2007 the Company performed an initial public offer. The quantity of issued shares totalled to 6,252,026,095 with par value of RR 0.3627. The shares were placed at USD 0.16 (or RR 3.9934) per share. The amount of costs related to share issue equaled to RR 652,363 thousand. Costs related to shares issue are recognised as deduction from share premium.

Share capital *(Number of shares unless otherwise stated)*	Ordinary shares 31 December 2008	Ordinary shares 31 December 2007
Issued shares	32,734,568,382	32,732,921,913
Treasury shares	(1,100,000)	(6,691,898)
Total shares	32,733,468,382	32,726,230,015
Par value (in RR)	0.3627	0.3627

The total number of authorised ordinary shares is 44,757,822,542 thousand shares (2007: 44,757,822,542 thousand shares) with a par value of RR 0.3627 per share (2007: RR 0.3627 per share). All issued ordinary shares are fully paid. Each ordinary share carries one vote.

Reorganisation of the Company/ Exchange of shares transaction

In October 2007 the Extraordinary shareholders meeting approved a decision to reorganize the Company in a form of a merger with OJSC " OGK-2 Holding", which was subject to spun-off from RAO UES as part of RAO UES reorganisation.

Also, it was agreed at the meeting to increase the share capital of the Company by issue of additional shares in total amount of 24,900,629 shares with par value of RR 0.3627.

As at 15 February 2008 the Company's Board of Directors approved to enter into a joint and several liability agreement for contingent liabilities with companies, which are to receive assets as a result of RAO UES reorganization. The agreement stipulates joint and several liability in respect of contingent liabilities of RAO UES which could crystallise as a result of legal claims against RAO UES or its successors in respect of events, which has happened before the date of reorganisation. The Group's share of liability in case it arises is equal to 2.5117%. As at the date of this financial statements the Group did not entered into this agreement.

The merger with OJSC "OGK-2 Holding" has been executed on 1 July 2008. To proceed with the merger the Company has issued 1 646 469 shares with total nominal value of RR 597 thousand and used some some treasury shares (see below). The merger did not have significant effect on the financial statements of the Group.

Treasury shares

The Group has satisfied claims to repurchase Company's shares from shareholders, who voted against the reorganization of the Company. Total claims received were equal to 6,973,231 shares with total value of RR 21,918 thousand.Total amount of repurchased shares as at 31 December 2007 was equal to 5,591,898 shares at RR 3.1431 per share totalling to RR 17,576 thousand. In January 2008 the Group has repurchased 1,381,333 shares for total amount of RR 4,341 thousand.

Company has received claims to repurchase own shares from shareholders who voted against approval of agreements with CJSC "QUARTS-Tyumen" for construction of two power generating units at Troitskaya GRES and OJSC "E4 Group" for construction of two power generating units at Stavropolskaya GRES. Total amount of shares claimed to be repurchased equal to 16,001,974 shares at RR 3.0006 per share for total amount of RR 48,016 thousand. Group has repurchased claimed shares in full in March 2008.

On 1 July 2008 22,639,432 of treasury shares for the total amount of RR 68,878 thousand were placed to the shareholders of OJSC "OGK-2 Holding" to proceed with the merger via exchange of shares of OJSC "OGK-2 Holding" into the Company's shares.

In September 2008 335,773 of treasury shares were sold for the total amount of RR 1,055 thousand.

Merger reserve

Based on the application of predecessor accounting (see Note 4), the difference as at 1 January 2007 of RR 17,508,697 thousand between the value of share capital issued and share premium, the IFRS carrying values of the contributed assets and the minority interest has been recorded as a merger reserve within equity.

The effect of decrease in share capital in amount of RR 16,876,275 thousand is offset by a corresponding movement in the merger reserve.

In 2007 the merger reserve has changed due to recognizing results of the annual stock-count in the amount of RR 255,039 thousand (see Note 6).

Dividends

The Company's annual statutory accounts form the basis for the annual profit distribution and other appropriations. The specific Russian legislation identifies the basis of distribution as the net profit. However, this legislation and other statutory laws and regulations dealing with the distribution rights are open to legal interpretation and, accordingly, management believes at present it would not be appropriate to disclose an amount for the distributable reserves in these financial statements.

In June 2007 the Company declared final dividends for the year ended 31 December 2006 of RR 0.001873 per share for the total of RR 49,599 thousand, out of which RR 40,140 and RR 9,459 were payable to RAO UES and the other Company's shareholders respectively. These dividends were recognized as liability and deducted from equity at 31 December 2007.

(in thousands of Russian Roubles)

In June 2007 the Company declared interim dividends for the three months ended March 31, 2007 of RR 0.0015257 per share for the total of RR 40,401 thousand, out of which RR 32,697 thousand were payable to RAO UES and RR 7,704 thousand were payable to other Company's shareholders. These dividends were recognized as a liability and deducted from equity at 31 December 2007.

At the General Shareholders Meeting held on 27 June 2008, the decision was made not to pay 2007 annual dividends.

There were no dividends proposed or declared before the financial statements were authorized.

Employee share option plan

In December 2006 Board of Directors has approved policy for OJSC "OGK-2" management and employees remuneration – stock option program (hereinafter the Program). The Program provides stock options to management and employees of OJSC OGK-2 (hereinafter Participants).

The options are granted to the Participants for their work at OJSC "OGK-2" during 3 – 3.5 years starting from November 1st, 2007.

In March 2007 Board of Directors of OJSC "OGK-2" has approved number of shares, which are subject for distribution as part of the Program. The approved number equals to 529,617,916 ordinary shares, which equals to 1.6% of total quantity of issued ordinary shares of OJSC "OGK-2" as at 31 December 2007.

As part of realization of approved stock option program Company has entered into service agreement with OJSC "NOMOS-Bank". Under this agreement the Group has transferred all liabilities for conclusion and fulfilment of share purchase agreements with Company's employees for total amount of 529,617,916 shares at fixed price of RR 3.94 per share and maturity of 3 years.

In accordance with the agreement with OJSC "NOMOS-Bank", the Company paid to OJSC "NOMOS-Bank" a premium of RR 709,688 thousand to secure delivery of shares to employees in settlement of share-based payment arrangement. The premium was accounted as capital transaction by debiting of retained earnings for the amount of RR 709,688 thousand.

Stock option exercise price is identified at the date of decision for participation in the Program and is calculated as weighted average price of ordinary shares for the period of 365 days before date of such decision, based on RTS quotations.

The quantity of shares, which could be acquired by Participants who ceased labour relations with the Group, will be calculated proportionally to quantity of days, during which the Participant was working for OJSC "OGK-2". However, at the discretion of the General Director the number of shares to be purchased by the participant can be remained unchanged. In case of breach of certain requirements of labor agreement and cease of labor relations initiated by the Company, such Participants lose their rights for purchase of shares.

The fair value of services received in return for share options granted to employees are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on the Black-Scholes model.

	Options, granted as at 1 November 2007
Share price (in Russian Roubles)	3.28
Exercise price (in Russian Roubles)	3.94
Expected volatility	30%
Option life	3.5
Risk-free interest rate	5.83%
Fair value at measurement date (in Russian Roubles)	**0.71**

The measure of volatility used in option pricing model is the annualized standard deviation of the continuously compounded rates of return on the share over a period of time. Volatility has been determined on the basis of the historical volatility of the share price over the most recent period.

During 2008 a number of Participants, including key management personnel (see Note 5) terminated their employment contracts. The number of share options allocated to these Participants was assessed on the pro rata basis of the days they have worked for the Group. The service cost in respect of those options was assessed as if they became vested at the date of the termination. As the result of this, the number of active options under the program has decreased to 239 639 479. During 2008 the Group recognized a service cost in amount of RR 61,863 thousand with corresponding increase in retained earnings (2007: RR 80,507 thousand).

(in thousands of Russian Roubles)

Note 14. Income tax

Income tax charge	12 months ended 31 December 2008	12 months ended 31 December 2007
Current income tax charge	187,054	313,020
Income tax refund under amended returns for 2005-2007	(464,246)	-
Accrual of provision for current income tax	113,896	-
Deferred income tax benefit	(150,191)	(138,471)
Total income tax (reversal)/charge	**(313,487)**	**174,549**

During the year ended 31 December 2008 the Group was subject to a 24% income tax rate on taxable profits. An income tax rate of 20% has been enacted in November 2008 which becomes effective starting from 1 January 2009. As this tax rate was enacted by 31 December 2008, the effect of the change on closing deferred tax liabilities (assets) amounted to RR 482,358 thousand has been recognized in these financial statements.

Amended tax returns for 2005-2007 as a result of recalculation of tax depreciation due to change of property, plant and equipment tax base

In 2008, the Group filed amended tax returns for 2005 - 2007 recalculating tax depreciation of property, plant and equipment. The reduction of the income tax for 2005 – 2007 in accordance with the amended tax returns was recognized in these Financial Statements within current income tax charge of the income statement in the amount of RR 464,246 thousand.

Amended tax returns include reduction of income tax charge in amount of RR 113,896 thousands due to change of property, plant and equipment tax base for depreciable assets of Serovskaya GRES and OJSC Surgutskaya GRES-1, that were spun off from OJSC "Sverdlovenergo" and OJSC "Tyumenenergo", respectively, based on the net book value of these assets for statutory accounting purposes rather than the predecessor's tax accounting data and subsequent recalculation of tax depreciation for 2005-2007 using new tax base.

The Group's management believes that they will be able to justify from the legal standpoint the change of property, plant and equipment tax base. Although there could not be full assurance in this regard.

In case of unfavorable outcome for the Group, additional current income tax liabilities may be assessed in the amount of approximately RR 113,896 thousand. The Group has recognised a provision in this respect for amount of RR 113,896 thousand. Also, no changes to property, plant and equipment tax base from predecessor's tax accounting data to net book value of the related assets for statutory accounting purposes was recognised by the Group for the purposes of deferred tax assessment in these Financial Statements.

In case of more certainty of favourable outcome for the Group, the provision for current profit tax should be reversed in amount of RR 113,896 thousand and deferred tax liabilities (net) should be decreased for RR 255,511 thousand (20% rate) with the corresponding recognition of deferred tax income for the same amount.

The other amendments to tax depreciation of 2005-2007 includes application of accelerated tax depreciation rates for some assets and immediate deductibility of some capital expenditures for current income tax purposes. The amendments resulted in reduction of current income tax for amount of RR 350,350 thousands and increase of deferred income tax for the same amount.

(in thousands of Russian Roubles)

Reconciliation between the expected and the actual taxation charge is provided below:

	12 months ended 31 December 2008	12 months ended 31 December 2007
Loss before tax	**(698,572)**	**(91,786)**
Theoretical tax charge at the statutory tax rate of 24%	167,657	22,029
Non-deductible expenses:		
Termination benefits	(122,844)	-
Social payments	(24,395)	(45,231)
Change in tax base for impaired construction in progress	(31,038)	-
Share option plan	(14,847)	(19,322)
Non-deductible agent fees for fuel	-	(22,159)
Other	(143,404)	(109,866)
Effect of reduction in tax rate to 20%	482,358	-
Total income tax reversal/(charge)	**313,487**	**(174,549)**

Deferred income tax. Differences between IFRS and Russian statutory taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and their tax bases. Deferred income tax assets and liabilities are measured at 20%, the rate applicable when the temporary differences will reverse.

Deferred income tax liabilities

	31 December 2007	Movement for the period recognized in the income statement	31 December 2008
Property, plant and equipment	(2,748,366)	195,336	(2,553,030)
Intangible assets (SAP R-3)	(101,930)	16,142	(85,788)
Prepayments / deposits	(32,250)	(16,627)	(48,877)
Provision for impairment of trade and other receivables	-	(31,222)	(31,222)
Other	(2,710)	1,352	(1,358)
Total	**(2,885,256)**	**164,981**	**(2,720,275)**

Deferred income tax assets

	31 December 2007	Movement for the period recognized in the income statement	31 December 2008
Other non-current assets	114,470	(40,465)	74,005
Restoration provision	-	93,548	93,548
Provision for impairment of trade and other receivables	45,839	(45,839)	-
Trade and other payables	64,362	(39,850)	24,512
Retirement benefit obligations	47,978	(7,928)	40,050
Finance lease liabilities	19,329	(15,684)	3,645
Unused tax losses	12,766	45,176	57,942
Inventory	3,311	974	4,285
Other	15,222	(4,722)	10,500
Total	**323,277**	**(14,790)**	**308,487**

(in thousands of Russian Roubles)

	31 December 2007	Movement for the period recognized in the income statement	31 December 2008
Total deferred income tax liabilities	(2,885,256)	164,981	(2,720,275)
Total deferred income tax assets	323,277	(14,790)	308,487
Deferred income tax liabilities, net	**(2,561,979)**	**150,191**	**(2,411,788)**

Deferred income tax liabilities

	31 December 2006	Movement for the period recognized in the income statement	31 December 2007
Property, plant and equipment	(2,866,576)	118,210	(2,748,366)
Intangible assets (SAP R-3)	(70,739)	(31,191)	(101,930)
Prepayments / deposits	-	(32,250)	(32,250)
Other	-	(2,710)	(2,710)
Total	**(2,937,315)**	**52,059**	**(2,885,256)**

Deferred income tax assets

	31 December 2006	Movement for the period recognized in the income statement	Disposal of subsidiary	31 December 2007
Other non-current assets	-	114,470	-	114,470
Provision for impairment of trade and other receivables	89,311	(43,472)	-	45,839
Trade and other payables	(11,683)	76,045	-	64,362
Retirement benefit obligations	-	47,978	-	47,978
Finance lease liabilities	37,136	(17,807)	-	19,329
Unused tax losses	118,335	(105,569)	-	12,766
Inventory	3,987	(676)	-	3,311
Other	-	15,443	(221)	15,222
Total	**237,086**	**86,412**	**(221)**	**323,277**

	31 December 2006	Movement for the period recognized in the income statement	Disposal of subsidiary	31 December 2007
Total deferred income tax liabilities	(2,937,315)	52,059	-	(2,885,256)
Total deferred income tax assets	237,086	86,412	(221)	323,277
Deferred income tax liabilities, net	**(2,700,229)**	**138,471**	**(221)**	**(2,561,979)**

Note 15. Non-current debt

	Currency	Effective interest rate	Due	31 December 2008	31 December 2007
Bonds	RR	7.7%-10.65%	2010	4,907,781	4,988,216*
Finance lease liability	RR	21.3%-27.3%	2010-2012	1,197	16,802
				4,908,978	**5,005,018**
Less current portion of long- term debt	RR				(4,988,216)*
Total				**4,908,978**	**16,802**

*- as at 31 December 2007 payable on demand (see explanation below).

(in thousands of Russian Roubles)

The effective interest rate in the range from 21.3% to 27.3% relates to more than 75% of finance lease liability.

Maturity table

	31 December 2008	31 December 2007
Due for repayment		
Between one and two years	4,908,910	16,057
Between two and three years	65	678
Between three and four years	3	65
Between four and five years	-	2
Total	**4,908,978**	**16,802**

During July 2007 Group has issued ordinary documentary interest bearing non-convertible bonds with centralized storage. Total quantity of issued bonds was 5,000,000 with nominal value of RR 1,000 per bond and maturity of 1,096 days from date of issue. The coupon was identified during market placement of bonds and was fixed at 7.7% p.a. for 1-6 coupons. Costs directly attributable to bonds issue equaled to RR 13,589 thousand.

Following the resolution of the October 2007 Extraordinary shareholders meeting (see Note 13) to reorganize the Company, its creditors were informed about this resolution, about creditors' rights to demand earlier repayments of Group's liabilities and about conditions of how these rights could be executed. As at 31 December 2007 the Group has re-classified bonds related liability amounting to RR 4,988,216 thousand as a short-term due to the fact that the Group did not have any unconditional rights to delay repayment of these bonds for the period of more than 12 months after this date.

Total amount of earlier demands for redemption of bonds received from bonds' holders equalled to RR 2,384,968 thousand, accumulated coupon income – RR 48,318 thousand. These demands for redemption of bonds were redeemed by the Group in March-April 2008. All these bonds, were issued again at the end of April 2008 at 94.80% of nominal value with effective interest rate of 10.65%. Bonds are redeemable on 5 July 2010.

Leasing. Lease liabilities are effectively secured as the rights for the leased asset revert to the lessor in the event of default.

Finance lease liabilities – minimum lease payments	31 December 2008	31 December 2007
Due for repayment		
Less than one year	19,485	77,522
Between one year and five years	1,373	18,902
Future finance charges on finance lease	(2,635)	(15,886)
Present value of lease liabilities	**18,223**	**80,538**

Management believes that the total current value of non-current debt approximates its fair value since actual interest rates approximate current market interest rates available to the Group for similar financial instruments.

(in thousands of Russian Roubles)

Note 16. Current debt and current portion of non-current debt

	Currency	Effective interest rate	31 December 2008	31 December 2007
OJSC "Eurofinance Mosnarbank"	RR	-	-	1,100,000
OJSC "Sberbank "	RR	14.8%	1, 500,000	500,000
CJSC "Mezhdunarodny promishleny bank"	RR	17.0%	1,000,000	-
Current portion of finance lease liability	RR	21.3% - 27.3%	17,026	63,736
Current portion of long-term debt	RR	-	-	4,988,216
Interest payable		7.7%-14.8%	195,503	189,126
Total			**2,712,529**	**6,841,078**

All of the above bank debt is obtained at fixed interest rates.

The effective interest rate is the market interest rate applicable to the loan at the date of origination for fixed rate loans.

The Group has no collateral under loan agreements with OJSC "Sberbank" and CJSC "Mezhdunarodny promishleny bank".

The effective interest rate varying from 21.3% to 27.3% relate to more than 75% of current portion of finance lease liability.

Note 17. Trade and other payables

	31 December 2008	31 December 2007
Trade payables	3,035,324	1,466,063
Accrued liabilities and other payables	301,522	236,682
Promissory note payable	97,384	-
Financial liabilities	**3,434,230**	**1,702,745**
Salaries and wages payable	231,028	297,014
Advances from customers	16,764	5,767
Dividend payable	150	205
Total	**3,682,172**	**2,005,731**

Trade payables, promissory note payable, accrued liabilities and other payables are classified as financial liabilities. At 31 December 2008 total amount of financial liabilities amounted to RR 11,055,737 thousand (at 31 December 2007 – RR 8,560,625 thousand) and includes trade payables, accrued liabilities and other payables, promissory note payable, interest payable, non-current debt (Note 15), current debt and current portion of non-current debt (Note 16). Group's management believes that the majority of suppliers, which balances are included in trade and other payables balance, relate to one class with similar characteristics.

Note 18. Other taxes payable

	31 December 2008	31 December 2007
Water usage tax	176,403	187,475
Value added tax	115,840	62,322
Property tax	48,735	41,182
Social tax	26,941	24,800
Personal income tax	21,425	23,820
Environment pollution payment	59,006	12,484
Land tax	-	3,192
Profit tax	15	-
Other taxes	412	407
Total	**448,777**	**355,682**

(in thousands of Russian Roubles)

Note 19. Retirement benefit obligations

The post employment and post retirement program of the company consists of the occupational pension plan and various post employment, long-term and jubilee benefits. This is a defined benefit plan, under which the participants accrue pension entitlements on the basis of a formula or defined rule. The occupational pension program comprises the main part of the program. According to the pension formulae, the pension benefit is dependent on the past service of participants and their final salary. Employees born before 1967 are entitled to the occupational pension benefits.

The defined benefit pension plan provides old age retirement pension and disability pension. The plan's old age retirement pension is conditional on the member qualifying for the State old age pension.

The company also provides various long-term and post employment benefits including death in service and death in occupational pension benefit, lump sum payments upon retirement and jubilee benefits to active employees.

Additionally the Company provides financial support payments of a defined benefit nature to its former employees, who have reached the age of the State old age pension. Such benefits are paid to both those who qualify for the occupational pension plan and those who do not. The Company also provides jubilee benefits to its retired former employees.

As at 31 December 2008, there were 4,848 active employees eligible to participate in the post retirement defined benefit program of the company and 2,639 recipients of the financial support benefits.

The last independent actuarial valuation of pension and other post employment and long-term benefits in accordance with the provisions of IAS 19 was performed in February 2009, with valuation date of 31 December 2008 using individual members' census data as at the valuation date.

In January 2007 the Company introduced new benefit formula (common for all its plants) for calculation of pension amount to be paid via non-state pension fund. The new benefit formula results in reduction (curtailment) in benefits to be paid. The effect of this special event is treated in these financial statements as curtailment. The effect of the curtailment is gain of RR 171,920 thousand recognised in income statement within employee benefits expenses.

Amounts recognised in the Balance Sheet are as follows:

	31 December 2008	31 December 2007
Present value of defined benefit obligations (DBO)	583,642	444,040
Fair value of plan assets	-	-
Present value of unfunded obligations	583,642	444,040
Unrecognised actuarial gain / (loss)	12,954	(79,114)
Unrecognised past service cost	(94,570)	(9,106)
Net liability at the end of year	**502,026**	**355,820**
Employees' average remaining working life (years)	10	10

Amounts recognised in the income statement are as follows:

	12 months ended 31 December 2008	12 months ended 31 December 2007
Current service cost	30,500	43,243
Interest cost	29,857	32,146
Expected return on plan assets	-	-
Net actuarial losses recognised in year	1,228	9,721
Amortisation of past service cost	911	1,361
Immediate recognition of vested past service cost	128,011	-
Curtailment gain	-	(171,920)
Net expense/(income) recognised in the income statement (DB only)	**190,507**	**(85,449)**

(in thousands of Russian Roubles)

Movements in the net liability recognised in the balance sheet are as follows:

	31 December 2008	31 December 2007
Net liability at the beginning of year	355,820	461,754
Net expense/(income) recognised in the income statement	190,507	(85,449)
Benefits paid	(44,301)	(20,485)
Net liability at the end of year	**502,026**	**355,820**

The key actuarial assumptions used were as follows:

	31 December 2008	31 December 2007	31 December 2006
Discount rate at 31 December	9.00% p.a.	6.60% p.a.	6.60% p.a.
Future salary increases	7.06% p.a.	9.20% p.a.	9.20% p.a.
Future pension increases	n/a	n/a	6.60% p.a.
Future financial support benefits increases	6.00% p.a.	5.00% p.a.	5.00% p.a.
Staff turnover	5% p.a.	5% p.a.	5% p.a.
Mortality	Russia 1998	Russia 1998	Russia 1998

Reconciliation of opening and closing balances of the present value of the defined benefit obligation (DBO):

	31 December 2008	31 December 2007
Present value of defined benefit obligations (DBO) at the beginning of year	444,040	579,145
Service cost	30,500	43,243
Interest cost	29,857	32,146
Plan participants' contributions	-	-
Actuarial (gain) / loss	(90,840)	47,235
Past service cost	214,386	-
Benefits paid	(44,301)	(20,485)
Curtailment gain	-	(237,244)
Present value of defined benefit obligations (DBO) at the end of year	**583,642**	**444,040**

Funded status of the pension and other post employment and long-term obligations as well as gains/losses arising of experience adjustments is as follows:

	31 December 2008	31 December 2007
Present value of defined benefit obligations (DBO)	583,642	444,040
Fair value of plan assets	-	-
Deficit in plan	583,642	444,040
Losses arising of experience adjustments on plan liabilities	(47,804)	(47,235)
Gains/(losses) arising of experience adjustments on plan assets	-	-

Note 20. Restoration provision

The Group owns an ash dump on the territory of the Republic of Kazakhstan, and it has an obligation to restore the surface of this ash dump when it is full. As of 31 December 2008, the Group recognised a restoration provision for restoration of the ash dump in the amount of RR 467,740 thousand, out of which RR 57,254 thousand is a short-term portion. The main assumptions used in the calculation of the provision are as following:

- Average inflation per annum – 5.8%;
- Pre-tax discount rate – 13.88%;
- Projected restoration period – 11 years.

(in thousands of Russian Roubles)

Note 21. Revenues

	12 months ended 31 December 2008	12 months ended 31 December 2007
Electricity and capacity	39,809,889	33,066,535
Heating	656,099	607,593
Other	90,317	111,556
Total	**40,556,305**	**33,785,684**

Note 22. Operating expenses

	Notes	12 months ended 31 December 2008	12 months ended 31 December 2007
Fuel		23,831,285	17,944,205
Purchased electricity, capacity and heat		5,891,139	5,994,446
Employee benefits		3,409,318	2,292,879
Repairs and maintenance		2,090,243	1,921,064
Depreciation of property, plant, equipment and intangible assets	6, 7	1,300,492	1,040,230
Raw materials and supplies		1,001,146	992,539
Taxes other than income tax		981,388	891,439
Dispatcher's fees		571,967	440,254
Consulting, legal and audit services		177,844	192,724
Rent		224,100	166,848
Transport		125,732	151,092
Ecology payments		295,017	183,047
Insurance		25,824	60,224
Loss/(gain) from assets disposal		22,079	(4,643)
Charge/(reversal) in provision for inventory obsolescence		4,869	(14,429)
Reversal of provision for impairment of trade and other receivables	10	(55,780)	(86,550)
Impairment loss for property, plant and equipment	6	287,903	-
Other expenses		1,011,746	1,062,993
Total operating expenses		**41,196,312**	**33,228,362**

Employee benefits expenses comprise the following:

	12 months ended 31 December 2008	12 months ended 31 December 2007
Salaries and wages	2,104,579	1,806,723
Termination benefits	511,850	-
Employee share option plan expenses (Note 13)	61,863	80,507
Payroll taxes	376,172	315,156
Non-state pensions and other long-term benefits (Note 19)	190,507	(85,449)
Financial aid to employees and pensioners	164,347	175,942
Employee benefits	**3,409,318**	**2,292,879**
Number of personnel at the end of the period	4,928	4,730

Included in payroll taxes are statutory pension contributions of RR 296,231 thousand (2007: RR 237,481 thousand).

(in thousands of Russian Roubles)

Note 23. Finance income

	12 months ended 31 December 2008	12 months ended 31 December 2007
Interest income on bank deposits and current bank account balances	546,545	309,447
Release of discounting effect of long-term promissory notes received (Note 8)	131,179	8,030
Release of discounting effect of short-term promissory notes received	567	511
Foreign exchange differences	30,624	-
Total finance income	**708,915**	**317,988**

Note 24. Finance cost

	12 months ended 31 December 2008	12 months ended 31 December 2007
Effect of discounting of long-term promissory notes received (Note 8)	(24,812)	(484,420)
Effect of discounting of short-term promissory notes received	-	(1,079)
Interest expense on debt	(670,846)	(425,375)
Interest expense under finance lease agreements	(13,260)	(29,429)
Foreign exchange differences	-	(8,158)
Other finance costs	(1,466)	(4,242)
Total finance cost	**(710,384)**	**(952,703)**

Note 25. Earnings per share

	12 months ended 31 December 2008	12 months ended 31 December 2007
Weighted average number of ordinary shares issued	32,723,918,104	27,987,654,783
Loss attributable to the shareholders of OJSC "OGK-2" (thousands of RR)	(385,085)	(266,335)
Loss per ordinary share for loss attributable to the shareholders of OJSC "OGK-2" – basic and diluted (in RR)	**(0.01)**	**(0.01)**

Note 26. Capital commitments

At the beginning of the year 2008 OJSC "OGK-2" has signed a three-party long-term contract for supply of capacity to the wholesale market with CJSC "Center for Finance Settlements" (hereinafter CFS) and OJSC Administrator of the Trade System of the Wholesale Electricity Market of the Unified Energy System (hereinafter NP ATS). Under this contract the Group is obliged to provide (supply) and CFS is obliged to accept capacity produced by generation equipment put into operations after 2008. Cummulative power to be supplied to the wholesales market amounts to 2,580 MWt. Location, maximum technical characteristics of generating equipment and time schedule of electricity power supply are defined in the contract. In case of breach of the contract the Group will be obliged to compensate losses incurred by CFS resulting from purchase of missing capacity. Total amount of compensation can not exceed RR 29,850,200 thousand. Cummulative amount of electricity power proposed to supply to CFS, equals to minimum installed capacity of generation equipment, which will be built in line with investment program. Date of cease of the liability for electricity power supply is the date when one year period of appropriate fullfilment by the Group of obligation to supply electricity power from respective power generating eqipment, but not later than 31 December 2021.

At the moment the management has substantial arguments to amend terms of this contract due to continuing instability on financial markets, which results in reduction in electric power and capacity consumption. Therefore, the management considers optimization of investment program including changes in deadlines for putting into operation of new facilities and corresponding amendments to the terms of the long-term contract for supply of capacity.

In the framework of the investment programme implementation the Group has capital commitments (including VAT) of RR 82,342,775 thousand and RR 100,727,461 thousand as of 31 December 2008 and as of 31 December 2007, respectively. Within the amount of capital commitments disclosed above the Group provided guarantees to OJSC "Bank of Moscow" in amount of EURO 85,942 thousand (RR 3,561,523 thousands at EURO/RR exchange rate as at 31 December 2008) for OJSC "E4 Group" fulfilling its obligations under the agreement to open a letter of credit entered into between the bank and OJSC "E4 Group" in the framework of the general construction contract with the Group.

As at 31 December 2008 the Group has commitments of RR 227,932 thousands in respect of SAP R-3 implementation costs (as at 31 December 2007 - RR 352,072 thousand).

Note 27. Contingencies

Political environment. The operations and earnings of the Group continue, from time to time and in varying degrees, to be affected by political, legislative, fiscal and regulatory developments, including those related to environmental protection, in Russian Federation.

Insurance. The Group holds limited insurance policies in relation to its assets, operations, public liability or other insurable risks. Accordingly, the Group is exposed to those risks for which it does not have insurance.

Legal proceedings. Group is party to certain legal proceedings arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which, upon final disposition, will have a material adverse effect on the position of the Group.

The Group entered into two multilateral joint and several liability agreements for the contingent liabilities of OJSC "Tumenenergo" and OJSC "Sverdlovenergo" from which Surgutskaya GRES-1 power plant and Serovskaya GRES power plant spun off, their other spin off entities and their legal successors. The agreements stipulates joint and several liability over the contingent liabilities of OJSC "Tumenenergo" and OJSC "Sverdlovenergo" which can cristallise as a result of negative outcome of court proceedings for claims against or from OJSC "Tumenenergo" and OJSC "Sverdlovenergo" or any their spin off entities or their successors in respect of events happened before the dates of spin-off. Share of liability of the Group in case the liability arises equals 18.7% and 13.39% for contingent liabilities of OJSC "Tumenenergo" and OJSC "Sverdlovenergo", respectively. The amount for which the Group could be liable is not reasonably assessable. In accordance with the provisions of the agreements they are effective until 31 December 2008 and automatically extended for one more year unless notification is received from any party under the agreements about the termination of the agreements as at 31 December 2008. The Group has notified the parties under the agreements that it terminates the agreements as at 31 December 2008.

Tax contingency. Russian tax and currency legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities, in particular, the way of accounting of water tax, deductibility of certain expenses (management fees, SAP R-3 implementation) and justification of reassessment of current profit tax for 2005-2007. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

As at 31 December 2008 management believes that its interpretation of the relevant legislation is appropriate and the Group's tax and currency positions will be sustained. Where management believes it is probable that a position cannot be sustained, an appropriate amount has been accrued for in these financial statements.

In addition, tax and other legislation do not address specifically all the aspects of the Group's reorganization related to reforming of the electric utilities industry. As such there may be tax and legal challenges to the various interpretations, transactions and resolutions that were a part of the reorganization and reform process.

Environmental matters. Group and its predecessor entities have operated in the electric power industry in the Russian Federation for many years. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates their obligations under environmental regulations.

(in thousands of Russian Roubles)

The Group owns an ash dump on the territory of the Republic of Kazakhstan which is a foreign country. Therefore, the Group is subject to the environmental regulation of the country in respect of the usage of the ash dump. The Group is also periodically evaluates its obligations under Kazakhstan environmental regulations.

Potential liabilities might arise as a result of changes in legislation and regulation or civil litigation. The impact of these potential changes cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental remediation in excess of those amounts for which provision has been recognised by the Group in these financial statements.

Note 28. Financial instruments and financial risks factors

Financial risk factors. The Group's activities expose it to a variety of financial risks, including the effects of changes in foreign currency exchange rates, changes in interest rates, and the collectability of receivables. The Group does not have a risk policy to hedge its financial exposures.

The electricity and heat produced by the Group are sold domestically at prices denominated in Russian Rubles, currency of Russian Federation. Due to that fact, the Group has low foreign currency exchange risk exposure. The Group's financial position, liquidity, its sources of financing, financial performance are largely independent to changes in foreign exchange rate because of Group's activity is planned in the way that all it's assets and liabilities should be denominated in domestic currency. Due to these facts potential effect of changes in exchange rate of national currency to other currencies is estimated by the Group as insignificant. The only Group's exposure to foreign exchange risk is in relation to foreign currency denominated capital commitments to OJSC "E4 Group". See also Note 26.

Bank covenants. Credit facilities of OJSC "Sberbank" (the Lender) (see Note 16) were restricted by covenants (transfer of revenue proceeds to current account in OJSC "Sberbank"). In case of breach of covenants the Lender had the option to call these loans earlier. In respect of loans payable recognised at the reporting date the Group complied with all covenants.

Guarantees. As at 31 December 2008 the Group guaranteed to some banks the repayment of loans taken by the Group employees in these banks in the amount of RR 111,001 thousand.

Credit risk. Group's financial assets, which are exposed to credit risk, are follows:

	31 December 2008	31 December 2007
Cash and cash equivalents (see Note 9)	3,161,417	21,476,918
Trade receivables (see Note 10)	1,686,381	739,434
Interest receivable on bank deposits (see Note 10)	14,478	104,068
Promissory notes (see Note 10)	1,833,873	1,655,192
Other receivables (see Note 10)	161,220	216,530
Other current assets (see Note 12)	66,160	100,013
Total financial assets	**6,923,529**	**24,292,155**

Group's exposure to credit risk mainly depends on each particular counterparty characteristics. Due to absence of independent credit ratings for whole sales electricity market and other buyers, Group assesses their solvency based on past experience and other factors. While evaluation of credit risk, buyers are grouped into following classes: A – buyers with stable solvency; B – buyers with low solvency. Also each class includes following subclasses:

A1 – buyers with exceptional solvency, which always fulfill their obligations on time, there were no cases of delays in fulfilment of obligations, risk of full or partial non-fulfillment of obligations - minimal;

A2 – buyers with excellent solvency, which regularly fulfill their obligations, cases with delay in fulfillment of obligations are short-term, risk of full or partial non-fulfillment of obligations - low;

A3 – buyers with adequate solvency, which fulfill their financial obligations, in case of delay with fulfillment additional agreements are signed, risk of full or partial non-fulfillment of obligations - acceptable;

B1 – buyers with low solvency, which breach fulfillment of their finance obligations, risk of full or partial non-fulfillment of obligations - moderate;

B2 – buyers with doubtful solvency, which do not fulfillment of their finance obligations, risk of full or partial non-fulfillment of obligations – high.

(in thousands of Russian Roubles)

As at 31 December 2008	Nominal value	Not due, not impaired	Due, not impaired	Impaired			Carrying amount
				Gross book value	Provision	Net book value	
Class A	1,898,867	949,351	246,422	703,094	(213,481)	489,613	1,685,386
A1	707,922	707,922	-	-	-	-	707,922
A2	269,463	70,665	167,362	31,436	(3,348)	28,088	266,115
A3	921,482	170,764	79,060	671,658	(210,133)	461,525	711,349
Class B	317,227	58,477	91,689	167,061	(167,061)	-	150,166
B1	145,672	55,283	89,054	1,335	(1,335)	-	144,337
B2	171,555	3,194	2,635	165,726	(165,726)	-	5,829
Non-interest bearing promissory notes	2,203,897	13,373	-	2,190,524	(370,024)	1,820,500	1,833,873
Interest receivable on deposits	14,478	14,478	-	-	-	-	14,478
Loans issued to employees	16,728	-	-	16,728	(4,679)	12,049	12,049
Total	**4,451,197**	**1,035,679**	**338,111**	**3,077,407**	**(755,245)**	**2,322,162**	**3,695,952**

As at 31 December 2007	Nominal value	Not due, not impaired	Due, not impaired	Impaired			Carrying amount
				Gross book value	Provision	Net book value	
Class A	1,081,183	533,530	120,710	426,943	(205,229)	221,714	875,954
A1	75,652	62,443	-	13,209	(5,573)	7,636	70,079
A2	552,387	432,497	46,791	73,099	(10,765)	62,334	541,622
A3	453,144	38,590	73,919	340,635	(188,891)	151,744	264,253
Class B	290,582	1,750	28,515	260,317	(244,219)	16,098	46,363
B1	50,459	371	28,405	21,683	(21,683)	-	28,776
B2	240,123	1,379	110	238,634	(222,536)	16,098	17,587
Non-interest bearing promissory notes	2,132,150	-	-	2,132,150	(476,958)	1,655,192	1,655,192
Interest receivable on deposits	104,068	104,068	-	-	-	-	104,068
Loans issued to employees	21,533	-	-	21,533	(6,118)	15,415	15,415
Other small debtors	19,766	6,966	11,266	1,534	(1,534)	-	18,232
Total	**3,649,282**	**646,314**	**160,491**	**2,842,477**	**(934,058)**	**1,908,419**	**2,715,224**

As at 31 December 2008 trade and other receivables of some of debtors were secured by guaranties provided by third parties for total amount of RR 31,437 thousand (31 December 2007 – RR 73,099 thousand). Credit risks related to trade and other receivables are systematically reviewed for possibility of creation of impairment provision against trade and other receivables. Trade and other receivables balance netted with trade and other receivables impairment provision represents maximum exposure to credit risks, relating to receivables. Despite the fact that cash collection is subject to influence of different economic factors, management of the Group believes that there is no significant risk of losses exceeding recognized trade and other receivables impairment provision.

The amount of trade and other receivables impairment provision is assessed by management based on analysis of particular counterparty's solvency, tendencies, possibility of cash collection, and analysis of future cash flows. Identification of present value of future cash flows was done utilizing discount rates of 11.5% p.a. – 28.0% p.a., calculated based on the original effective interest rate. Discounting effect is recognized as part of trade and other receivables impairment provision expenses. Group estimates that discounted amount of trade and other receivables less recognized impairment provision can be collected in cash or settled against trade and other payables.

(in thousands of Russian Roubles)

All impaired trade receivables are older than 1 year. The individually impaired receivables mainly relate to wholesalers, which are located in the Caucasus region and are in unexpected difficult economic situation.

Movements in trade and other receivables impairment provision during 2008 were as follows:

Impairment provision as at 31 December 2007	**457,100**
Accrual of impairment provision	203,943
Write-off of doubtful trade and other receivables	(18,740)
Reversal of impairment provision	(257,082)
Impairment provision as at 31 December 2008	**385,221**

Movements in trade and other receivables impairment provision during 2007 were as follows:

Impairment provision as at 31 December 2006	**544,489**
Accrual of impairment provision	28,069
Write-off of doubtful trade and other receivables	(957)
Reversal of impairment provision	(114,501)
Impairment provision as at 31 December 2007	**457,100**

As at 31 December 2008 total amount of overdue trade and other receivables which were not provided for impairment was equal to RR 338,111 thousand. (31 December 2007 – RR 160,491 thousand). The reason impairment provision was not created is absence of events of non-payments of respective counterparty in past. Further, these amounts were collectively assessed for impairment within groups of financial assets with similar credit risk. Collective assessment did not change individual assessment.

Analysis of overdue but not impaired trade and other receivables is as follows:

	31 December 2008	**31 December 2007**
Overdue trade and other receivables		
Less than 1 month	37,302	73,524
From 1 to 3 months	107,039	26,982
From 3 months to 1 year	165,630	49,923
From 1 year to 5 years	28,140	10,062
More than 5 years	-	-
Total	**338,111**	**160,491**

Cash is placed in Russian financial institutions which are considered at the time of deposit to have minimal or low risk of default. Board of Directors of the Company has approved list of the banks, at which deposits could be placed and rules for such placements. Also Group continuously considers finance condition, independent agencies ratings, past experience and other factors. List of the banks with balances and ratings, at which Group has open current bank accounts and deposits at the reporting date, is presented in Notes 9 and 12.

As at reporting date maximum Group's exposure to credit risk equals to carrying amount of each class of financial assets. Group does not hold any collateral.

Liquidity risk. Prudent liquidity risk management includes maintaining sufficient cash and the availability of funding from an adequate amount of committed credit facilities. Group mainly has short-term financial liabilities. To manage the liquidity risk the Group applies a policy of holding financial assets for which there is a liquid market and that are readily convertible to meet liquidity needs. The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

(in thousands of Russian Roubles)

31 December 2008	Less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Total
Bonds including future principal and interest payments	191,950	-	191,950	5,388,150	5,772,050
Bank loans including future principal and interest payments	36,846	1,063,214	1,624,077	-	2,724,137
Finance leasing liability	2,523	7,103	9,859	1,373	20,858
Trade payables	2,155,763	678,839	199,816	906	3,035,324
Other payables (except for advances received and liabilities for employee compensations)	259,042	98,647	30,246	10,970	398,905
Total future payments	**2,646,124**	**1,847,803**	**2,055,948**	**5,401,399**	**11,951,274**
31 December 2007					
Bonds including future principal and interest payments	191,950	-	2,576,918	3,387,082	6,155,950
Bank loans including future principal and interest payments	15,911	434,907	1,266,605	-	1,717,423
Finance leasing liability	7,141	21,021	49,360	18,902	96,424
Trade payables	1,328,825	74,691	62,547	-	1,466,063
Other trade and other payables (except for advances received and liabilities for employee compensations)	208,009	13,932	204,072	-	426,013
Total future payments	**1,751,836**	**544,551**	**4,159,502**	**3,405,984**	**9,861,873**

Group has following unutilized bank credit lines:

	31 December 2008	31 December 2007
With flexible interest rate:		
- expiring within 1 year from reporting date	500,000*	-
- valid more than 1 year from reporting date	-	-
With fixed interest rate:		
- expiring within 1 year from reporting date	500,000	1,500,000
- valid more than 1 year from reporting date	-	-
Total	**1,000,000**	**1,500,000**

* variable or fixed rate is agreed for every tranche withdrawal.

Interest rate changes risk. Profit and cash flows from operating activities of the Group are mainly independent from changes in market interest rates. The Group is exposed to changes in interest rates risk only in respect of changes in market value of interest bearing loans and borrowings and interest bearing deposits. Significant interest bearing assets of the Group are disclosed in Notes 8, 9 and 12. These assets have fixed interest rate and therefore are exposed to risk of difference between fixed interest rate and market interest rate.

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

- Share capital can not be lower than 1,000 minimum salaries on the date of company registration;
- If the share capital of the entity is greater than statutory net assets of the entity, such entity must decrease its share capital to the value not exceeding its net assets;
- If the minimum allowed share capital is greater than statutory net assets of the entity, such entity is subject to liquidation.

As at 31 December 2008, the Group has been in compliance with the above share capital requirements.

The Group's objectives when managing capital are to safeguard the Group's ability as a going concern in order to provide returns to shareholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

(in thousands of Russian Roubles)

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated based on the statutory financial statements as total liabilities divided by total equity. According to the Company's internal regulation the Company's total liabilities/equity ratio should not exceed 1. The Company satisfied to the limit.

The gearing ratios, calculated on the basis of statutory financial statements, prepared in accordance with Russian accounting standards at 31 December 2008 and 31 December 2007 were as follows:

	31 December 2008	31 December 2007
Total liabilities	11,718,735	8,933,053
Equity	33,182,324	34,478,083
Gearing ratio, %	**0.35**	**0.26**

Fair values. Management believes that the fair value of its financial assets and liabilities approximates their carrying amount.

Note 29. Subsequent events

In April 2009 the Group decided to terminate the capital construction contract with its EPC-contractor OJSC "E4 Group" (see Note 6) by sending to the contractor an official notification about termination of the contract with the request to pay back all advances paid by the Group to the contractor. Currently, the Group is negotiating the return of advances with the contractor and the guarantor.