OJSC Volga TGC

Consolidated Financial Statements
for the year ended 31 December 2009

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Independent Auditors' Report

Board of Directors of
OJSC Volga TGC

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

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

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

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

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

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

ZAO KPMG

ZAO KPMG
20 April 2010

ZAO KPMG, a company incorporated under the Laws of the Russian Federation and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

	Note	2009	2008
Revenue	7	52,389,812	47,864,539
Operating expenses	8	(47,220,848)	(45,839,050)
Other operating income		365,748	241,722
Operating profit		5,534,712	2,267,211
Finance income	9	961,387	500,366
Finance costs	9	(717,351)	(704,231)
Profit before income tax		5,778,748	2,063,346
Income tax expense	10	(1,309,335)	(135,534)
Profit for the year		4,469,413	1,927,812
Other comprehensive income			
Net change in fair value of available-for-sale financial assets		1,757	11,609
Other comprehensive income for the year		1,757	11,609
Total comprehensive income for the year		**4,471,170**	**1,939,421**
Earnings per share			
Basic earnings per share (RUR)	20	0,149	0,066
Diluted earnings per share (RUR)	20	0,149	0,066

These consolidated financial statements were approved by management of the Group on 20.04.2010 and were signed on its behalf by:

Executive vice-president of CJSC IES — V.V. Dikop

Chief accountant — A. F. Varenov

The consolidated statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 11 to 55.

	Note	2009	2008
ASSETS			
Non-current assets			
Property, plant and equipment	11	40,575,307	38,356,694
Intangible assets	12	902,513	1,037,487
Investments	13	3,580,333	93,495
Other non-current assets	15	431,435	635,062
Total non-current assets		**45,489,588**	**40,122,738**
Current assets			
Inventories	16	2,039,486	2,503,978
Income tax receivable		18,287	140,736
Trade and other receivables	17	6,221,915	8,988,396
Investments	13	1,734,387	1,844,867
Cash and cash equivalents	18	6,528,770	3,805,548
Other currents assets	19	749,619	1,499,077
Total current assets		**17,292,464**	**18,782,602**
Total assets		**62,782,052**	**58,905,340**

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 11 to 55.

	Note	2009	2008
EQUITY AND LIABILITIES			
Equity	20		
Share capital		30,011,860	30,011,860
Additional capital		8,718,488	8,718,488
Treasury shares, at cost		-	(526)
Available-for-sale investments revaluation reserve		(17,199)	(18,956)
Retained earnings		9,504,967	5,110,746
Total equity		**48,218,116**	**43,821,612**
Non-current liabilities			
Loans and borrowings	21	1,407,551	777,237
Deferred tax liabilities	14	3,948,358	3,795,231
Employee benefits	22	1,319,055	1,514,161
Other non-current liabilities		278	278
Total non-current liabilities		**6,675,242**	**6,086,907**
Current liabilities			
Loans and borrowings	21	2,780,338	5,180,361
Trade and other payables	24	4,827,905	3,325,861
Provisions	23	101,905	42,301
Income tax payable		178,546	448,298
Total current liabilities		**7,888,694**	**8,996,821**
Total liabilities		**14,563,936**	**15,083,728**
Total equity and liabilities		**62,782,052**	**58,905,340**

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 11 to 55.

	2009	2008
OPERATING ACTIVITIES		
Profit before income tax	5,778,748	2,063,346
Adjustments for:		
Depreciation and amortization	3,092,194	2,860,517
Allowance for bad and doubtful debts	(110,171)	(358,722)
(Decrease)/ increase in liability for defined benefit plans	(195,106)	53,797
Loss on disposal of property, plant and equipment	58,697	69,011
Finance income	(961,387)	(500,366)
Finance cost	717,351	704,231
Impairment of available-for-sale financial assets	-	60,827
Reserve for inventory obsolescence	64,642	(23,689)
Other income	(8,232)	(185,998)
Operating profit before changes in working capital and income tax paid	**8 ,436,736**	**4,742,954**
Decrease in inventories	399,850	183,344
Increase in trade and other receivables	(1,235,011)	(1,052,551)
Increase in trade and other payables	1,881,107	833,032
Decrease in current assets	749,458	321,787
Cash flows from operations before income taxes and interest paid	**10 ,232,140**	**5,028,566**
Income taxes paid	(1,299,119)	(983,440)
Interest paid	(530,380)	(587,174)
Cash flows from operating activities	**8 ,402,641**	**3,457,952**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 11 to 55.

	2009	2008
INVESTING ACTIVITIES		
Proceeds from disposal of investments	353,793	307,334
Proceeds from disposal of property, plant and equipment	42,178	2,356
Acquisition of property, plant and equipment and intangible assets	(5,608,360)	(6,175,566)
Placement of bank deposit	-	(1,500,000)
Withdrawal of bank deposit	1,500,000	-
Acquisition of investments	(412,000)	(160,712)
Loans issued	(440,130)	-
Interest received	835,665	392,574
Advances to related party	-	(4,800,000)
Cash flows utilized by investing activities	**(3 ,728,854)**	**(11, 934,014)**
FINANCING ACTIVITIES		
Proceeds from the issue of shares	-	10, 990,432
Disposal/(purchase) of treasury stock	526	(526)
Proceeds from borrowings	7,418,554	18,317,621
Repayment of borrowings	(9,296,377)	(17,829,168)
Dividends paid	(73,268)	-
Cash flows (utilized by)/from financing activities	**(1, 950,565)**	**11,478,359**
Net increase in cash and cash equivalents	**2,723,222**	**3,002,297**
Cash and cash equivalents at beginning of year	**3,805,548**	**803,251**
Cash and cash equivalents at end of year (note 18)	**6,528,770**	**3,805,548**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 11 to 55.

	Share capital	Additional capital	Treasury shares, at cost	Available-for-sale investments revaluation reserve	Retained earnings	Total equity
Balance at 1 January 2008	26,116,076	1,587,056	-	(30,565)	3,143,904	30,816,471
Total comprehensive income for the year						
Profit for the year	-	-	-	-	1,927,812	1,927,812
Other comprehensive income						
Revaluation and disposal of available-for-sale investments	-	-	-	11,609	-	11,609
Total other comprehensive income	-	-	-	11,609	-	11,609
Total comprehensive income for the year	-	-	-	11,609	1,927,812	1,939,421
Transactions with owners, recorded directly in equity						
Own shares acquired	-	-	(526)	-	-	(526)
Issuance of shares	3,895,784	7,131,432	-	-	-	11,027,216
Merger under common control	-	-	-	-	39,030	39,030
Total transactions with owners	3,895,784	7,131,432	(526)		39,030	11,065,720
Balance at 31 December 2008	30,011,860	8,718,488	(526)	(18,956)	5,110,746	43,821,612

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 11 to 55.

	Share capital	Additional capital	Treasury shares, at cost	Available-for-sale investments revaluation reserve	Retained earnings	Total equity
Balance at 1 January 2009	30,011,860	8,718,488	(526)	(18,956)	5,110,746	43,821,612
Total comprehensive income for the year						
Profit for the year	-	-	-	-	4,469,413	4,469,413
Other comprehensive income						
Revaluation and disposal of available-for-sale investments	-	-	-	1,757	-	1,757
Total other comprehensive income	-	-	-	1,757	-	1,757
Total comprehensive income for the year				1,757	4,469,413	4,471,170
Transactions with owners, recorded directly in equity						
Disposal of own shares	-	-	526	-	-	526
Distributions to shareholders	-	-	-	-	(75,192)	(75,192)
Total transactions with owners	-	-	526	-	(75,192)	(74,666)
Balance at 31 December 2009	30,011,860	8,718,488	-	(17,199)	9,504,967	48,218,116

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 11 to 55.

1 Background

(a) The Group organisation and its operations

Open Joint Stock Company Volga Territorial Generating Company, (OJSC Volga TGC, or the "Company"), was established on 1 August, 2005, within the framework of the Russian electricity sector restructuring in accordance with the Resolution of General Shareholders Meetings OJSC Samaraenergo, OJSC Saratovenergo and OJSC Ulyanovskenergo, companies ultimately controlled by RAO UES of Russia.

On 1 April 2006 in accordance with the Resolution of General Shareholders Meetings on reorganization in the form of the regional generation companies' spin-off, the following legal entities were spun off from OJSC Samaraenergo, OJSC Saratovenergo and OJSC Ulyanovskenergo: OJSC Samara Territorial Generating Company, OJSC Saratov Territorial Generating Company and OJSC Ulyanovsk Territorial Generating Company, which became the shareholders of the Company.

On 3 July 2007 the final stage of the Company's formation was completed by merging OJSC Samara Territorial Generating Company, OJSC Saratov Territorial Generating Company and OJSC Ulyanovsk Territorial Generating Company into the Company. Their respective shares were transferred to RAO UES of Russia, who became the direct controlling shareholder of the Company. Until 30 June 2008 RAO UES of Russia remained the owner of a controlling stake in the Company.

30 June 2008 OJSC Volzhskaya TGC Holding merged into the Company following the decision of an Extraordinary General Meeting of Shareholders of RAO UES of Russia to spin-off the remaining interest in the Company from RAO UES of Russia.

OJSC Volzhskaya TGC Holding was formed by means of a spin-off from RAO UES of Russia which received as assets a contribution of the ordinary shares of the Company owned by RAO UES of Russia, ordinary shares of OJSC RusHydro, ordinary shares of OJSC SMUEK and other assets. Upon the merger, all of the assets of OJSC Volzhskaya TGC Holding were transferred to the Company. As a result of the merger, OJSC Volzhskaya TGC Holding ceased to exist and its shares were cancelled.

All shares of OJSC Volzhskaya TGC Holding were exchanged into the shares of the Company based on the conversion rates approved by a General Meeting of Shareholders of RAO UES of Russia.

The Group Volga TGC (the "Group") comprises 17 thermoelectric power stations, 5 heat networks and 2 regional state power stations. The Group consists of OJSC Volga TGC and 3 subsidiaries. The Group's major subsidiary is Open Joint Stock Company Orenburg Heat Generating Company (hereinafter Orenburg TGC).

The Company's shares are traded on the MICEX and RTS.

The Group's principle activity is electricity and heat generation.

The Company's registered office is 15, Mayakovskogo str., 443100, Samara, Russia.

(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 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.

(c) Sector restructuring

In 2008 the Russian electric utilities industry has accomplished a reorganisation of state controlled RAO UES Group designed to introduce competition into the electricity sector and to create an environment in which RAO UES Group successor companies 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 approved by Resolution of the Government of the Russian Federation No. 529 dated August 31, 2006 and which came into force on 1 September 2006. Under the new wholesale market framework, electricity and power purchase-and-sale transactions in the regulated market sector are to be governed by a regulated bilateral contract system.

From 2007 volumes of electricity (power) traded in the wholesale market at regulated prices are gradually reduced. The pace of reduction is set annually by the Russian Federation Government according to socio-economic development forecasts. Based on the last forecasts in 2013 it will become possible to launch a fully competitive whole sale market.

Management believes that as an ultimate result, a stable regulatory regime and a competitive power market will be established, and it will allow the Group to raise funds for further developing its business. However, there can be no complete assurance in this regard.

(d) Relations with the State and its influence on the Group's activities

As at 31 December 2009 the following shareholders owned OJSC Volga TGC: OJSC FSK UES (32.14%), Integrated energy systems ("IES") Limited (Cyprus) (13.36%), LLC IES Holding (12.86%), Berezville Investments Limited (11.29%), Merol Trading Limited (0.01%), Basly Management Limited (0.05%), other minority shareholders (30.29%).

77.66% of OJSC FSC UES shares are owned by the Government of the Russian Federation. All shares of the Company owned by OJSC FSC UES have been transferred to LLC IES Holding under the trust management agreement until December 2009 (see Note 31).

CJSC IES performs functions of executive body in accordance with Agreement "On the assignment of authority of the sole executive body of the joint stock company to the management company and the provision of management services".

CJSC IES, LLC IES Holding, Berezville Investments Limited, Merol Trading Limited and Basly Management Limited are controlled by IES Limited (Cyprus) which is the parent company of the Group. IES limited (Cyprus) is controlled by Renova Holding Limited which is the ultimate parent company of the Group. Mr. V.Vekselberg is the ultimate controlling party.

Among the consumers of electricity and heat power of the Group are key entities controlled by, or related to, the state. Furthermore, the state controls a number of the Group's fuel and other materials suppliers (see Note 29).

The government of the Russian Federation directly affects the Group's operations through regulation by the Federal Service on Tariffs ("FST"), with respect to its wholesale energy sales, and by the regional services on tariffs ("RSTs"), with respect to its retail electricity and heat sales.

Tariffs which the Group may charge for sales of electricity and heat are governed both by regulations specific to the electricity and heat industry and by regulations applicable to natural monopolies.

2 Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that financial investments classified as available-for-sale are stated at fair value. Property, plant and equipment was revalued to determine deemed cost as part of the adoption of IFRSs.

(c) Functional and presentation currency

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

(d) Liquidity

Management has concluded that the Group has sufficient working capital for the foreseeable future, and that it is therefore appropriate for this consolidated financial statements to be prepared on the going concern basis. The consolidated financial statements do not include any adjustments that might be necessary should the Group be unable to continue as a going concern.

(e) 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 consolidated 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 11 – *Property, Plant and Equipment* in respect of determination of deemed cost, impairment and useful economic lives of Property, Plant and Equipment;
- Note 17 and 25(a) – *Trade and other receivables* in respect of determination of allowance for doubtful debts;
- Note 14(a) – *Deferred tax assets and liabilities*;
- Note 22– *Employee benefits*;
- Note 28 – *Contingencies*.

(f) Changes in accounting policies and presentation

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

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

(i) Determination and presentation of operating segments

As at 1 January 2009 the Group determines and presents operating segments based on the information that internally is provided to the Board of Directors, which is the Group's operating decision making body. This change in accounting policy is due to the adoption of International Financial Reporting Standard 8 *Operating Segments*. The new accounting policy in respect of segment operating disclosures is presented as follows.

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

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

Segment results that are reported to the board of directors include items directly attributable to a segment.

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

(ii) Presentation of financial statements

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

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

3 Significant accounting policies

Significant accounting policies that have been applied in the preparation of the consolidated financial statements are described in Note 3(a) to 3(v). These accounting policies have been consistently applied except as explained in Note 2 (f), which addresses changes in accounting policies.

Certain comparative amounts have been reclassified to conform with the current year presentation (see Note 11).

(a) Basis of consolidation

(i) Subsidiaries

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

(ii) Transactions among 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 recognised previously in the entity's IFRS financial statements. The components of equity of the acquired entities are added to the same components within Group equity except that any share capital of the acquired entities is recognised as part of retained earnings. Any cash paid for the acquisition is recognised directly in equity.

Any gain/loss on disposals involving entities or businesses under common control is recognised directly in equity.

(iii) Associates (equity accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Associates are accounted for using the equity method. The consolidated financial statements include the Group's share of the income and expenses of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date when significant influence commences until the date when significant influence ceases. When the Group's share of losses exceeds its interest in an associate, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued, except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(iv) Transactions eliminated on consolidation

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

Transactions in foreign currencies are translated to Russian rubles 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 rubles at the exchange rate at that date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to Russian rubles at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments.

(c) Non-derivative 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, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Cash comprises cash in hand and cash deposited on demand at banks. Cash equivalents comprise short-term high 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.

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 financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held-to-maturity financial assets are measured at amortised cost using the effective interest method, less any impairment losses.

Gains and losses through the amortisation process are recognised in profit or loss as finance income and finance expenses.

Available-for-sale financial assets

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

Financial assets at fair value through profit or loss

An instrument is classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Upon initial recognition attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

Loans and receivables

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

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

(i) Recognition and measurement

Items of property, plant and equipment, except for land, are measured at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment at 1 January 2005, the date of transition to IFRSs, was determined by reference to its fair value at that date ("deemed cost").

Cost includes expenditure that is 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. Furthermore, borrowing costs that are directly attributable to the acquisition or production of qualifying assets and purchased software that is integral to the functionality of the related equipment are capitalised as part of these assets. Repair and maintenance expenses are charged to profit or loss as incurred.

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 within "Other operating income" in profit or loss.

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

(ii) 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 carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Items of property, plant and equipment which have been valued at 1 January 2005 are depreciated over the remaining useful lives determined as of that date. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

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

• Buildings	10-40
• Machinery and equipment	10-40
• Transport	3-20
• Electricity network	20-40
• Water supply networks	10-40
• Gas network	10-40
• Heating network	5-20
• Other	3-20

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

(e) Intangible assets

(i) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new technical knowledge and understanding, is recognized in profit or loss when incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalized includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognized in profit or loss when incurred.

Capitalized development expenditure is measured at cost less accumulated amortization and accumulated impairment losses.

(ii) Other intangible assets

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

(iii) Subsequent expenditure

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

(iv) Amortization

Amortisation is recognised in the statement of comprehensive income 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 as follows:

• Computer software	3-10
• Licenses	2-5
• Capitalized development costs	1-5

(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.

Other leases are operating leases and the leased assets are not recognised on the Group's balance sheet.

(g) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories includes all actual acquisition costs and other costs incurred to bring inventories to their existing condition and location. The cost of fuel is determined using the weighted average cost method. The cost of other inventories is determined using the actual cost method.

Net realizable value is the estimated selling price in the ordinary course of business, less selling expenses.

Allowances are recorded against slow moving and obsolete inventories.

(h) Share capital

Ordinary shares

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

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.

(i) Borrowings

Borrowings are recognised initially at their fair value. Fair value is determined using the prevailing market rate of interest for similar instruments, if significantly different from the transaction price. In subsequent periods, borrowing are stated at amortised cost using the effective interest rate; any difference between the fair value of the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss as a finance cost over the period of the debt obligation.

(j) Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is 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 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 profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in other comprehensive income and presented in the fair value reserve in equity is transferred to profit or loss.

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 profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised in other comprehensive income.

(ii) *Non-financial assets*

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

The Group's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the cash generating unit to which the corporate asset belongs.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the 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.

(k) Dividends payable

Dividends are recognised as a liability in the period in which they are authorised by the shareholders. Dividends are disclosed in financial statements when they are declared after the balance sheet date, but before the financial statements are authorized for issue.

(l) Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a non-state pension fund 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 profit or loss 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.

(ii) 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 are deducted. The discount rate is the yield at the reporting date on Russian 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 statement of comprehensive income on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in profit or loss.

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

(iii) 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 profit or loss in the period in which they arise.

(iv) Short-term benefits

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

A liability is recognised for the amount expected to be paid under short-term cash bonus or unused vacations if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(m) 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. Future operating costs are not provided for. The unwinding of discount is recognised as finance cost.

(n) Environmental obligations

Liabilities for environmental remediation are recorded in accounting in the presence of such obligations, when the payment is probable and reliable estimates exist.

(o) Revenue

Revenue is recognised on the delivery of electricity and heat, and provision of services. Revenue amounts are presented exclusive of VAT. Revenue on the regulated market segment is based on the application of authorized tariffs for electricity and heat as approved by the Federal Service on Tariffs and the Regional Energy Commission.

(p) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised 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.

(q) Social expenditure

To the extent that the Group's contributions to social programs benefit the community at large and are not restricted to the Group's employees, they are recognised in profit or loss as incurred.

(r) Finance income and costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), gains on the disposal of available-for-sale financial assets, foreign currency gains, unwinding of the discount on trade and other receivables and the effect of discounting of borrowings and accounts payable. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance cost comprise interest expense on borrowings, unwinding of the discount on provisions, finance lease interest cost and the effect of discounting of trade and other receivables, foreign currency losses, losses on disposal of available for sale financial assets and impairment losses recognised on financial assets (except for accounts receivable). All borrowing costs are recognised in profit or loss using the effective interest method, except for borrowing costs related to qualifying assets, which are recognised as part of the cost of such assets.

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

(s) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly 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 it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. 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.

(t) Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

(u) Seasonality

Demand for electricity and heat is influenced both the season of the year and the relative severity of weather. Revenues from heating are concentrated within the months of October to March. A similar, through less severe, concentration of electricity sales occurs within the same period. The seasonality of electricity and heat production has a corresponding impact of the usage of fuel and the purchase of power.

Furthermore, during the periods of lower production from April to September, there is an increase in the expenditures on repairs and maintenance. This seasonality does not impact the revenue or cost recognition policies of the Group.

(v) Segment reporting

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

Inter-segment pricing is determined on an arm's length basis.

(w) New financial reporting standards

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

- Revised IFRS 3 *Business Combinations* (2008) and amended IAS 27 (2008) *Consolidated and Separate Financial Statements* came into effect on 1 July 2009 (i.e. they become mandatory for the Group's 2010 consolidated financial statements). The revisions address, among other things, accounting for step acquisitions, require acquisition-related costs to be recognised as expenses and remove the 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 the effects of transactions with non-controlling interests to be recognised directly in equity. The Group has not yet determined the potential effect of the amendment.
- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in several phases and is intended to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement* once the project is completed by the end of 2010. The first phase of IFRS 9 was issued in November 2009 and relates to the recognition and measurement of financial assets. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements.
- Revised IAS 24 *Related Party Disclosures (2009)* introduces an exemption from the basic disclosure requirements in relation to related party disclosures and outstanding balances, including commitments, for government-related entities. Additionally, the standard has been revised to simplify some of the presentation guidance that was previously non-reciprocal. The revised

standard is to be applied retrospectively for annual periods beginning on or after 1 January 2011. The Group has not yet determined the potential effect of the amendment.

- Various *Improvements to IFRSs*, dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purpose, will come into effect not earlier than 1 January 2010. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Determination of fair values

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

(a) Investments in equity securities

The fair value of available-for-sale financial assets is determined by reference to their weighted average quoted bid price on the most liquid market during the 3 months before the reporting date. Appropriate liquidity-related discounts are applied to arrive to the fair value. For available-for-sale investments, which are not publicly traded or listed on a stock exchange, fair value is estimated by reference to a variety of methods including those based on their earnings and those using the discounted value of estimated future cash flows.

(b) Trade and other receivables

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

(c) Non-derivative financial liabilities

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

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 consolidated 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 receivables from customers and related parties' promissory notes.

(i) Trade and other receivables

Credit risks related to receivables are reviewed at each reporting date, to assess the need to create the allowance for impairment of receivables. Gross receivables less the allowance for impairment of receivables represent the maximum amount exposed to credit risk. Although collection of receivables can be influenced by economic factors, Group management believes that there is no significant risk of loss to the Group beyond the allowance for impairment of receivables already recorded.

(ii) Loans issued

The Group issues loans to related parties for financing and investing activities. Group management believes that the loans issued to related parties bear no significant credit risk.

(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, 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.

(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.

The Group does not apply hedge accounting in order to manage volatility in profit or loss.

Foreign exchange risk

The Group is exposed to currency risk on borrowings that are denominated in a currency other than the Russian Rouble. The currencies in which these transactions primarily are denominated is EURO.

The Group does not have formal arrangements to mitigate foreign exchange risks of the Group's operations.

Interest rate risk

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

Other market price risk

Equity price risk arises from available-for-sale equity securities held by the Group. The primary goal of the Group's investment strategy is to maximize investment returns in order to meet its future capital investment commitments. Material investments within the portfolio are managed on an individual basis and buy and sell decisions are approved by the Board of directors.

(e) Capital management

The Group's principal objective when managing capital risk is to sustain its creditworthiness and a normal level of capital adequacy for doing business as a going concern, in order to ensure returns for shareholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of borrowed capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

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

The Company and its subsidiaries are subject to external capital requirements that require that their net assets as determined in accordance with Russian Accounting Principles must exceed their charter capital at all times.

6 Segment reporting

The Group has two reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer similar services representing generation and sale of electricity and heat but are managed separately. For each of the strategic business units, the Board of Directors reviews internal management reports on at least a quarterly basis.

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

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

(i) *Information about reportable segments*

	Volga TGC		**Orenburg TGC**	
'000 RUR	**2009**	**2008**	**2009**	**2008**
External revenues	41,817,282	38,821,188	10,537,880	9,050,370
Inter-segment revenue	-	-	(7,190)	(7,019)
Interest revenue	864,275	441,963	76,249	34,046
Interest expense	338,247	512,302	107,698	67,620
Depreciation	1,998,833	1,837,968	399,110	425,379
Reportable segment profit before income tax	4,689,679	1,184,038	1,691,734	577,289
Reportable segment assets	54,459,273	51,356,933	6,788,094	5,603,563
Capital expenditure	3,144,784	3,509,666	610,175	505,901
Reportable segment liabilities	8,496,321	8,988,889	1,111,476	989,033

(ii) *Major customer*

In 2009, revenue from one customer of Volga TGC represented approximately 14% (RUR 7,452,643 thousand) of the Group's total revenue. In 2008 no customer represented more than 10% of the Group's total revenue.

(iii) Reconciliations of reportable segment revenues, profit or loss, assets and liabilities and other material items

	2009	2008
Revenues		
Total revenue for reportable segments	52,355,162	47,871,558
Elimination of inter-segment revenue	(7,190)	(7,019)
Adjustments	41,840	-
Consolidated revenue	52,389,812	47,864,539

	2009	2008
Profit or loss		
Total profit or loss for reportable segments	6,381,413	1,761,327
Elimination of inter-segment profits	(380,000)	(147,308)
Property, plant and equipment adjustments	(631,801)	122,708
Allowance for impairment of accounts receivable adjustment	255,790	245,307
Other adjustments	153,346	81,312
Consolidated profit before income tax	5,778,748	2,063,346

	2009	2008
Assets		
Total assets for reportable segments	61,247,367	56,960,496
Property, plant and equipment deemed cost adjustment	10,238,704	10,223,069
Property, plant and equipment depreciation adjustment	(3,975,603)	(3,386,471)
Allowance for impairment of accounts receivable adjustment	(34,458)	(295,392)
Intercompany elimination of investment	(4,276,982)	(4,276,982)
Write-off of deferred expenses	(121,195)	(15,299)
Other adjustments	(295,781)	(304,081)
Consolidated total assets	62,782,052	58,905,340
Liabilities		
Total liabilities for reportable segments	9,607,797	9,977,922
Adjustment for employee benefits	1,319,055	1,514,161
Adjustment for deferred taxes	3,678,983	3,843,608
Other adjustments	(41,899)	(251,963)
Consolidated total liabilities	14,563,936	15,083,728

(iv) *Other material items 2009*

	Reportable segment totals	Adjustments	Consolidated totals
Interest income	940,524	-	940,524
Interest expense	445,945	-	445,945
Capital expenditure	3,754,959	1,530,535	5,285,494
Depreciation	2,397,943	571,995	2,969,938

(v) *Other material items 2008*

	Reportable segment totals	Adjustments	Consolidated totals
Interest income	476,009	24,357	500,366
Interest expense	579,922	(1,025)	578,897
Capital expenditure	4,015,567	1,636,209	5,651,776
Depreciation	2,263,347	437,398	2,700,745

7 Revenue

	2009	2008
Revenue from sales of heat	24,912,546	21,453,306
Revenue from sales of electricity	24,361,879	23,004,415
Revenue from sales of water supply and water drain	2,519,956	2,376,698
Revenue from services provided	436,337	913,546
Revenue from the rent	159,094	116,574
	52,389,812	47,864,539

8 Operating expenses

	2009	2008
Fuel cost	27,126,467	26,172,503
Wages and other benefits to employees and related taxes	4,962,141	5,924,637
Purchased heat and electricity	3,416,477	1,464,482
Depreciation and amortisation	3 ,092,194	2,860,517
Material expenses	2,694,589	1,858,330
Repairs and technical maintenance	2,195,939	3,872,287
Gas transportation	145,459	-
Other taxes and duties, except for income tax	584,970	468,529
License fee	554,887	452,555
Other third party services	421,665	720,175
Water	416,272	295,111
Rent	387,310	311,043
Consulting, legal and information services	342,141	339,231
Security services	228,670	193,948
Insurance expense	163,737	204,874
Transportation services	129,955	67,645
Allowance for impairment of accounts receivable	(110,171)	(358,722)
Other expenses	468,146	991,905
	47,220,848	45,839,050

9 Finance income and finance costs

	2009	2008
Recognised in profit or loss		
Finance income		
Interest income	940,524	500,366
Effect of discounting	20,863	-
	961,387	500,366
Finance costs		
Interest expense	(445,945)	(578,897)
Foreign exchange loss, net	(271,406)	(104,833)
Effect of discounting	-	(20,501)
	(717,351)	(704,231)

	2009	2008
Recognised in other comprehensive income		
Net change in fair value of available-for-sale investments	1,757	11,609
	1,757	11,609

10 Income tax expense

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

	2009	2008
Current tax expense		
Current year	1,228,363	1,098,349
Adjustment for prior periods	(72,155)	-
	1,156,208	1,098,349
Deferred tax benefit (expense)		
Origination and reversal of temporary differences	153,127	(203,769)
Change in tax rate	-	(759,046)
	153,127	(962,815)
	1,309,335	135,534

Reconciliation of effective tax rate:

	2009	%	2008	%
Profit before income tax	5,778,748	100	2,063,346	100
Income tax at applicable tax rate	1,155,750	20	495,203	24
Effect of income taxed at lower rates	(52,925)	(1)	-	-
Non-deductible expenses	278,665	5	399,377	19
Adjustment for prior periods	(72,155)	(2)	-	-
Change in tax rate	-	-	(759,046)	(36)
	1,309,335	22	135,534	7

11 Property, plant and equipment

	Land	Electricity network	Water supply network	Heat network	Gas network	Buildings	Machinery and Equipment	Transport	Other	Construction -in-progress, including equipment to be installed and advances	Total
Cost/Deemed cost											
Balance at 1 January 2008	2,432	8,147	104,584	6,751,144	208,637	21,701,568	11,121,058	318,909	581,767	1,673,849	42,472,095
Additions	576	-	-	-	-	-	188,637	25,696	37,907	5,651,776	5,904,592
Disposals	-	-	-	-	-	(14,691)	(34,384)	(2,367)	(7,023)	(31,282)	(89,747)
Transfer	-	-	-	704,084	-	531,252	1,241,323	-	156,758	(2,633,417)	-
Balance at 31 December 2008	3,008	8,147	104,584	7,455,228	208,637	22,218,129	12,516,634	342,238	769,409	4,660,926	48,286,940
Additions	-	-	-	-	-	-	-	-	-	5,285,494	5,285,494
Disposals	(15)	-	-	(4,823)	-	(29,347)	(21,941)	(5,965)	(55,664)	-	(117,755)
Transfer	3,376	10,881	8,530	444,344	-	392,955	702,196	2,604	11,531	(1,576,417)	-
Balance at 31 December 2009	6,369	19,028	113,114	7,894,749	208,637	22,581,737	13,196,889	338,877	725,276	8,370,003	53,454,679

	Land	Electricity network	Water supply network	Heat network	Gas network	Buildings	Machinery and Equipment	Transport	Other	Construction -in-progress, including equipment to be installed and advances	Total
Accumulated depreciation											
Balance at 1 January 2008	-	(896)	(14,932)	(1,701,610)	(25,603)	(3,171,864)	(2,099,544)	(98,195)	(135,237)	-	(7,247,881)
Depreciation charge	-	(58)	(3,071)	(750,261)	(77)	(831,466)	(897,411)	(65,881)	(152,520)	-	(2,700,745)
Disposals	-	-	-	-	-	5,480	6,683	1,151	5,066	-	18,380
Balance at 31 December 2008	-	(954)	(18,003)	(2,451,871)	(25,680)	(3,997,850)	(2,990,272)	(162,925)	(282,691)	-	(9,930,246)
Depreciation charge	-	(327)	(6,137)	(753,412)	(7,648)	(1,039,852)	(967,025)	(49,120)	(146,417)	-	(2,969,938)
Disposals	-	-	3	3,767	-	-	2,860	3,614	10,568	-	20,812
Balance at 31 December 2009	-	(1,281)	(24,137)	(3,201,516)	(33,328)	(5,037,702)	(3,954,437)	(208,431)	(418,540)	-	(12,879,372)
Net book value											
At 31 December 2007	2,432	7,251	89,652	5,049,534	183,034	18,529,704	9,021,514	220,714	446,530	1,673,849	35,224,214
At 31 December 2008	3,008	7,193	86,581	5,003,357	182,957	18,220,279	9,526,362	179,313	486,718	4,660,926	38,356,694
At 31 December 2009	6,369	17,747	88,977	4,693,233	175,309	17,544,035	9,242,452	130,446	306,736	8,370,003	40,575,307

As at 31 December 2009 construction in progress includes prepayments for property, plant and equipment of RUR 3,553,506 thousand (as at 31 December 2008: RUR 2,054,671 thousand).

The amount of capitalized interest in 2009 was RUR 81,525 thousand (in 2008: RUR nil).

12 Intangible assets

	Computer software	Licenses	Development costs	Total
Cost				
Balance at 1 January 2008	402,940	5,231	630,177	1,038,348
Additions	56,999	797	213,544	271,340
Disposals	(434)	(18)	(10,827)	(11,279)
Transfers	723,119	-	(723,119)	-
Balance at 31 December 2008	1,182,624	6,010	109,775	1,298,409
Additions	25,485	200	1,268	26,953
Disposals	(91,741)	(2,120)	(1,298)	(95,159)
Balance at 31 December 2009	1,116,368	4,090	109,745	1,230,203
Amortisation and impairment losses				
Balance at 1 January 2008	(87,683)	(963)	(21,341)	(109,987)
Amortisation charge	(105,435)	(1,456)	(52,881)	(159,772)
Disposals	434	-	8,403	8,837
Balance at 31 December 2008	(192,684)	(2,419)	(65,819)	(260,922)
Amortisation charge	(96,032)	(723)	(25,501)	(122,256)
Disposals	54,304	1,155	29	55,488
Balance at 31 December 2009	(234,412)	(1,987)	(91,291)	(327,690)
Net book value				
At 1 January 2008	315,257	4,268	608,836	928,361
At 31 December 2008	989,940	3,591	43,956	1,037,487
At 31 December 2009	881,956	2,103	18,454	902,513

13 Investments

	2009	2008
Non-current		
Available-for-sale investments at fair value	76,993	70,795
Long-term originated loans - RUR, fixed at 9%	22,700	22,700
Related party promissory notes - USD, fixed at 8,5% (see note 17)	2,140,980	-
Related party promissory notes - RUR, fixed at 13% (see note 17)	1,200,000	-
Related party promissory notes of - RUR, fixed at 0% (see note 17)	139,660	-
	3,580,333	93,495

All related party promissory notes mature in 2011.

	2009	2008
Current		
Available-for-sale investments at fair value	94,257	287,662
Short-term originated loans - RUR, fixed at 10%	440,130	-
Bank deposits - RUR, fixed at 7,5-12,5%	-	1,557,205
Related party promissory notes - RUR, fixed at 13% (see note 17)	1,200,000	-
	1,734,387	1,844,867

The Group's exposure to credit risks related to other investments is disclosed in note 25.

14 Deferred tax liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2009	**2008**	**2009**	**2008**	**2009**	**2008**
Property, plant and equipment	-	-	(3,806,060)	(3,968,749)	(3,806,060)	(3,968,749)
Trade and other receivables	-	102,787	(220,696)	-	(220,696)	102,787
Provisions	30,730	68,849	-	-	30,730	68,849
Other items	49,122	3,141	(1,454)	(1,259)	47,668	1,882
Net tax assets/(liabilities)	79,852	174,777	(4,028,210)	(3,970,008)	(3,948,358)	(3,795,231)

(b) Unrecognised deferred tax liabilities

A temporary difference of RUR 1,690,126 thousand (31 December 2008: 632,291 thousand) relating to investments in subsidiaries has not been recognised as the Group is able to control the timing of reversal of the difference, and reversal is not expected in the foreseeable future.

(c) Movement in temporary differences during the year

	1 January 2008	Recognised in income	31 December 2008
Property, plant and equipment	(5,029,991)	1,061,242	(3,968,749)
Trade and other receivables	181,978	(79,191)	102,787
Provisions	77,183	(8,334)	68,849
Other items	12,784	(10,902)	1,882
	(4,758,046)	962,815	(3,795,231)

	1 January 2009	Recognised in income	31 December 2009
Property, plant and equipment	(3,968,749)	162,689	(3,806,060)
Trade and other receivables	102,787	(323,483)	(220,696)
Provisions	68,849	(38,119)	30,730
Other items	1,882	45,786	47,668
	(3,795,231)	(153,127)	(3,948,358)

15 Other non-current assets

	2009	2008
Trade and other receivables	249,298	236,707
Long-term VAT recoverable	98,695	279,579
Other	83,442	118,776
	431,435	635,062

16 Inventories

	2009	2008
Raw materials and other supplies	503,617	596,534
Fuel	1,395,182	1,547,805
Spare parts	240,940	392,179
Finished goods	4,559	7,630
Total inventories	2,144,298	2,544,148
Less: Provisions for obsolescence of inventories	(104,812)	(40,170)
	2,039,486	2,503,978

As at 31 December 2009 no inventories (31 December 2008: RUR 1,393,707 thousand) were pledged as collateral for bank loans (see Note 21).

17 Trade and other receivables

	2009	2008
Trade receivables	6,114,417	4,776,855
Amounts due from related party (see Note 29)	686,903	4,985,998
Other receivables	175,890	95,511
Total receivables	6,977,210	9,858,364
Less: Allowance for impairment of accounts receivable	(755,295)	(869,968)
	6,221,915	8,988,396

In 2008 the Company paid RUR 4,800,000 thousand to its related party for acquisition of shares in other IES group's companies. The transaction has not been completed and in 2009 the related party settled its debt to the Company by issuing interest-bearing promissory notes (see Note 13).

As at 31 December 2009 RUR amounts due from related party include RUR 372 179 thousand of interest receivable on promissory notes issued by related party.

The Group's exposure to credit risks and impairment losses related to trade and other receivables are disclosed in note 25.

18 Cash and cash equivalents

	2009	2008
Petty cash	246	301
Bank balances	6,474,524	1,551,073
Cash equivalents	54,000	2,254,174
Cash and cash equivalents in the statement of financial position and statement of cash flows	6,528,770	3,805,548

Cash equivalents represent bank deposits of RUR 54,000 thousand (31 December 2008: RUR 2,254,174 thousand) with original maturity of less than three months. Bank deposits are RUR denominated and bear fixed interest of 4,5% (31 December 2008: 7,5-16,1%).

The Group's exposure to interest rate and a sensitivity analysis for financial assets and liabilities are disclosed in note 25.

19 Other current assets

	2009	2008
Advances paid and prepayments	215,587	1,314,922
VAT recoverable	534,032	184,155
	749,619	1,499,077

20 Equity

Share capital

Number of shares unless otherwise stated	Ordinary shares 2009	Ordinary shares 2008
Authorised shares	30,011,859,694	26,116,076,165
Par value, RUR	1	1
On issue at beginning of year	30,011,859,694	26,116,076,165
Issued for cash	-	3,859,000,000
Issued upon the merger (see Note 1)	-	36,783,529
On issue at end of year, fully paid	30,011,859,694	30,011,859,694

Holders of ordinary shares are entitled to one vote per share at meetings of the Company.

Additional paid-in capital

As at 31 December 2009 the Additional paid-in capital includes the difference between the nominal value of the shares issued in 2009 and their market value. 3,859,000,000 shares were placed at RUR 2.848 per share, having a nominal value of RUR 1. The difference credited to Additional paid-in capital amounted to RUR 7,131,432 thousand.

In April 2007 the Company issued 2,689,925,857 additional ordinary shares with a par value of RR 1.00, which were placed by close subscription to RAO UES of Russia. In payment for these additional shares the Company received 100% of shares of Orenburg TGC. The fair value of shares of Orenburg TGC in the amount of RR 4,276,982 thousand was determined by an independent appraiser. The difference credited to Additional paid-in capital amounted to RUR 1,587,056 thousand.

Dividends

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 2009 the Company had retained earnings, including the profit for the current year, of RUR 7,156,408 thousand (2008: RUR 3,561,656 thousand).

As at 31 December 2009 the Company declared dividends RUR 75,192 thousand (2008: nil). At the reporting date there were no dividends that have been recommended by the directors.

Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding respectively during the year. The Company has no dilutive potential ordinary shares.

	2009	2008
Weighted average number of shares outstanding, in thousands	30,011,860	29,022,587
Profit for the year	4,469,413	1,927,812
Profit per share – basic and diluted (RUR per share)	0,149	0,066

21 Loans and borrowings

This note provides information about the contractual terms of the Group's loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate and foreign currency risk, see note 25.

	2009	2008
Non-current liabilities		
Secured bank loans	1,407,551	768,218
Promissory notes	-	9,019
	1,407,551	777,237
Current liabilities		
Current portion of secured bank loans	469,184	-
Secured bank loans	-	1,565,000
Unsecured bank loans	2,202,924	3,415,834
Promissory notes	108,230	199,527
	2 ,780,338	5,180,361

The bank loans in the amount of RUR 1,876,735 thousand (31 December 2008: RUR 1,133,218 thousand) are secured by cash flows on certain power supply contracts.

The bank loans of RUR 1,200,000 thousand as at 31 December 2008 were secured by inventories with carrying amount of RUR 1,393,707 thousand (see Note 16).

Terms and conditions of the most significant outstanding loans are as follows:

		2009		2008	
	Maturity	**Nominal value**	**Carrying amount**	**Nominal value**	**Carrying amount**
Secured bank loans					
RUR, fixed at 11%	2009	-	-	1,565,000	1,565,000
Euro, fixed at 3,4-7,73%	2010	469,184	469,184	-	-
Euro, fixed at 3,4-7,73%	2011	1,407,551	1,407,551	768,218	768,218
Unsecured bank loans					
RUR, fixed at 9,8%	2009	-	-	2,000,000	2,000,000
RUR, fixed at 10,3-15%	2009	-	-	551,590	551,590
RUR, MOSPRIME+2,5-3%	2009	-	-	864,244	864,244
RUR, fixed at 9%	2010	1,000,000	1,000,000	-	-
RUR, fixed at 11%	2010	1,202,924	1,202,924	-	-
Promissory notes					
RUR, fixed at 0%	2009	-	-	204,010	199,527
RUR, fixed at 0%	2010	110,373	108,230	10,830	9,019
		4,190,032	4,187,889	5,963,892	5,957,598

22 Employee benefits

The Group has defined benefit pension and other long-term defined benefit plans that cover most full-time and retired employees. Defined post-employment benefits consist of several unfunded plans providing for lump-sum payments upon retirement, financial support for current pensioners, death benefits, jubilee benefits, old age life pension program.

	2009	2008
Present value of unfunded obligations	917,828	1,545,697
Unrecognized net actuarial losses	280,659	248,029
Unrecognized past service cost	120,568	(279,565)
Total employee benefits	1,319,055	1,514,161

	2009	2008	2007	2006
Defined benefit obligation	917,828	1,545,697	2,004,396	1,698,341
Deficit	917,828	1,545,697	2,004,396	1,698,341
Experience adjustments on plan liabilities	42,186	136,486	31,983	82,685

(a) Movements in net liability recognised in the consolidated statement of financial position:

	31 December 2009			31 December 2008		
	Pension benefit obligation	Other benefit obligation	Total liability	Pension benefit obligation	Other benefit obligation	Total liability
Net liability at 1 January	1,454,004	60,157	1,514,161	1,358,346	102,018	1,460,364
Benefit paid	(54,977)	(10,599)	(65,576)	(162,959)	(11,100)	(174,059)
(Benefit)/expense recognised in profit or loss (see below)	(165,068)	35,538	(129,530)	258,617	(30,761)	227,856
Net liability at 31 December	1,233,959	85,096	1,319,055	1,454,004	60,157	1,514,161

(b) Amounts recognised in profit or loss:

	31 December 2009			31 December 2008		
	Pension benefit obligation	Other benefit obligation	Total liability	Pension benefit obligation	Other benefit obligation	Total liability
Current service costs	23,973	5,158	29,131	110,896	7,544	118,440
Interest on obligation	68,079	5,349	73,428	126,653	6,767	133,420
Net actuarial loss/(gain) recognised in the period	(8,161)	32,400	24,239	3,220	(46,414)	(43,194)
Past service cost	33,907	-	33,907	17,848	1,342	19,190
Curtailment gain	(282,866)	(7,369)	(290,235)	-	-	-
Net (benefit)/expense recognised in profit or loss	(165,068)	35,538	(129,530)	258,617	(30,761)	227,856

As a result of a curtailment in the pension arrangement for a number of redundant employees, the Group's defined benefit pension obligation decreased by RUR 290,235 (2008: nil). A corresponding curtailment gain is included in the statement of comprehensive income for the year ended 31 December 2009.

The expense is recognised in the line item of "Operating expenses" in the statement of comprehensive income.

(c) Movements in the present value of the defined benefit obligations:

	31 December 2009			31 December 2008		
	Pension benefit obligation	**Other benefit obligation**	**Total liability**	**Pension benefit obligation**	**Other benefit obligation**	**Total liability**
Present value of defined benefit obligation as at 1 January	1,485,540	60,157	1,545,697	1,902,377	102,019	2,004,396
Current service costs	23,973	5,158	29,131	110,896	7,544	118,440
Interest costs	68,079	5,349	73,428	126,653	6,767	133,420
Actuarial loss/(gain)	575	32,400	32,975	(474,685)	(46,414)	(521,099)
Past service cost	(353,489)	9,374	(344,115)	(16,743)	1,342	(15,401)
Curtailment gain	(346,343)	(7,369)	(353,712)	-	-	-
Benefits paid	(54,977)	(10,599)	(65,576)	(162,959)	(11,100)	(174,059)
Present value of defined benefit obligation as at 31 December	823,358	94,470	917,828	1,485,539	60,158	1,545,697

(d) Principal actuarial assumptions are as follows:

	2009	2008
Discount rate at 31 December	9.5%	9%
Future salary increases	8%	8%
Future inflation rate	6.5%	6.5%

Mortality rates for the pension plan members were assumed in accordance with a life table based on official mortality data for Russia's citizens during 1986-87 (life expectancy at birth are: 65,8 for males, 74,3 for females).

Withdrawal and retirement rates were evaluated based on the data about the Group employees' withdrawals and retirements during 2005-2009.

23 Provisions

	Legal claims	Other provisions	Total
Balance at 1 January 2008	-	27,413	27,413
Provisions made during the year	13,986	902	14,888
Balance at 31 December 2008	13,986	28,315	42 301
Provisions made during the year	30,840	28,764	59,604
Balance at 31 December 2009	44,826	57,079	101,905

24 Trade and other payables

	2009	2008
Trade payables	3,233,667	1,790,394
Prepayments received	301,359	386,918
Wages and salary	276,121	268,715
Dividends payable	1,924	-
Other taxes payable	795,737	710,975
Other payables	219,097	168,859
	4,827,905	3,325,861

The Group's exposure to liquidity risk related to trade and other payables is disclosed in note 25.

25 Financial instruments

(a) Credit risk

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	2009	2008
Available-for-sale financial assets	171,250	358,457
Long-term originated loans	22,700	22,700
Short-term originated loans	440,130	-
Promissory notes	4,680,640	-
Bank deposits	-	1,557,205
Trade and other receivables	6,471,213	9,220,528
Cash and cash equivalents	6,528,770	3,805,548
	18,314,703	14, 964,438

The maximum exposure to credit risk for trade and other receivables at the reporting date by type of customer was as follows:

	2009	2008
Corporate customers	5,120,103	6,904,893
State-controlled entities	1,351,110	2,320,210
	6 ,471,213	9,225,103

The Group's most significant customer, OJSC Samaraenergo, accounts for RUR 20,283 thousand of the trade receivables carrying amount as of 31 December 2009 (31 December 2008: RUR 62,485 thousand).

Impairment losses

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

	Gross 2009	Impairment 2009	Gross 2008	Impairment 2008
Not past due	3,148,479	-	2,620,339	-
Past due for less than 3 months	175,905	-	5,719,795	-
Past due for 3 to 6 months	564,366	14,581	-	-
Past due for 6 to 12 months	1,253,646	187,589	-	-
More than one year	1,834,814	553,125	1,513,655	869,968
	6,977,210	755,295	9,853,789	869,968

The movement in the allowance for impairment in respect of current trade and other receivables during the year was as follows:

	2009	2008
Balance at 1 January	869,968	1,228,690
Impairment loss reversed	(114,673)	(358,722)
Balance at 31 December	755,295	869,968

In addition to the amount recognised with respect to current trade and other receivables, "Allowances for impairment of accounts receivable" in the consolidated statement of comprehensive income also includes impairment of advances given and other long-term receivables of RUR 4,502 thousand for the year ended 31 December 2009 (2008: RUR nil).

Based on historic default rates, the Group believes that no impairment allowance is necessary in respect of receivables not past due or past due by up to 90 days.

The Group's exposure to credit risks related to financial guarantees is disclosed in Note 30.

(b) Liquidity risk

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

		31 December 2009		
	Carrying amount	**Contractual cash flows**	**6-12 months**	**1-2 years**
Secured bank loans	1,876,735	2,039,640	567,793	1,471,847
Unsecured bank loans	2,202,924	2,268,701	2,268,701	-
Promissory notes	108,230	108,230	108,230	-
Trade and other payables	3,452,764	3,452,764	3,452,764	-
	7,640,653	7,869,335	6,397,488	1,471,847

		31 December 2008		
	Carrying amount	**Contractual cash flows**	**6-12 months**	**1-2 years**
Secured bank loans	2,333,218	2,459,217	1,604,811	854,406
Unsecured bank loans	3,415,834	3,745,409	3,745,409	-
Promissory notes	208,546	214,840	204,010	10,830
Trade and other payables	1,959,253	1,959,253	1,959,253	-
	7,916,851	8,378,719	7 ,513,483	865,236

Financial guarantees are disclosed in Note 30.

(c) Currency risk

Exposure to currency risk

The Group's exposure to foreign currency risk was as follows based on notional amounts:

	Euro-denominated 2009	USD-denominated 2009	Euro-denominated 2008
Non-current assets			
Promissory notes	-	2,140,980	-
Non-current liabilities	-	-	-
Bank loans	1,876,735	-	768,218
	1,876,735	**2,140,980**	**768,218**

The following significant exchange rates applied during the year:

	1 USD equals 2009	1 USD equals 2008	1 Euro equals 2009	1 Euro equals 2008
RUR	30,2442	29,3804	43,3883	41,4411

Sensitivity analysis

A 10% strengthening of the RUR against USD at 31 December 2009 would have decreased equity and profit or loss by RUR 171,278 thousand (31 December 2008: nil). This analysis assumes that all other variables, in particular interest rates, remain constant.

A 10% weakening of the RUR against USD at 31 December 2009 would have had the equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

A 10% strengthening of the RUR against Euro at 31 December 2009 would have increased equity and profit or loss by RUR 150,139 thousand (31 December 2008: RUR 61,457 thousand). This analysis assumes that all other variables, in particular interest rates, remain constant.

A 10% weakening of the RUR against Euro at 31 December 2009 would have had the equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

(d) Interest rate risk

Profile

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

	Carrying amount	
	2009	**2008**
Fixed rate instruments		
Financial assets	5,003,810	1,579,905
Financial liabilities	(2,202,924)	(4,884,808)
	2,800,886	3,304,903
Variable rate instruments		
Financial liabilities	-	(864,244)
	-	(864,244)

The Group's income and operating cash flows are largely independent of changes in market interest rates because interest rates on the main part of interest bearing assets and liabilities are fixed (see notes 13 and 21).

(e) Fair values

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

26 Operating leases

Operating lease rentals are payable as follows:

	2009	**2008**
Less than one year	219,269	148,500
Between one and five years	505,861	488,853
More than five years	807,055	233,953
	1,532,185	871,306

The Group leases a number of land plots owned by local government under operating lease. The leases typically run for a period of 1 year with an option to renew the lease after that. Though the leases are not non-cancellable, the Group regards them long-term commitments and intends to continue them for a longer period.

During the current year RUR 387,310 thousand was recognised in the statement of comprehensive income in respect of operating leases (2008: RUR 311,043 thousand).

27 Commitments

The Group has entered into the contracts to construct and purchase plant and equipment for RUR 12,211,758 thousand net of VAT (2008: RUR 16,619,545 thousand net of VAT).

In addition the Group signed a long-term trilateral contract on the provision of capacity to the wholesale market with CJSC Tsentr Finansovykh Raschetov (CJSC "TsFR") and with Non-Commercial Partnership "Exchange System Administrator of the "Unified Energy System "Wholesale Electric Energy Market". Pursuant to this contract, the Group shall undertake to supply, and CJSC TsFR to receive, capacity produced by the Group' generating assets which will be commissioned subsequent to 31 December 2009.

In case of violation of the timeframe or the volumes of supplied capacity specified in the contract, the Group shall, pursuant to this contract, compensate CJSC TsFR in full for the actual losses caused to CJSC TsFR in connection with the undersupplied volumes of capacity.

The total capacity contracted to be supplied to CJSC TsFR corresponds to the minimal budgeted capacity of the generating assets to be installed under the investment program approved by the Group. In accordance with the contract terms, Group' obligations shall be discharged after twelve months following the supply of capacity to CJSC TsFR, or 31 December 2021, whichever is earlier.

Capacity to be produced	Estimated cost of investments[1]	Limit of the compensation of losses
MW	thousand RUR	thousand RUR
542	18,826,234	8,386,120

Presently the Group's management is negotiating a revision of the contracted investment programme and the respective time-frame.

28 Contingencies

(a) Insurance

The insurance industry in the Russian Federation is in the course of development. As of 31 December 2009, the Group had full coverage for its plant facilities. Insurance coverage was not obtained for third party liabilities in respect of property or environmental damage arising from accidents on Group property or relating to Group operations, so there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

(b) Litigation

The Group is involved in a number of court cases where management estimates probability of potential losses of the Group as possible, which individually and in total, do not have material effect on the Group's financial position or results of operations.

[1] Amount is presented net of VAT and includes RUR 10,462,544 thousand of outstanding capital commitments.

(c) Taxation contingencies

(i) General issues

The taxation system in the Russian Federation 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.

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.

(d) Environmental matters

The Group operates in the electric power industry in the Russian Federation. The enforcement of environmental regulations in Russia is evolving and the enforcement posture of Government authorities is continually being reconsidered. Group 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.

29 Related party transactions

(a) Transactions with management and close family members

Total remuneration accrued to the members of the Board of Directors and Management Board for the year ended 31 December 2009 and for the year ended 31 December 2008 was as follows:

	2009	2008
Wages and other employee benefits to key management personnel	82,852	23,488

(b) Transactions with other related parties

(i) Revenue

	Transaction value 2009	Transaction value 2008	Outstanding balance 2009	Outstanding balance 2008
Sales of electricity and heat:				
Entities under common control	2,366,683	-	47,869	-
RAO UES of Russia group	-	6,838,833	-	-
State controlled entities	8,092,879	11,656, 399	1,351,110	2,320,210
Other sales:				
RAO UES of Russia group	-	15,868	-	-
Entities under common control	8,478	185,998	639,034	4,985,998
	10,468,040	18,697,098	2,038,013	7,306,208

All outstanding balances with related parties are to be settled in cash within twelve months of the reporting date. None of the balances are secured.

(ii) Expenses

	Transaction value 2009	Transaction value 2008	Outstanding balance 2009	Outstanding balance 2008
Purchase of electricity and power:				
Entities under common control	245,362	-	-	-
RAO UES of Russia group	-	243,894	-	-
Purchase of fuel:				
Entities under common control	261,938	-	141,000	-
State controlled entities	19,748,512	19,716,012	998,634	-
Other purchases:				
RAO UES of Russia group	-	192,433	-	-
Entities under common control	522,647	-	125,348	
State controlled entities	1,419,355	304,603	219,744	138,822
	22,197,814	20,456,942	1,484,726	138,822

(iii) Promissory notes

	Promissory notes received 2009	Promissory notes received 2008
Promissory notes:		
Entities under common control	4,680,640	-
	4,680,640	-

The terms and conditions of promissory notes received from related parties are disclosed in Note 13.

(iv) Bank balances and interest

	Interest 2009	Interest 2008	Outstanding bank balance 2009	Outstanding bank balance 2008
Bank balances:				
Entities under common control	217,065	-	1,965,054	-
	217,065	-	1,965,054	-

(c) Pricing policies

Prices for related party transactions are determined on case-by-case basis and are not necessarily based on market prices.

30 Guarantees

Guarantees given as at 31 December 2009 are as follows:

Guarantor	Creditor	Description	Maturity Date	Currency	Amount of guarantee
OJSC Gasprombank	OJSC "Samara PRP"	letter of credit coverage	15.01.2011	EURO	707,655
OJSC Gasprombank	OJSC "Samara PRP"	loan coverage	August 2013	EURO	707,655
OJSC Gasprombank	OJSC "Samara PRP"	loan coverage	31.01.2011	EURO	513,671
OJSC Gasprombank	OJSC "Samara PRP"	letter of credit coverage	August 2013	EURO	513,671
CJSC Raiffeisenbank	OJSC "Samara PRP"	letter of credit coverage	31.05.2013	EURO	2,020,810
CJSC Raiffeisenbank	OJSC "Samara PRP""	letter of credit coverage	31.05.2012	EURO	135,663
Total					**4,599,125**

Guarantees given as at 31 December 2008 are as follows:

Guarantor	Creditor	Description	Maturity Date	Currency	Amount
OJSC Gasprombank	OJSC "Samara PRP"	letter of credit coverage	15.01.2011	EURO	675,896
OJSC Gasprombank	OJSC "Samara PRP"	loan coverage	August 2013	EURO	675,896
OJSC Gasprombank	OJSC "Samara PRP"	loan coverage	31.01.2011	EURO	490,617
OJSC Gasprombank	OJSC "Samara PRP"	letter of credit coverage	August 2013	EURO	490,617
CJSC Raiffeisenbank	OJSC "Samara PRP"	letter of credit coverage	31.05.2013	EURO	1,930,119
CJSC Raiffeisenbank	OJSC "Samara PRP""	letter of credit coverage	31.05.2012	EURO	131,789
Total					**4,394,934**

31 Events subsequent to the reporting date

Subsequent to the reporting period the trust management agreement between JSC FSC UES and IES Group for ordinary shares of the Company owned by JSC FSC UES was cancelled (see Note 1). On 24 February 2010 IES Group transferred the shares to JSC FSC UES.

On 29 March, 2010 the board of directors approved issue of 10,000,000 interest-bearing non-convertible certified bearer bonds, with a face value per bond of RUR 1,000 and a total face value of RUR 10,000,000 thousand. Interest on the bonds is to be paid at the coupon rate.