OJSC INTERREGIONAL DISTRIBUTION GRID COMPANY OF VOLGA
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

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Independent Auditors' Report

To the management of OJSC Interregional Distributive Grid Company of Volga

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of OJSC Interrigional Distributive Grid Company of Volga (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated balance sheets as at 31 December 2008, and the consolidated income statement, consolidated statement of changes in equity and consolidated statement of cash flow 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 misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Except as described in the Basis for Qualified Opinion paragraph, we conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatements.

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

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

Basis for Qualified Opinion

We did not observe the counting of inventories stated at RUR 879,326 thousand as at 31 December 2007 because we were engaged as auditors of the Group only after that date. It was impracticable to satisfy ourselves as to those inventory quantities by other audit procedures. Accordingly, we were unable to determine whether any adjustments might be necessary to operating expenses, taxation expense and net profit for the year ended 31 December 2008 and to inventory, operating expenses, taxation expenses, profit for the year and retained earning as at and for the year ended 31 December 2007.

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Qualified Opinion

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

ZAO KPMG
30 November 2009

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(in thousands of Russian Roubles, unless otherwise stated)

	Note	31 December 2008	31 December 2007
ASSETS			
Non-current assets			
Property, plant and equipment	6	25,598,041	21,082,467
Intangible assets	7	324,519	387,231
Other non-current assets	8	782,954	651,878
Total non-current assets		**26,705,514**	**22,121,576**
Current assets			
Inventories	9	849,119	879,326
Income tax receivable		23,893	99,899
Trade and other receivables	10	2,532,532	2,257,856
Prepayments for current assets	11	617,100	503,888
Cash and cash equivalents	12	483,944	530,415
Other current assets	13	26,175	198,550
Total current assets		**4,532,763**	**4,469,934**
TOTAL ASSETS		**31,238,277**	**26,591,510**
EQUITY AND LIABILITIES			
Share capital	14	17,857,780	17,857,780
Retained earnings/(Accumulated loss)		1,970,596	(64,182)
Total equity		**19,828,376**	**17,793,598**
Non-current liabilities			
Deferred income tax liabilities	24	1,051,436	1,149,737
Employee benefits	15	687,661	724,263
Loans and borrowings	16	3,500,884	2,302,687
Trade and other payables	17	36,818	191,420
Total non-current liabilities		**5,276,799**	**4,368,107**
Current liabilities			
Loans and borrowings	16	3,012,402	1,653,606
Trade and other payables	17	2,677,119	2,484,686
Income tax payable		207,464	-
Other taxes payable	18	236,117	291,513
Total current liabilities		**6,133,102**	**4,429,805**
Total liabilities		**11,409,901**	**8,797,912**
TOTAL EQUITY AND LIABILITIES		**31,238,277**	**26,591,510**

These consolidated statements were approved by management on 30 November 2009 and were signed on its behalf by:

General Director — Ryabikin V.A.

Chief Accountant — Tamlenova I.A.

Date — 30 November 2009

The consolidated balance sheets is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 37.

(in thousands of Russian Roubles, unless otherwise stated)

	Note	Year ended 31 December 2008	Year ended 31 December 2007
Revenue	19	30,725,018	31,852,182
Operating expenses	20	(27,400,824)	(28,897,603)
Other income and (expenses), net	22	(32,722)	66,862
Operating profit		**3,291,472**	**3,021,441**
Financial income	23	17,694	45,242
Financial expenses	23	(538,127)	(233,437)
Profit before income tax		**2,771,039**	**2,833,246**
Income tax expense	24	(736,261)	(1,089,702)
Profit for the year		**2,034,778**	**1,743,544**
Earnings per share - basic and diluted (in RUR)	14	0.0114	0.0098

The consolidated income statements is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 37.

	Note	Year ended 31 December 2008	Year ended 31 December 2007
OPERATING ACTIVITIES:			
Profit before income tax for the period		**2,771,039**	**2,833,246**
Adjustments for:			
Depreciation and amortisation	6,7	2,391,075	1,942,880
Allowance for impairment of accounts receivable		98,288	99,166
Provision for obsolescence		(3,552)	3,295
Financial expense		538,127	233,437
Financial income		(17,694)	(45,242)
Loss on disposal of property, plant and equipment		19,131	93,922
Accounts payable written-off		(7,287)	(12,254)
Adjustment for other non-cash transactions		(23,085)	4,828
Operating profit before working capital changes and income tax paid		**5,766,042**	**5,153,278**
Working capital changes:			
Increase in trade and other receivables		(396,164)	(729,568)
Increase in prepayments		(58,489)	(184,195)
Increase in inventories		(2,845)	(123,714)
Decrease in other current assets		171,641	73,248
(Increase)/decrease in other non-current assets		(228,935)	7,076
Increase/(decrease) in trade and other payables		(49,812)	393,534
Decrease in long-term liabilities		(179,527)	(30,750)
Decrease in taxes payable other than income		(55,396)	(256,191)
Cash flows from operations before income taxes and interest paid		**4,966,515**	**4,302,718**
Income tax paid		(525,966)	(704,367)
Interest paid		(424,584)	(158,553)
Net cash flows from operating activities		**4,015,965**	**3,439,798**
INVESTING ACTIVITIES:			
Acquisition of property, plant and equipment		(6,363,686)	(4,930,689)
Proceeds from disposal of property, plant and equipment		24,501	48,481
Disposal of subsidiaries, net of cash disposed of		18,474	-
Interest received		3,049	2,591
Net cash flows used in investing activities		**(6,317,662)**	**(4,879,617)**
FINANCING ACTIVITIES:			
Proceeds from loans and borrowings		7,422,393	6,414,732
Repayment of loans and borrowings		(4,709,456)	(4,493,807)
Dividends paid		-	(146,116)
Repayment of finance lease liabilities		(457,711)	(229,948)
Net cash flows from financing activities		**2,255,226**	**1,544,861**
Net (decrease)/increase in cash and cash equivalents		**(46,471)**	**105,042**
Cash and cash equivalents at beginning of year		**530,415**	**425,373**
Cash and cash equivalents at end of year		**483,944**	**530,415**

The consolidated statements of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 37.

(in thousands of Russian Roubles, unless otherwise stated)

	Share capital	Retained earnings / (Accumulated loss)	Total equity
As at 1 January 2007	**17,857,780**	**(1,661,610)**	**16,196,170**
Profit for the year	-	1,743,544	1,743,544
Dividends to shareholders	-	(146,116)	(146,116)
As at 31 December 2007	**17,857,780**	**(64,182)**	**17,793,598**
As at 1 January 2008	**17,857,780**	**(64,182)**	**17,793,598**
Profit for the year	-	2,034,778	2,034,778
As at 31 December 2008	**17,857,780**	**1,970,596**	**19,828,376**

The consolidated statements of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 37.

Note 1. Background

(a) The Group and its operations

Open Joint-Stock Company "Interregional Distribution Grid Company of Volga" (hereafter, the "Company" or OJSC "IDGC Volgi") and its subsidiary (together referred to as the "Group") comprise Russian open joint stock companies as defined in the Civil Code of the Russian Federation. The Company was set up on 29 June 2007 based on Resolution no. 191p of 22 June 2007 and pursuant to the Board of Directors' decision (board of directors' meeting minutes no. 250 of 27 April 2007) of the Russian Open Joint-Stock Company RAO "United Energy Systems of Russia" (hereafter, "RAO UES").

The Company's registered office is 42/44 Pervomayskaya street, Saratov, Russia, 410031.

The Group's principal activity is the transmission and distribution of electricity and connection of customers to the electricity grid.

The Group consists of the Company and its subsidiaries:

Name	% owned	
	31 December 2008	**31 December 2007**
OJSC Chuvashskaya avtotransportnaya kompaniya	100% - 1 share	100% - 1 share
OJSC Sanatoriy-profilaktoriy Solnechny	99.99	99.99
Private Educational Institution Learning centre Energetik-Orenburg	100	100
OJSC Sotsialnaya Sfera-M	100	100
OJSC Elektroopora-R	-	100
OJSC Plemhoz Magistralny	53	53

The reform process in the Russian electric utilities industry creates conditions for competitive electricity market development in which the Group can raise the capital required to maintain and expand current capacity.

As part of the reform process, a merger of the Company with the entities listed below was effected on 31 March 2008 in accordance with the Resolution no. 250 of the Board of Directors of RAO UES of 27 April 2007:

- OJSC Volzhskaya Interregional Distribution Company, established on the basis of distribution assets of OJSC «Saratovenergo», OJSC «Samaraenergo» and OJSC «Uliyanovskenergo»;
- OJSC Penzaenergo;
- OJSC Orenburgenergo;
- OJSC Chuvashenergo;
- OJSC Mordovenergo.

The merger was affected through conversion of shares issued by the Company in exchange for shares in the acquired entities (refer to Note 14). As a result of the merger, above-mentioned companies ceased to exist as separate legal entities and the Company became their legal successor.

Prior to the formation of the Group the Group prepared combined IFRS financial statements for the year ended 31 December 2007, to show the financial position, financial performance and cash flows of the companies constituting the merged Group. All the companies were under common control of RAO UES. These consolidated financial statements are prepared in accordance with the Group accounting policies in respect of business combinations involving entities under common control (see Note 3 (a)) as if the formation of the Group was completed as at 1 January 2006. Accordingly, the combined financial statements form the corresponding figures in these consolidated financial statements.

As at 31 December 2007, the Government of Russian Federation owned 52.68% of RAO UES, which in turn owned 100% of the Company.

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

As at 31 December 2008, the Government of the Russian Federation owned 52.7% shares of JSC IDGC Holding, which in turn owned 67.63% of the Company.

The Government of the Russian Federation influences the Group's activities through setting power transmission and distribution tariffs.

(b) Russian business environment

The Russian Federation has been experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks that typically do not exist in other markets. In addition, the recent contraction in the capital and credit markets has further increased the level of economic uncertainty in the environment. The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

Note 2. Basis of preparation

(a) Statement of compliance

These consolidated IFRS financial statements (hereinafter "Financial Statements") have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

(b) Basis of measurement

The Financial Statements are prepared on the historical cost basis except that investments available-for-sale are stated at fair value; property, plant and equipment was revalued to determine deemed cost as part of the adoption of IFRS as at 1 January 2006.

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian rouble ("RUR"), which is the Group's functional currency and the currency in which these Financial Statements are presented. All financial information presented in Russian roubles has been rounded to the nearest thousand.

(d) Use of judgments, estimates and assumptions

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

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

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the Financial Statements is included in the following notes:

Note 6 – Property, plant and equipment;

Note 10 – Trade and other receivables;

Note 15 – Employee benefits.

Note 3. Significant accounting policies

The significant accounting policies applied in the preparation of the consolidated statements are described in note 3(a) to 3(s). These accounting policies have been consistently applied.

(a) Basis of consolidation

Business combinations including entities under common control

A business combination involving entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party both before and after the business combination, and that control is not transitory.

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Company are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are restated. The assets and liabilities acquired are recognised at the carrying amounts recognized previously in the acquired entity's IFRS financial statements. The components of equity of the acquired entities are added to the same components within the Company equity except that any share capital of the acquired entities is recognized as part of retained earnings. Any cash paid for the acquisition is recognised directly in equity.

Subsidiaries

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

Transactions eliminated on consolidation

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing these Financial Statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency

Transactions in foreign currencies are translated to Russian roubles at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to Russian roubles at the exchange rate at that date. Non-monetary assets and liabilities that are measured and denominated in a foreign currency are translated to Russian roubles at the exchange rate at the date that the fair value was determined. Foreign currency differences arising in translation are recognised in the income statement.

(c) Financial instruments

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

Non-derivative financial instruments are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Accounting for finance income and expenses is discussed in note 3(m).

Held-to-maturity investments

If the Group has the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

Other

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

(d) Property, plant and equipment

Recognition and measurement

Items of property, plant and equipment, except for land, are measured at cost less accumulated depreciation and impairment losses. The deemed cost of property, plant and equipment at 1 January 2006, the date of transition to IFRSs, was determined by reference to its fair value at that date.

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

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

Gains and losses on disposal of an item of property, plant and equipment are recognised net in "operating expenses" in the income statement.

Subsequent costs

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

Depreciation

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Depreciation commences on the month following the acquisition or, in respect of internally constructed assets, from the month following the month assets is completed and ready. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

Type of property, plant and equipment	Useful lives (in years)
Buildings	15-50
Transmission networks	5-20
Equipment for electricity transformation	5-20
Other	1-30

(e) Intangible assets

Intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in the income statement as incurred.

Amortisation is recognised in the income statement on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The estimated useful lives for the current and comparative periods are 3 to 10 years.

(f) Leased assets

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

Leases, other than finance leases, are treated as operating leases, and leased assets are not recognised on the Group's balance sheet. Operating lease payments (net of benefits granted by the lessor) are recognised in the income statement on a straight line basis over the lease term.

(g) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventory is determined on the weighted average cost method and includes expenditures incurred in acquiring the inventories and bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less selling expenses.

(h) Impairment

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the income statement. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to income statement. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in income statement. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

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

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(i) Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans, including Russia's State pension fund, are recognised in the income statement when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and any unrecognised past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the net total of any unrecognised past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised in the income statement on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the income statement.

In calculating the Group's obligation in respect of a plan, to the extent that any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the defined benefit obligation and the fair value of plan assets, that portion is recognised in the income statement over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognised. Actuarial gains and losses on other long-term obligations are recognised immediately.

Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed using the projected unit credit method. Any actuarial gains or losses are recognised in the income statement in the period in which they arise.

Short-term benefits

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

(j) Share capital

Ordinary shares

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

Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, is net of any tax effects, and is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to / from retained earnings.

(k) Revenue

Revenue from electricity transmission is recognised in the income statement when the customer acceptance of the volume of electricity transmitted is received. The tariffs for energy transmission are approved by the Federal Tariff Agency and Regional Energy Commission of each region of the Group's operations.

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

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

(l) Lease payments

Payments made under operating leases are recognized in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the contingency no longer exists and the lease adjustment is known.

(m) Financial income and expense

Finance income comprises interest income on funds invested, dividend income, gains on the disposal of available-for-sale financial assets and foreign currency gains or losses. Interest income is recognised as it accrues in the income statement, using the effective interest method. Dividend income is recognised in the income statement on the date that the Group's right to receive payment is established.

Finance expenses comprise interest expense on borrowings, employee benefits and finance lease and foreign currency losses. All borrowing costs are recognised in the income statement using the effective interest method, except for borrowing costs related to qualifying assets which are recognised as part of the cost of such assets.

Foreign currency gains and losses are reported on a net basis.

(n) Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

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

future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(o) Dividends

Dividends are recognised as a liability and deducted from equity at the balance sheet date only in case they are declared (approved by shareholders) before or on the balance sheet date. Dividends are disclosed in the notes to the financial statements when they are declared after the balance sheet date, but before the financial statements are authorised for issue.

(p) Earnings per share

The Group presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to shareholders of the Group by the weighted average number of shares outstanding during the period.

(q) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(r) Segment reporting

The Group operates predominantly in a single geographical area and industry, providing transmission of electric power and connection services in the Privolzhsky federal region of the Russian Federation. The transmission of electric power and connection services are related activities and are subject to similar risks and returns, therefore they are reported as one business segment.

(s) New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2008, and have not been applied in preparing these Financial Statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective.

- Revised IAS 1 Presentation of Financial Statements (2007) which becomes mandatory for the Group's 2009 consolidated financial statements is expected to have impact on the presentation of the consolidated financial statements. The Standard introduces the concept of total comprehensive income and requires presentation of all owner changes in equity in the statement of changes in equity, separately from non-owner changes in equity.
- Revised IFRS 3 Business Combinations (2008) and amended IAS 27 (2008) Consolidated and Separate Financial Statements, which come into effect on 1 July 2009 (i.e. become mandatory for the Group's 2010 consolidated financial statements). The revisions address, among others, accounting for step acquisitions, require acquisition-related costs to be recognised as expenses and remove exception for changes in contingent consideration to be accounted by adjusting goodwill. The revisions also address how non-controlling interests in subsidiaries should be measured upon acquisition and require to recognise the effects of transactions with non-controlling interest directly in equity.
- IFRS 8 Operating Segments introduces the "management approach" to segment reporting. IFRS 8 Operating Segments, which becomes mandatory for the Group's 2009 consolidated financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. The Group is currently assessing the impact of the amended standard on its financial statements.
- IFRIC 17 Distributions of Non-cash Assets to Owners addresses the accounting of non-cash dividend distributions to owners. The interpretation clarifies when and how the non-cash dividend should be recognised and how the differences between the dividend paid and the carrying amount of the net assets distributed should be recognised. IFRIC 17 becomes effective for annual periods beginning on or after 1 July 2009, and is not expected to have a significant impact on the consolidated financial statement.

Note 4. Determination of fair value

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Investments in equity and debt securities

The fair value of held-to-maturity investments and available-for-sale financial assets is determined by reference to their quoted bid price at the reporting date. The fair value of held-to-maturity investments is determined for disclosure purposes only.

(b) Trade and other receivables

The fair value of trade and other receivables, excluding construction work in progress, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

(c) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option. For finance leases the market rate of interest is determined by reference to similar lease agreements.

Note 5. Financial risk management

(a) Overview

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

- credit risk
- liquidity risk
- market risk.

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

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

(b) Credit risk

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

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. To manage the credit risk, the Group attempts, to the extent possible, to demand prepayments from customers.

Prepayments for connection services are routinely included in the customer service contracts.

The customer base for electricity transmission services for each of the Group's entities is limited to several distribution companies and a small number of large manufacturing enterprises. Payments are tracked regularly and electricity transmission customers are advised of any failures to submit timely payments.

The Group does not require collateral in respect of trade and other receivables.

The Group establishes an allowance for impairment that represents its estimate of anticipated losses in respect of trade and other receivables that relate to individually significant exposures.

Cash and cash equivalents

The Group attempts to minimise the credit risk exposure for current and deposit accounts with banks by placing temporarily available funds only with the banks that are lendors to the Group.

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, that it will always have sufficient liquidity to meet its liabilities when due, without incurring losses.

(d) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk

management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

(i) Currency risk

The Group does not have any significant exposure to currency risk on sales, purchases and borrowings, because no significant sales, purchases, or borrowings are denominated in a currency other than the functional currency of the Group, which is the Russian roubles.

(ii) Interest rate risk

The Group's interest rate risk arises from short-term and long-term borrowings. Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). The majority of interest rates on current and non-current borrowings are fixed. The Group's operating profits and cash flows from operating activity are largely not dependent on the changes in market interest rates.

(e) Capital management

The management's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The management monitors the level of dividends to ordinary shareholders. The management seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. Neither the Company nor any Group companies are subject to externally imposed capital requirements.

Note 6. Property, plant and equipment

	Land and buildings	Transmission networks	Equipment for electricity transformation	Construction in progress	Other	Total
Deemed cost						
Balance as 1 January 2007	**3,435,329**	**11,558,100**	**1,847,408**	**671,205**	**1,728,791**	**19,240,833**
Additions	29,826	36,849	202,374	4,778,528	411,374	5,458,951
Transfers	806,426	1,105,747	1,387,499	(3,360,741)	61,069	-
Disposals	(9,549)	(34,274)	(40,761)	(9,660)	(70,119)	(164,363)
Balance as 31 December 2007	**4,262,032**	**12,666,422**	**3,396,520**	**2,079,332**	**2,131,115**	**24,535,421**
Balance as 1 January 2008	**4,262,032**	**12,666,422**	**3,396,520**	**2,079,332**	**2,131,115**	**24,535,421**
Additions	74,061	187,405	389,879	5,992,812	275,630	6,919,787
Transfers	1,193,135	1,218,699	1,718,065	(4,336,382)	206,483	-
Disposals	(8,061)	(23,622)	(4,506)	(51,359)	(83,935)	(171,483)
Balance as 31 December 2008	**5,521,167**	**14,048,904**	**5,499,958**	**3,684,403**	**2,529,293**	**31,283,725**
Accumulated depreciation						
Balance as at 1 January 2007	**(167,098)**	**(969,727)**	**(163,252)**	**-**	**(303,457)**	**(1,603,534)**
Depreciation for the year	(216,582)	(1,042,948)	(261,961)	-	(354,076)	(1,875,567)
Disposals	945	3,376	3,451	-	18,375	26,147
Balance at 31 December 2007	**(382,735)**	**(2,009,299)**	**(421,762)**	**-**	**(639,158)**	**(3,452,954)**
Balance as at 1 January 2008	**(382,735)**	**(2,009,299)**	**(421,762)**	**-**	**(639,158)**	**(3,452,954)**
Depreciation for the year	(282,319)	(1,154,984)	(474,933)	-	(380,390)	(2,292,626)
Disposals	766	5,199	1,553	-	52,378	59,896
Balance at 31 December 2008	**(664,288)**	**(3,159,084)**	**(895,142)**	**-**	**(967,170)**	**(5,685,684)**
Net book value						
At 31 December 2006	**3,268,231**	**10,588,373**	**1,684,156**	**671,205**	**1,425,334**	**17,637,299**
At 31 December 2007	**3,879,297**	**10,657,123**	**2,974,758**	**2,079,332**	**1,491,957**	**21,082,467**
At 31 December 2008	**4,856,879**	**10,889,820**	**4,604,816**	**3,684,403**	**1,562,123**	**25,598,041**

As at 31 December 2008 construction in progress includes advance prepayments for property, plant and equipment of RUR 458,916 thousand (2007: RUR 195,052 thousand).

Borrowing costs totalling RUR 44,674 thousand at 31 December 2008 (as at 31 December 2007: RUR 7,533 thousand) were included in cost of property, plant and equipment and represent interest on loans.

Impairment test

Given the current challenging market conditions, the management performed an impairment test in respect of property, plant and equipment as at 31 December 2008. The impairment test is based on value in use methodology.

The following key assumptions were used in determining the recoverable amounts of property, plant and equipment:

- In 2008 the Government approved the methodology of Regulatory Asset Base (RAB) regulation through the issuance of resolution 231-э dated 26 June 2008. Based on this regulation, the electricity transmission industry was expected to switch to the RAB regulation of tariffs, which is aimed at ensuring the fair return on the invested capital. As at the impairment testing date Management and industry experts expect the shift to RAB regulation of the remaining Group’s subsidiaries to occur not later than 1 January 2011.

- Cash flows were projected based on actual operating results and the most recent business plan approved by the management. The projections incorporate the Group's best estimates of production, tariffs and operating expenses growth anticipated under the revised RAB regime. The forecasted period was set till the year 2016.
- Based on Government regulations, the return on capital invested before RAB regulation introduction period will gradually increase over the transition period and is expected to be 12% after the introduction of RAB.
- A discount rate of 15.71% was applied in determining the recoverable amount. The discount rate was estimated based on the weighted average cost of capital.

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

Leased plant and machinery

The Group leases production equipment and transport under a number of finance lease agreements. At the end of each of the leases the Group has the option to purchase the equipment at a beneficial price.

At 31 December 2008 and at 31 December 2007 the net book value of leased property, plant and equipment was as follows:

	31 December 2008	31 December 2007
Cost	1,303,313	1,053,566
Accumulated depreciation	(217,514)	(69,536)
Net book value	**1,085,799**	**984,030**

Note 7. Intangible assets

	Patents and licenses	Computer software	Total
Cost			
Balance as 1 January 2007	**50,192**	**198,967**	**249,159**
Additions	237,442	11,411	248,853
Balance as 31 December 2007	**287,634**	**210,378**	**498,012**
Balance as 1 January 2008	**287,634**	**210,378**	**498,012**
Additions	20,584	15,153	35,737
Balance as 31 December 2008	**308,218**	**225,531**	**533,749**
Accumulated amortisation			
Balance as at 1 January 2007	**(5,867)**	**(37,601)**	**(43,468)**
Amortisation for the year	(48,428)	(18,885)	(67,313)
Balance at 31 December 2007	**(54,295)**	**(56,486)**	**(110,781)**
Balance as at 1 January 2008	**(54,295)**	**(56,486)**	**(110,781)**
Amortisation for the year	(74,382)	(24,067)	(98,449)
Balance at 31 December 2008	**(128,677)**	**(80,553)**	**(209,230)**
Net book value			
At 31 December 2006	**44,325**	**161,366**	**205,691**
At 31 December 2007	**233,339**	**153,892**	**387,231**
At 31 December 2008	**179,541**	**144,978**	**324,519**

Intangible assets include mandatory licenses for electricity transmission and capitalised SAP/R3 implementation expenses.

Note 8. Other non-current assets

	31 December 2008	31 December 2007
Finance lease prepayments	232,183	310,613
Financial assets related to employee benefit fund	482,122	283,779
Other receivables	36,376	25,176
Unfinished intangible assets	24,890	21,995
Trade receivables	13,968	17,620
Bank bills of exchange	9,132	5,917
Less: Allowance for impairment of accounts receivable	(15,717)	(13,222)
Total	**782,954**	**651,878**

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

The Group's exposure to credit and currency risks and impairment losses related to non-current accounts receivable are disclosed in note 29.

Note 9. Inventories

	31 December 2008	31 December 2007
Raw materials and supplies	623,133	632,748
Spare parts	253,441	270,273
Other inventories	14,791	22,103
Provision for obsolescence	(42,246)	(45,798)
Total	**849,119**	**879,326**

Note 10. Trade and other receivables

	31 December 2008	31 December 2007
Trade receivables	2,588,445	1,933,134
Taxes receivable	320,308	441,046
Other receivables	159,655	219,136
VAT receivable	104,199	280,308
Less:		
Allowance for impairment of trade receivables	(628,969)	(586,236)
Allowance for impairment of other receivables	(11,106)	(29,532)
Total	**2,532,532**	**2,257,856**

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 29.

Note 11. Prepayments for current assets

	31 December 2008	31 December 2007
Prepayments	641,115	583,516
Less: Allowance for impairment of prepayments	(24,015)	(79,628)
Total	**617,100**	**503,888**

Note 12. Cash and cash equivalents

	31 December 2008	31 December 2007
Cash at bank and in hand	483,665	530,036
Cash equivalents	279	379
Total	**483,944**	**530,415**

All cash and cash equivalents are denominated in Russian Roubles. Cash equivalents represent bank notes with original maturities of three month or less.

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 29.

Note 13. Other current assets

	31 December 2008	31 December 2007
Prepayments for insurance	18,645	99,179
Loans given	7,530	-
Bank and other promissory notes	-	99,371
Total	**26,175**	**198,550**

Note 14. Equity

Share capital

	31 December 2008	31 December 2007
Number of ordinary shares authorised, issued and fully paid	178,577,801,146	178,577,801,146
Par value (in RUR)	0.1	0.1
Total share capital (in RUR)	**17,857,780,115**	**17,857,780,115**

The charter capital of the Company formed upon its foundation was RUR 10,000 thousand and consisted of 100,000,000 ordinary shares with par value of RUR 0.1.

20 March 2008 the Company registered the results of 178,477,801,146 ordinary shares issue which were placed by conversion upon merger of regional generation companies.

Formation of the Group was completed on 31 March 2008 through conversion of OJSC Volzhskaya Interregional Distribution Company, OJSC Penzaenerg, OJSC Orenburgenergo, OJSC Chuvashenergo and OJSC Mordovenergo shares into an additionally issued 178,477,801,146 ordinary shares of IDGC of Volga as follows:

- 20,349/139,540 of ordinary shares of OJSC Volzhskaya Interregional Distribution Company with par value of RUR 1.00 were converted into one additionally issued ordinary share of IDGC of Volga with par value of RUR 0.01;
- 20,349/127,791 of preference shares of OJSC Volzhskaya Interregional Distribution Company with par value of RUR 1.00 were converted into one additionally issued ordinary share of IDGC of Volga with par value of RUR 0.01;
- 20,349/1,853,684 of ordinary shares of OJSC Penzaenergo with par value of RUR 8.00 were converted into one additionally issued ordinary share of IDGC of Volga with par value of RUR 0.01;
- 20,349/1,697,604 of preference shares of OJSC Penzaenergo with par value of RUR 8.00 were converted into one additionally issued ordinary share of IDGC of Volga with par value of RUR 0.01;
- 20,349/6,574,832 of ordinary shares of OJSC Orenburgenergo with par value of RUR 10.00 were converted into one additionally issued ordinary share of IDGC of Volga with par value of RUR 0.01;
- 20,349/317,869 of ordinary shares of OJSC Chuvashenergo with par value of RUR 0.50 were converted into one additionally issued ordinary share of IDGC of Volga with par value of RUR 0.01;
- 20,349/144,531 of ordinary shares of OJSC Mordovenergo with par value of RUR 1.00 were converted into one additionally issued ordinary share of IDGC of Volga with par value of RUR 0.01.

Share capital as at 31 December 2007 was presented as if restructuring completed in March 2008 had taken place at the beginning of the earliest period presented (1 January 2007).

Dividends paid and declared

In accordance with Russian legislation the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with Russian Accounting Principles. As at 31 December 2008 the Company had retained earnings, including the profit for the current year, of RUR 3,928,023 thousand (2007: RUR 3,240,536 thousand).

In 2008 the Group did not declared and paid dividends for the year (in 2007: RUR 146,116 thousand).

Dividends per share at 31 December 2008 were: nil (as at 31 December 2007: RUR 0.0008)

Earnings per share

The calculation of earnings per share is based upon the profit for the year and the outstanding number of ordinary shares after the merger on 31 March 2008 in order to determine earnings per share for the combined entities as if merger was completed on 01 January 2006, the date of Group's transition to IFRS. The Company has no dilutive potential ordinary shares.

	Year ended 31 December 2008	Year ended 31 December 2007
Weighted average number of ordinary shares issued	178,577,801,146	178,577,801,146
Profit attributable to the shareholders	2,034,778	1,743,544
Weighted average earnings per ordinary share – basic (in RUR)	0.0114	0.0098

Note 15. Employee benefits

The Group provides the following long-term pension and social benefit plans:

- defined contribution pension plan (Non-Government Pension Fund of the Electric Power Industry and Non-Government Pension Fund "Professionalniy"); and
- defined benefit pension plans and other long-term defined benefit plans regulated by Collective Bargaining Agreements that include lump sum benefit for pensioners upon retirement, benefits paid in connection with the jubilee dates of pensioners and employees, financial support for pensioners, one-time benefits paid in case of death.

The table below summarises the amounts of defined benefit obligations recognised in the Financial Statements.

Amounts recognised in the consolidated balance sheets:

	31 December 2008		31 December 2007	
	Post-employment benefits	Other benefits	Post-employment benefits	Other benefits
Present value of funded defined benefit obligations	863,401	7,303	888,373	4,789
Net actuarial gains not recognised in the balance sheet	(88,584)	-	(138,541)	-
Past service cost not recognised in the balance sheet	(94,459)	-	(30,358)	-
Net liability in the balance sheet	**680,358**	**7,303**	**719,474**	**4,789**

Amounts recognised in the consolidated income statements:

	Year ended 31 December 2008		Year ended 31 December 2007	
	Post-employment benefits	Other benefits	Post-employment benefits	Other benefits
Current service cost	39,155	110	51,357	342
Interest expenses	56,255	288	47,503	678
Recognised actuarial loss	4,519	3,318	-	1,248
Past service cost	4,700	-	1,780	(6,441)
Immediate recognition of vested prior service costs	15, 171	-	14,508	-
Total	**119,800**	**3,716**	**115,148**	**(4,173)**

Changes in the present value of the Group's defined benefit obligations are as follows:

	Year ended 31 December 2008		Year ended 31 December 2007	
	Post-employment benefits	Other benefits	Post-employment benefits	Other benefits
Benefit obligations				
Benefit obligations as at the beginning of the period	888,373	4,789	729,818	10,713
Current service cost	39,155	110	51,357	342
Interest cost	56,255	288	47,503	678
Actuarial (gain)/loss	(45,438)	3,318	144,259	1,248
Benefits paid	(158,916)	(1,202)	(107,668)	(1,751)
Past service cost	83,972	-	23,104	(6,441)
Benefit obligations as at the end of the period	**863,401**	**7,303**	**888,373**	**4,789**

Changes in the Group's net benefit obligations are as follows:

	Year ended 31 December 2008		Year ended 31 December 2007	
	Post-employment benefits	Other benefits	Post-employment benefits	Other benefits
Net benefit obligations				
Net benefit obligations as at the beginning of the year	719,474	4,789	711,994	10,713
Net costs for the year	119,800	3,716	115,148	(4,173)
Benefits paid	(158,916)	(1,202)	(107,668)	(1,751)
Net benefit obligations as at the end of the year	**680,358**	**7,303**	**719,474**	**4,789**

Principal actuarial estimations are as follows:

	Year ended 31 December 2008		**Year ended 31 December 2007**	
	Post-employment benefits	Other benefits	Post-employment benefits	Other benefits
Discount rate	8.85%	8.85%	6.79%	6.79%
Future Salary increase	5.81%	5.81%	6.15%	6.15%
Future inflation rate	5.81%	5.81%	6.15%	6.15%
Mortality table	Russian 2002	Russian 2002	Russian 2002	Russian 2002
Average working life (in years)	11	11	12	12

Note 16. Loans and borrowings

Non-current borrowings

	Effective interest rate,%	**Currency**	**Year of maturity**	**31 December 2008**	**31 December 2007**
Loans and borrowings					
including:					
OJSC Orgresbank	8.8-10.7	RUR	2009	1,300,000	900,000
OJSC Rosbank	11.5	RUR	2011	1,200,000	-
OJSC Orgresbank	10.7-11.5	RUR	2010	653,164	153,164
OJSC VTB Bank	8.5	RUR	2009	120,000	
OJSC VTB Bank	9-15	RUR	2012	130,549	339,612
OJSC Gazprombank	11	RUR	2010	250,000	250,000
OJSC Gazprombank	14.2	RUR	2011	800,000	-
OJSC Sberbank	8.5	RUR	2009	100,000	100,000
OJSC Alfa-Bank	11	RUR	2012	-	25,000
Finance lease liability				729,573	885,517
Total non-current debt				**5,283,286**	**2,653,293**
Less:					
Current portion of long-term borrowings				(1,520,000)	-
Current portion of finance lease liability				(262,402)	(350,606)
Total				**3,500,884**	**2,302,687**

Current borrowings

Creditor	**Effective interest rate,%**	**Currency**	**31 December 2008**	**31 December 2007**
Current borrowings			1,230,000	1,303,000
including:				
OJSC Sberbank	7.8-12.0	RUR	1,230,000	878,000
LLC Profproyect	8.9-11.4	RUR	-	250,000
OJSC CB Agropromcredit	5.0-11.4	RUR	-	95,000
OJSC Orgresbank	8.0-9.0	RUR	-	50,000
LLC Bank Kuznetsky,	7.5	RUR	-	30,000
Current potion of long-term borrowings			1,520,000	-
Current portion of finance lease liability			262,402	350,606
Total			**3,012,402**	**1,653,606**

All loans and borrowings listed above are bank borrowings with fixed interest rate.

The effective interest rate is the market interest rate applicable to the loan at the date of its receipt.

The Group has not entered into any hedging arrangements in respect of its fair value exposure.

As of 31 December 2008 inventories amounted in RUR 108,903 thousand were pledged as collateral according the loan agreements (2007: RUR 128,111 thousand).

The Group leases production equipment and transportation vehicles under a number of finance lease agreements. Finance lease liabilities are payable as follows:

	31 December 2008			31 December 2007		
	Minimum lease payments	Interest	Principal	Minimum lease payments	Interest	Principal
Less than one year	240,441	84,540	155,901	357,553	114,161	243,392
Between one and five years	318,227	99,029	219,198	362,914	133,016	229,898
More than five	1,014	277	737	2,368	1,574	794
	559,682	**183,846**	**375,836**	**722,835**	**248,751**	**474,084**

The finance lease liabilities are secured by leased assets.

The Group's exposure to currency, interest rate and liquidity risk related to borrowings and finance lease liabilities is disclosed in note 29.

Note 17. Trade and other payables

Non-current payables

	31 December 2008	31 December 2007
Advances from customers	36,818	24,746
Trade payables	-	115,920
Other payables	-	50,754
Total	**36,818**	**191,420**

Current payables

	31 December 2008	31 December 2007
Trade payables	1,436,537	1,557,965
Advances from customers	862,458	466,128
Payables to employees	256,161	316,507
Accrued interest payable	10,300	1,292
Dividends payable	107	112
Other payables	111,556	142,682
Total	**2,677,119**	**2,484,686**

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 29.

Note 18. Other taxes payable

	31 December 2008	31 December 2007
Unified social tax payable	77,998	74,900
Property tax payable	60,294	30,024
Value added tax payable	12,499	94,464
Other taxes payable	56,885	53,768
Fines and other penalties payable	28,441	38,357
Total	**236,117**	**291,513**

Note 19. Revenue

	Year ended 31 December 2008	Year ended 31 December 2007
Electricity transmission	27,288,383	29,635,715
Connection services	2,691,583	1,339,113
Other revenue	745,052	877,354
Total	**30,725,018**	**31,852,182**

Other revenues are comprised of repair, construction, maintenance services, rent services and transport revenue.

Note 20. Operating expenses

	Year ended 31 December 2008	Year ended 31 December 2007
Purchased electricity	7,451,409	11,083,026
Electricity transmission	6,138,631	5,641,995
Personnel costs	5,728,194	5,046,007
Depreciation and amortisation	2,391,075	1,942,880
Electricity metering services	1,250,461	665,247
Materials	1,157,826	1,040,723
Repair and maintenance costs	776,225	1,007,637
Consulting services	363,215	327,379
Rent expenses	313,452	268,442
Insurance expenses	291,434	272,603
Taxes other than income tax	276,374	231,662
Social expenditures and charity expenses	245,109	189,312
Electricity for own needs	220,582	184,122
Security services	121,958	113,195
Allowance for impairment of debts	98,288	99,166
Bank commission	92,555	124,698
Loss on the disposal of property, plant and equipment	19,131	93,922
Membership fee	-	33,117
Other expenses	464,905	532,470
Total	**27,400,824**	**28,897,603**

Note 21. Personnel costs

	Year ended 31 December 2008	Year ended 31 December 2007
Wages and salaries	4,661,199	4,033,047
Unified social tax	943,479	901,985
Expense in respect of post-employment defined benefit plan	119,800	115,148
Expense/(income) in respect of long-term service benefits provided	3,716	(4,173)
Total	**5,728,194**	**5,046,007**

The average number of employees (including production and non-production staff) was 18,229 in 2008 (2007: 18,758).

Note 22. Other income and (expenses), net

	Year ended 31 December 2008	Year ended 31 December 2007
Accounts payable written-off	7,287	12,254
Tax and other penalties	44	97,832
Other income and expenses, net	(40,053)	(43,224)
Total	**(32,722)**	**66,862**

Note 23. Financial income and expenses

	Year ended 31 December 2008	Year ended 31 December 2007
Financial income		
Interest on employee benefit fund	14,645	13,396
Interest income	3,049	31,846
	17,694	**45,242**
Financial expense		
Interest expense	(400,926)	(153,085)
Interest on finance lease liabilities	(137,201)	(80,352)
	(538,127)	**(233,437)**
Total	**(520,433)**	**(188,195)**

Note 24. Income tax expense

	Year ended 31 December 2008	Year ended 31 December 2007
Current income tax charge	829,954	1,002,730
Under/(over)-provided in prior years	4,608	(132,834)
Deferred income charge	111,986	219,806
Change in tax rate	(210,287)	-
Income tax charge	**736,261**	**1,089,702**

The Group's applicable tax rate in the Russian Federation is the income tax rate of 24%.

From 1 January 2009 the income tax rate for Russian companies has been reduced to 20%. This rate has been used for the calculation of the deferred tax assets and liabilities as at 31 December 2008.

Reconciliation of effective tax rate :

	Year ended 31 December 2008	%	Year ended 31 December 2007	%
Profit before income tax	**2,771,039**	**100**	**2,833,246**	**100**
Income tax at applicable tax rate	665,049	(24)	679,979	(24)
Change in tax rate	(210,287)	8	-	-
Under/(over)-provided in prior years	4,608	-	(132,834)	5
Tax effect of items which are not deductible or taxable for taxation purposes	276,891	(10)	542,557	(19)
Social payments	*104,089*		*147,384*	
Written-off receivables	-		*203,394*	
Consulting and other services	*35,219*		*63,207*	
Other	*137,583*		*128,572*	
Total income tax charge	**736,261**	**(26)**	**1,089,702**	**(38)**

Deferred tax assets and liabilities

For the year ended 31 December 2007 deferred tax assets and liabilities are attributable to the following items:

	31 December 2007	Recognised in income statement	1 January 2007
Other current assets	18,345	20,313	38,658
Trade and other receivables	-	144,305	144,305
Accounts payable	62,619	(8,185)	54,434
Employee benefit obligations	173,823	(373)	173,450
Inventories	34,192	(12,868)	21,324
Deferred tax assets	**288,979**	**143,192**	**432,171**
Property, plant and equipment	(1,293,364)	(19,177)	(1,312,541)
Intangible assets	(18,377)	10,411	(7,966)
Non-current assets	(68,107)	26,512	(41,595)
Trade and other receivables	(58,868)	58,868	-
Deferred tax liabilities	**(1,438,716)**	**76,614**	**(1,362,102)**
Net deferred tax liabilities	**(1,149,737)**	**219,806**	**(929,931)**

For the year ended 31 December 2008 deferred tax assets and liabilities are attributable to the following items:

	31 December 2008	Effect of reduction in tax rate	Recognised in income statement	1 January 2008
Other current assets	-	-	18,345	18,345
Accounts payable	-	-	62,619	62,619
Employee benefit obligations	137,533	27,506	8,784	173,823
Inventories	30,418	6,084	(2,310)	34,192
Intangible assets	757	152	(909)	-
Deferred tax assets	**168,708**	**33,742**	**86,529**	**288,979**
Property, plant and equipment	(921,907)	(184,381)	(187,076)	(1,293,364)
Intangible assets	-	-	(18,377)	(18,377)
Non-current assets	(98,251)	(19,650)	49,794	(68,107)
Trade and other receivables	(187,788)	(37,558)	166,478	(58,868)
Accounts payable	(12,198)	(2,440)	14,638	-
Deferred tax liabilities	**(1,220,144)**	**(244,029)**	**25,457**	**(1,438,716)**
Net deferred tax liabilities	**(1,051,436)**	**(210,287)**	**111,986**	**(1,149,737)**

Note 25. Related parties

(a) Control relationships

As at 31 December 2008, IDGC Holding was the parent company of the Company. As at 31 December 2007, RAO UES was the parent company of the Company.

The party with the ultimate control over the Company is the Government of the Russian Federation, which held the majority of the voting rights of RAO UES and IDGC Holding.

(b) Transactions with entities under common control of the parent

Transactions with the Parent's subsidiaries and associates were as follows:

	Year ended 31 December 2008	Year ended 31 December 2007
Revenue		
Electricity transmission	7,829,651	27,066,722
Other sales	32,032	269,504
Expenses		
Electricity transmission	(1,745,568)	(11,108,728)
Purchased electricity	(3,071,846)	(4,905,136)
Other expenses	(275,959)	(156,094)

All outstanding balances with related parties are to be settled in cash within a year of the balance sheet date. None of the balances are secured.

Balances on settlements were as follows:

	31 December 2008	31 December 2007
Accounts receivable and prepayments	-	1,186,961
Less: Allowance for impairment of accounts receivable	-	(61,760)
Accounts payable	-	(178,375)

Related party revenue for electricity transmission is based on the tariffs determined by the Government; other related party transmissions are based on normal market prices.

(c) Transactions with other state controlled entities

In the normal course of business the Group enters into transactions with other entities under Government control. Prices for electricity and heat are based on tariffs set by the Federal Service on Tariffs and the regional services on tariffs. Bank loans are provided on the basis of market rates.

The Group had the following significant transactions with state-controlled entities:

	Year ended 31 December 2008	Year ended 31 December 2007
Revenue		
Electricity transmission	3,772,790	-
Connection services	1,219,856	369,172
Other sales	79,038	697
Expenses		
Electricity transmission	(2,955,670)	(122,146)
Purchased electricity	(1,696,586)	-
Interest expense	(151,462)	(36,155)
Other expenses	(21,411)	-

The Group had the following significant balances with state-controlled entities:

	31 December 2008	31 December 2007
Accounts receivable and prepayments	719,191	509,176
Less: Allowance for impairment of accounts receivable	-	(456,339)
Accounts payable	(396,455)	(84,000)
Loans and borrowings	(1,580,549)	(1,317,612)

(d) Transactions with management and close family members

There are no transactions or balances with key management and their close family members, except for remuneration in the form of salary and bonuses.

Compensation is paid to members of the Board of Directors and Top management for their services in full time management positions. The compensation is made up of a contractual salary, non-cash benefits, and performance bonuses depending on results for the period according to Russian statutory financial statements.

Members of the Board of Directors and the Top management of the Group received the following remuneration:

	Year ended 31 December 2008		Year ended 31 December 2007	
	Members of Board of Directors	**Top management**	**Members of Board of Directors**	**Top management**
Salaries and bonuses	6,079	73,593	9,428	154,937

Note 26. Operating leases

The Group leases a number of land plots owned by local governments under operating lease.

Land lease payments are determined by lease agreements and are as follows:

	31 December 2008	31 December 2007
Less than one year	22,463	19,609
Between one year and five years	70,406	36,789
After five years	674,880	325,874
Total	**767,749**	**382,272**

The land areas leased by the Group are the territories on which the Group electricity grids, substations and other assets are located. Some contracts for land lease are concluded for 49 years, other contracts are concluded for one year with prolongation. Lease payments are reviewed regularly to reflect market rentals.

During the year ended 31 December 2008 RUR 313,452 thousand (2007: RUR 268,442 thousand) was recognised in the income statement in respect of operating lease.

The Group leased out administrative buildings and other equipment under operating lease. Lease payments are determined by lease agreements and are as follows:

	31 December 2008	31 December 2007
Less than one year	77,798	50,868
Between one year and five years	83,335	60,263
After five years	790,732	588,315
Total	**951,865**	**699,446**

Lease payments are reviewed regularly to reflect market rentals. Main part of contracts for lease of buildings is concluded for 49 years.

Note 27. Commitments

Capital commitments

As at 31 December 2008 the Group has outstanding commitments under the contracts for the purchase and construction of property, plant and equipment for RUR 1,850,158 thousand (as at 31 December 2007: RUR 1,311,114 thousand).

Note 28. Contingencies

Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its stations, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

Litigation

The Group is a party to certain legal proceedings arising in the ordinary course of business. The management does not believe than these matters will have a material adverse effect on the Group's financial position and operating results.

Taxation contingencies

The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

As at 31 December 2008 management believes that its interpretation of the relevant tax, currency and customs legislation is appropriate and the Group's positions will be sustained.

Environmental matters

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

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

Note 29. Financial instruments

(a) Credit risk

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

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date is represented in the table below:

	31 December 2008	31 December 2007
Cash and cash equivalents	483,944	530,415
Trade and other receivables (net of allowance for impairment)	2,002,794	1,488,204
Financial assets related to employee benefit fund	482,122	283,779
Other non-current assets (net of allowance for impairment)	9,132	5,917
Other current assets	7,530	99,371
Total	**2,985,522**	**2,407,686**

The Group's two most significant customers, regional distribution entities, account for RUR 1,559,197 thousand of the trade receivables carrying amount at 31 December 2008 (31 December 2007: RUR 1,545,362 thousand).

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

	31 December 2008	31 December 2007
Electricity transmission	2,058,874	1,909,760
Connection services	19,593	5,818
Other sales	523,946	39,547
Less: Allowance for impairment of accounts receivable	(642, 937)	(599,458)
Total	**1,959,476**	**1,355,667**

The aging of trade and other receivables at the reporting date was:

	31 December 2008		31 December 2007	
	Gross	Impairment	Gross	Impairment
Not past due	1,434,741	(138,566)	1,355,951	(26,188)
Past due not more 3 months	121,765	(11,400)	119,308	(25,721)
Past due more than 3 months and not more than 6 months	17,328	(231)	15,842	-
Past due more than 6 months and not more than 1 year	155,111	-	14,278	-
Past due more than one year	929,641	(505,595)	611,775	(577,081)
Total	**2,658,586**	**(655,792)**	**2,117,154**	**(628,990)**

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

	Year ended 31 December 2008	Year ended 31 December 2007
Balance at 1 January	628,990	791,489
Charge of additional allowance for doubtful debtors	122,601	100,953
Reversal of the allowance for doubtful debtors	(24,313)	(1,786)
Accounts receivable written off through allowance for bad debts	(71,486)	(261,666)
Balance at 31 December	**655,792**	**628,990**

The allowance accounts in respect of trade and other receivables are used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amounts considered irrecoverable and is written off against the financial asset directly.

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group monitors the risk of cash shortfalls by means of current liquidity planning. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. This approach is used to analyze payment dates associated with financial assets, and also to forecast cash flows from operating activities.

The following are the contractual maturities of financial liabilities, including estimated interest payments and the impact of netting agreements:

As at 31 December 2008:

	Carrying amount	Contractual cash flows	Less than 6 months	6-12 months	1-2 years	2-5 years	Over 5 years
Financial liabilities							
Secured loans and borrowings	100,000	100,662	100,662	-	-	-	-
Unsecured loans and borrowings	5,694,013	6,643,643	1,327,945	1,803,457	1,206,627	2,305,614	-
Finance lease liabilities	375,836	559,682	132,029	108,412	147,335	170,892	1,014
Trade and other payables	1,543,298	1,543,298	1,493,740	49,558	-	-	-
Total	**7,713,147**	**8,847,285**	**3,054,376**	**1,961,427**	**1,353,962**	**2,476,506**	**1,014**

As at 31 December 2007:

	Carrying amount	Contractual cash flows	Less than 6 months	6-12 months	1-2 years	2-5 years	Over 5 years
Financial liabilities							
Secured loans and borrowings	100,000	109,138	4,238	4,238	100,662	-	-
Unsecured loans and borrowings	2,972,068	3,388,109	935,796	592,520	1,369,572	490,221	-
Finance lease liabilities	474,084	722,835	211,497	146,056	172,392	190,522	2,368
Trade and other payables	1,867,340	1,867,340	1,592,087	76,335	162,306	36,612	-
Total	**5,413,492**	**6,087,422**	**2,743,618**	**819,149**	**1,804,932**	**717,355**	**2,368**

(c) Foreign exchange risk

The Group primarily operates within the Russian Federation. The majority of the Group's operations are denominated in RUR.

(d) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group is exposed to interest rate risk through market value fluctuations of interest-bearing long-term borrowings. The majority of interest rates on long term and short term borrowings are fixed, these are disclosed in Note 17. The Group has no significant interest-bearing assets. Currently the Group does not operate a formal management program focusing on the unpredictability of financial markets or seeking to minimise potential adverse effects on the financial performance of the Group.

Fair values sensitivity analysis for fixed rate instruments

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

(e) Capital management

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

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

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

No Group's entity is subject to externally imposed capital requirements.

(f) Fair values

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