

**OJSC INTERREGIONAL DISTRIBUTION GRID
COMPANY OF CENTER AND VOLGA REGION
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009**

OJSC IDGC of Center and Volga Region

Contents

Independent Auditors' Report	3-4
Consolidated Statement of Financial Position	5
Consolidated Statement of Comprehensive Income	6
Consolidated Statement of Cash Flows	7
Consolidated Statement of Changes in Equity	8
Notes to the Consolidated Financial Statements	9



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Independent Auditors' Report

To the Board of Directors of OJSC Interregional Distribution Grid Company of Center and Volga Region

We have audited the accompanying consolidated financial statements of OJSC Interregional Distribution Grid Company of Center and Volga Region (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 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 Consolidated Financial Statements

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

Auditors' Responsibility

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

Basis for Qualified Opinion

We did not observe the counting of inventories stated at RUR 710,982 thousand and RUR 743,418 thousand as at 31 December 2008 and 31 December 2007, respectively, because we were engaged as auditors of the Group only after those dates. It was impracticable to satisfy ourselves as to those inventory quantities by other audit procedures.

Accordingly, we were unable to determine whether any adjustments might be necessary to cost of sales, taxation expense, net profit and retained earnings as at and for the years ended 31 December 2008 and 31 December 2009, and to inventories as at 31 December 2008.

Qualified Opinion

In our opinion, except for the effects of such adjustments, if any, that might have been determined to be necessary had it been practicable to obtain sufficient appropriate audit evidence as described in the Basis for Qualified Opinion paragraph, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 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.

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30 April 2010

OJSC IDGC of Center and Volga Region
Consolidated Statement of Financial Position as at 31 December 2009

(in thousands of Russian Roubles, unless otherwise stated)

	Note	31 December 2009	31 December 2008
ASSETS			
Non-current assets			
Property, plant and equipment	7	40,446,390	39,563,448
Intangible assets	8	74,329	112,333
Investments in equity accounted investee	9	32,387	42,267
Other investments	10	489,141	553,752
Other non-current assets	11	317,933	205,853
Total non-current assets		41,360,180	40,477,653
Current assets			
Inventories	15	825,972	710,982
Income tax receivable		257,590	162,003
Trade and other receivables	13	6,227,142	4,512,170
Prepayments for current assets	14	131,165	329,796
Cash and cash equivalents	12	2,501,533	2,460,842
Total current assets		9,943,402	8,175,793
TOTAL ASSETS		51,303,582	48,653,446
EQUITY AND LIABILITIES			
Share capital	16	11,269,782	11,269,782
Reserves		32,611	13,102
Retained earnings		16,607,876	15,843,787
Total equity attributable to equity holders of the Company		27,910,269	27,126,671
Total equity		27,910,269	27,126,671
Non-current liabilities			
Deferred income tax liabilities	26	2,531,341	2,450,902
Employee benefits	17	972,652	823,787
Loans and borrowings	18	7,396,942	9,659,606
Trade and other payables	19	485,932	601,642
Total non-current liabilities		11,386,867	13,535,937
Current liabilities			
Loans and borrowings	18	5,337,246	1,053,319
Trade and other payables	19	6,241,898	6,689,865
Income tax payable		31	40
Current tax liabilities	20	427,271	247,614
Total current liabilities		12,006,446	7,990,838
Total liabilities		23,393,313	21,526,775
TOTAL EQUITY AND LIABILITIES		51,303,582	48,653,446

These consolidated financial statements were approved by management on 30 April 2010 and were signed on its behalf by:

Director General

Chief Accountant

Ushakov E.V.

Rodionova I.U.

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 9 to 42.

OJSC IDGC of Center and Volga Region
Consolidated Statement of Comprehensive Income for the year ended 31 December 2009

(in thousands of Russian Roubles, unless otherwise stated)

	Note	Year ended 31 December 2009	Year ended 31 December 2008
Revenue	21	47,353,403	38,302,245
Operating expenses	22	(45,350,102)	(36,173,229)
Other income and expenses, net	24	197,454	377,682
Operating profit		2,200,755	2,506,698
Finance income	25	24,773	71,142
Finance costs	25	(976,615)	(418,016)
Share of loss of equity accounted investee (net of income tax)		(9,881)	(5,645)
Profit before income tax		1,239,032	2,154,179
Income tax expense	26	(474,943)	(280,905)
Profit for the year		764,089	1,873,274
Other comprehensive income			
Net change in fair value of available-for-sale financial assets		24,386	(48,112)
Income tax on other comprehensive income		(4,877)	11,704
Other comprehensive income for the year, net of income tax		19,509	(36,408)
Total comprehensive income for the year		783,598	1,836,866
Profit attributable to:			
Shareholders of the Company		764,089	1,874,157
Minority interest		-	(883)
Total comprehensive income attributable to:			
Shareholders of the Company		783,598	1,837,749
Minority interest		-	(883)
Earnings per share			
Earnings per share – basic and diluted (in Russian roubles)	16	0.0068	0.0166

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 9 to 42.

OJSC IDGC of Center and Volga Region
Consolidated Statement of Cash Flows for the year ended 31 December 2009

(in thousands of Russian Roubles, unless otherwise stated)

	Notes	Year ended 31 December 2009	Year ended 31 December 2008
OPERATING ACTIVITIES:			
Profit before income tax		1,239,032	2,154,179
Adjustments for:			
Depreciation and amortisation	7, 8	3,745,708	3,098,090
Allowance for impairment of accounts receivable		(59,243)	78,072
Finance income and costs, net		951,842	346,874
Loss on disposal of property, plant and equipment		37,177	109,039
Accounts payable written-off		(8,387)	(17,537)
Income from surplus of assets		(4,427)	(83,653)
Gain on disposal of investments		(5,063)	(45,775)
Gain on disposal of subsidiaries		-	(27,924)
Share of loss of equity accounted investee (net of income tax)		9,881	5,645
Adjustment for other non-cash transactions		4,929	4,373
Operating profit before working capital changes and income tax paid		5,911,449	5,621,383
Working capital changes:			
Change in trade and other receivables		(1,642,411)	(1,906,720)
Change in prepayments		215,731	(38,134)
Change in inventories		(110,289)	47,060
Change in financial assets related to employee benefit fund		90,153	(186,927)
Change in trade and other payables		(428,887)	3,159,068
Change in employee benefits		148,865	416,696
Change in taxes payable other than income		179,657	(131,011)
Cash flows from operations before income taxes and interest paid		4,364,268	6,981,415
Income tax paid		(487,214)	(1,187,108)
Interest paid		(1,281,948)	(570,604)
Net cash flows from operating activities		2,595,106	5,223,703
INVESTING ACTIVITIES:			
Acquisition of property, plant and equipment and intangible assets		(4,249,045)	(10,850,084)
Proceeds from disposal of property, plant and equipment		8,107	28,547
Disposal of subsidiaries, net of cash disposed of		-	111,738
Interest received		24,773	12,942
Proceeds from disposal of other investments		4,442	213,694
Net cash flows used in investing activities		(4,211,723)	(10,483,163)
FINANCING ACTIVITIES:			
Proceeds from loans and borrowings		2,701,702	10,568,551
Repayment of loans and borrowings		(895,869)	(3,133,156)
Dividends paid		(10,724)	(27,738)
Payment of finance lease liabilities		(137,801)	(148,878)
Net cash flows from financing activities		1,657,308	7,258,779
Net increase in cash and cash equivalents		40,691	1,999,319
Cash and cash equivalents at beginning of year		2,460,842	461,523
Cash and cash equivalents at end of year		2,501,533	2,460,842

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 9 to 42.

OJSC IDGC of Center and Volga Region
Consolidated Statement Of Changes In Equity for the year ended 31 December 2009

(in thousands of Russian Roubles, unless otherwise stated)

	Share capital	Available-for-sale investments revaluation reserve	Retained earnings	Total	Minority interest	Total equity
Balance at 1 January 2008	11,269,782	49,510	13,969,630	25,288,922	26,157	25,315,079
Profit for the year	-	-	1,874,157	1,874,157	(883)	1,873,274
Other comprehensive income	-	(36,408)	-	(36,408)	-	(36,408)
Total comprehensive income for the year				1,837,749	(883)	1,836,866
Dividends to shareholders	-	-	-	-	(25,274)	(25,274)
Balance at 31 December 2008	11,269,782	13,102	15,843,787	27,126,671	-	27,126,671
Balance at 1 January 2009	11,269,782	13,102	15,843,787	27,126,671	-	27,126,671
Profit for the year	-	-	764,089	764,089	-	764,089
Other comprehensive income	-	19,509	-	19,509	-	19,509
Total comprehensive income for the year				783,598	-	783,598
Balance at 31 December 2009	11,269,782	32,611	16,607,876	27,910,269	-	27,910,269

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 9 to 42.

OJSC IDGC of Center and Volga Region
Notes of the Consolidated Financial Statements for the year ended 31 December 2009

(in thousands of Russian Roubles, unless otherwise stated)

Note 1. Background

(a) The Group and its operations

Open Joint-Stock Company “Interregional Distribution Grid Company of Center and Volga Region” (hereafter, the “Company”) and its subsidiaries (together referred to as the “Group”) comprise Russian open joint stock companies as defined in the Civil Code of the Russian Federation. The Company was set up on 28 June 2007 based on Resolution no. 193p of 22 June 2007 and pursuant to the Board of Directors’ decision (board of directors’ meeting minutes no. 250 of 27 April 2007) of the Russian Open Joint-Stock Company RAO “United Energy Systems of Russia” (hereafter, “RAO UES”).

The Company’s registered office is Rozhdestvenskaya street, Nizhniy Novgorod, 603950, Russian Federation.

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

The Group consists of the Company and its subsidiaries:

Name	31 December 2009	31 December 2008
	% owned	% owned
OJSC “Luchinskoye Agricultural Enterprise”	100.00	100.00
OJSC “Motor Vehicle Plant”	100.00	100.00
OJSC “Berendeyevskoye”	100.00	100.00
CJSC “Svet”	100.00	100.00
OJSC “Energetik Sanatorium-Preventorium”	100.00	100.00

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

As part of the reform process, a merger of the Company with the entities listed below was effected on 29 February 2008 in accordance with the Resolution no. 250 of the Board of Directors of RAO UES of 27 April 2007:

OJSC “Kalugaenergo”;

OJSC “Tulenergo”;

OJSC “Ryazanenergo”;

OJSC “Vladimirenergo”;

OJSC “Ivenergo”;

OJSC “Nizhnovenergo”;

OJSC “Kirovenergo”;

OJSC “Marienergo”;

OJSC “Udmurtenergo”.

The merger was effected through conversion of shares issued by the Company in exchange for shares in the acquired entities (see Note 16). As a result of the merger, the above-mentioned companies ceased to exist as separate legal entities and the Company became their legal successor.

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

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

As at 31 December 2009 and 2008, the Government of the Russian Federation owned 52.70% shares of IDGC Holding, which in turn owned 50.40% of the Company.

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

OJSC IDGC of Center and Volga Region
Notes of the Consolidated Financial Statements for the year ended 31 December 2009

(in thousands of Russian Roubles, unless otherwise stated)

(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 and its impact on the Russian economy have further increased the level of economic uncertainty in the environment. The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

Note 2. Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

The Financial Statements are prepared on the historical cost basis except:

- 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 IFRS as at 1 January 2006.

(c) Functional and presentation currency

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

(d) Use of judgments and estimates

The preparation of Financial Statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. 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.

Information about 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 7 – Property, plant and equipment;
- Note 13 – Trade and other receivables;
- Note 17 – Employee benefits.

(e) 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; and
- 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 Management Board, which is the Group's chief operating decision maker. This change in accounting policy is due to the adoption of International Financial Reporting Standard 8 *Operating Segments*. Previously operating segments were determined and presented in accordance with International Financial Reporting Standard IAS 14 *Segment Reporting*. The new accounting policy in respect of segment operating disclosures is presented as follows.

OJSC IDGC of Center and Volga Region
Notes of the Consolidated Financial Statements for the year ended 31 December 2009

(in thousands of Russian Roubles, unless otherwise stated)

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 Management Board 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 Management Board include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets of the Group's headquarters, head office income and expenses, and income tax assets and liabilities.

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

(ii) Presentation of financial statements

The Group applied 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.

Note 3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in the Financial statements, and have been applied consistently by Group entities, except as explained in note 2(e), which addresses changes in accounting policies.

(a) Basis of consolidation

(i) Business combination including entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group 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 revised. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Group's controlling shareholder's consolidated 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 share premium. Any cash paid for the acquisition is recognised directly in equity.

(ii) Subsidiaries

Subsidiaries are entities controlled by the Group. 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.

(iii) Investments in associates (equity accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity. Investments in associates are accounted for using the equity method and are recognised initially at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, 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.

OJSC IDGC of Center and Volga Region
Notes of the Consolidated Financial Statements for the year ended 31 December 2009

(in thousands of Russian Roubles, unless otherwise stated)

(iv) Transactions eliminated on consolidation

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

(b) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising in retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments which are recognised in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(c) Financial instruments

(i) 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.

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial assets: loans and receivables and available-for-sale financial assets.

Held-to-maturity investments

If the Group has the positive intent and ability to hold to maturity debt securities that are quoted in an active market, then such financial assets 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. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Loans and receivables comprise trade and other receivables.

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

OJSC IDGC of Center and Volga Region
Notes of the Consolidated Financial Statements for the year ended 31 December 2009

(in thousands of Russian Roubles, unless otherwise stated)

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(h)) 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.

(ii) Non-derivative financial liabilities

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial liabilities: loans and borrowings, bank overdrafts, and trade and other payables.

Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

(d) Property, plant and equipment

(i) Recognition and measurement

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

Cost includes 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 of assets and restoring the site on which they are located, and capitalised borrowing costs (see Note 2(e)(i)). Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. 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 determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within "other income" in profit or loss. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

(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 costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

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, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. 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.

OJSC IDGC of Center and Volga Region
Notes of the Consolidated Financial Statements for the year ended 31 December 2009

(in thousands of Russian Roubles, unless otherwise stated)

Depreciation commences on the month following the acquisition or, in respect of internally constructed assets, from the month following the month an assets is completed and ready for use. Land is not depreciated.

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

Type of property, plant and equipment	Useful lives (in years)
Buildings	7-50
Transmission networks	5-40
Equipment for electricity transformation	5-40
Other	1-50

(e) Intangible assets

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

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

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset. The estimated useful lives for the current and comparative periods are 3 to 10 years.

(f) Leased assets

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

Other leases are operating leases and the leased assets are not recognised on the Group's statement of financial position. Operating lease payments (net of benefits granted by the lessor) are recognised in profit or loss on a straight line basis over the lease term.

(g) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventory is determined on the weighted average cost method and includes expenditures incurred in acquiring the inventories and bringing them to their existing location and condition.

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

(h) Impairment

(i) Financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Group considers evidence of impairment for receivables and held-to-maturity investment securities at both a specific asset and collective level. All individually significant receivables and held-to-maturity investment securities are assessed for specific impairment. All individually significant receivables and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together receivables and held-to-maturity investment securities with similar risk characteristics.

OJSC IDGC of Center and Volga Region
Notes of the Consolidated Financial Statements for the year ended 31 December 2009

(in thousands of Russian Roubles, unless otherwise stated)

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

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 asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income, and presented in the fair value reserve in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security 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 each year at the same time.

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 that cannot be tested individually 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 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.

OJSC IDGC of Center and Volga Region
Notes of the Consolidated Financial Statements for the year ended 31 December 2009

(in thousands of Russian Roubles, unless otherwise stated)

(i) 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 separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans, including Russia's State pension fund, are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

(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 and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the net total of any unrecognised past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realisable during the life of the plan, or on settlement of the plan liabilities.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised in profit or loss 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.

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

(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 and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed using the projected unit credit method. Any actuarial gains or losses are recognised in the 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.

(j) Share capital

Ordinary shares

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

Repurchase share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, 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

OJSC IDGC of Center and Volga Region
Notes of the Consolidated Financial Statements for the year ended 31 December 2009

(in thousands of Russian Roubles, unless otherwise stated)

reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to / from retained earnings.

(k) Revenue

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

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

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

(l) Lease payments

Payments made under operating leases are 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.

(m) Finance income and costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets and foreign currency gains. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance costs comprise interest expense on borrowings, unwinding of the discount, employee benefits, finance leases and foreign currency losses. 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.

(n) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss 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 in respect of 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 or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets

OJSC IDGC of Center and Volga Region
Notes of the Consolidated Financial Statements for the year ended 31 December 2009

(in thousands of Russian Roubles, unless otherwise stated)

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 for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(o) Dividends

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

(p) 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. The unwinding of the discount is recognised as finance cost.

(q) Earnings per share

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

(r) 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 segment's results are reviewed regularly by the Management Board to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. Segment financial information is presented in the Financial Statements in a manner similar to those provided to the Management Board. The amount of each segment item reported is the measure reported to the Management Board. Total amounts of segment information are reconciled to those in the Financial Statements (see note 5).

(s) New Standards and Interpretations not yet adopted

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

- Revised IAS 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.
- 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

OJSC IDGC of Center and Volga Region
Notes of the Consolidated Financial Statements for the year ended 31 December 2009

(in thousands of Russian Roubles, unless otherwise stated)

statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued.

- IFRIC 18 *Transfers of Assets from Customers* applies to accounting for transfers of items of property, plant and equipment by entities that receive such transfers from their customers. The interpretation clarifies the recognition and measurement of items received, how the resulting credit, as well as the transfer of cash from customers should be accounted for. IFRIC 18 applies prospectively to transfers of assets from customers received on or after 1 July 2009.
- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, 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.

Note 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 and debt securities

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

(b) Trade and other receivables

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

(c) Non-derivative financial liabilities

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

Note 5. Operating segments

The Management Board of the Company has been determined as the Group Chief Operating Decision-Maker.

The Group's primary activity is the provision of electricity transmission services within regions of the Russian Federation. The internal management reporting system is based on segments relating to electric energy transmission in separate regions of the Russian Federation (branches of the Company) and segments relating to other activities (represented by separate legal entities).

The Management Board regularly evaluates and analyzes the financial information of the segments reported in statutory financial statements of respective segments.

In accordance with requirements of IFRS 8 based on the information on segment revenue, profit before income tax and total assets reported to Management Board the following reportable segments were identified:

- Transmission Segments - Ivanovo region, Kaluga region, Kirov region, Mari El region, Nizhniy Novgorod region, Ryazan region, Tula region, Udmurtiya region, Vladimir region – branches of IDGC of Center and Volga Region;
- Other Segments – other Group companies.

OJSC IDGC of Center and Volga Region
Notes of the Consolidated Financial Statements for the year ended 31 December 2009

(in thousands of Russian Roubles, unless otherwise stated)

Unallocated items comprise corporate balances of the Company's headquarters which do not constitute an operating segment under IFRS 8 requirements.

Segment items are based on financial information reported in statutory accounts and can differ significantly from those for financial statements prepared under IFRS. Reconciliation of items measured as reported to Management Board 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.

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 Management Board. 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 these industries.

OJSC IDGC of Center and Volga Region
Notes of the Consolidated Financial Statements for the year ended 31 December 2009

(in thousands of Russian Roubles, unless otherwise stated)

(i) *Information about reportable segments for the year ended 31 December 2009*

	Transmission										Total
	Nizhniy										
	Novgorod region	Vladimir region	Tula region	Kaluga region	Kirov region	Udmurtiya region	Mari El region	Ivanovo region	Ryazan region	Other	
Power transmitting	17,236,222	4,674,016	5,362,240	3,596,289	4,128,732	3,875,955	1,988,166	1,486,895	3,340,033	21,624	45,710,172
Connection to the power network	222,266	79,237	55,043	233,496	52,145	66,707	6,153	182,694	277,049	-	1,174,790
Other revenue	44,833	35,507	34,954	65,384	36,279	48,335	17,403	16,067	29,190	511,632	839,584
Total segment revenues	17,503,321	4,788,760	5,452,237	3,895,169	4,217,156	3,990,997	2,011,722	1,685,656	3,646,272	533,256	47,724,546
Segment operating profit/(loss)	1,043,096	105,623	1,091,460	459,344	87,720	(108,961)	272,848	(21,254)	251,201	9,336	3,190,413
Segment finance income	375	-	-	-	8	5,962	-	23	53	1,336	7,757
Segment finance expenses	(309,449)	(77,022)	(125,576)	(47,172)	(47,927)	(60,257)	(17,678)	(22,638)	(91,209)	(924)	(799,852)
Segment profit/(loss) before income tax	532,594	(113,221)	693,199	360,027	(294,606)	(245,842)	183,736	(55,709)	118,447	11,561	1,190,186
Segment depreciation	1,129,649	259,626	352,853	298,767	239,494	269,306	108,594	187,668	330,127	38,423	3,214,507
Segment assets	22,081,570	4,343,584	6,143,214	6,194,730	4,033,306	3,724,985	2,858,963	2,891,574	5,832,589	470,353	58,574,868
<i>Including property, plant and equipment</i>	19,346,825	3,923,436	5,347,998	5,340,851	2,849,426	2,885,171	1,355,671	2,540,473	5,361,876	320,429	49,272,156
Segment liabilities	1,958,925	426,587	552,724	1,531,856	500,680	448,522	507,150	218,592	556,512	73,861	6,775,409
Capital expenditures	2,348,195	348,503	969,974	1,338,434	119,170	256,261	83,664	119,624	1,058,712	57,635	6,700,172

OJSC IDGC of Center and Volga Region
Notes of the Consolidated Financial Statements for the year ended 31 December 2009

(in thousands of Russian Roubles, unless otherwise stated)

(ii) Information about reportable segments for the year ended 31 December 2008

	Transmission										Total
	Nizhniy Novgorod region	Vladimir region	Tula region	Kaluga region	Kirov region	Udmurtiya region	Mari El region	Ivanovo region	Ryazan region	Other	
Power transmitting	12,730,455	3,800,766	4,349,025	2,699,114	4,129,085	2,710,353	1,145,226	1,376,057	2,658,385	21,936	35,620,402
Connection to the power network	364,607	278,032	36,744	423,549	69,928	233,183	35,237	109,825	364,040	-	1,915,145
Other revenue	54,429	38,556	36,579	69,024	35,344	47,575	13,521	15,512	19,091	472,534	802,165
Total segment revenues	13,149,491	4,117,354	4,422,348	3,191,687	4,234,357	2,991,111	1,193,984	1,501,394	3,041,516	494,470	38,337,712
Segment operating profit/(loss)	1,473,776	196,738	429,858	355,896	169,651	328,072	(19,893)	67,404	307,029	(5,605)	3,302,926
Segment finance income	1,415	22	57	50	85	975	221	737	43	851	4,456
Segment finance expenses	(107,532)	(30,711)	(41,153)	(26,886)	(3,377)	(2,128)	(5,826)	(10,249)	(31,836)	(562)	(260,260)
Segment profit/(loss) before income tax	621,369	102,757	346,495	255,169	299,641	251,893	(16,178)	44,991	274,487	(2,922)	2,177,702
Segment depreciation	1,058,136	232,491	328,062	294,949	206,437	220,410	103,779	169,922	292,293	38,474	2,944,953
Segment assets	22,358,885	4,299,969	5,624,091	5,766,028	3,958,320	3,349,762	1,983,291	2,785,930	4,966,268	471,889	55,564,433
<i>Including property, plant and equipment</i>	18,153,385	3,843,567	4,738,286	4,310,142	2,977,748	2,903,137	1,387,818	2,612,737	4,638,351	301,379	45,866,550
Segment liabilities	2,525,100	409,170	633,876	1,531,447	655,335	390,248	139,488	358,609	664,530	77,084	7,384,887
Capital expenditures	3,105,852	583,370	853,680	1,047,725	536,023	428,277	153,307	390,134	996,493	58,225	8,153,086

OJSC IDGC of Center and Volga Region
Notes of the Consolidated Financial Statements for the year ended 31 December 2009

(in thousands of Russian Roubles, unless otherwise stated)

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

Reconciliation of key segment items measured as reported to the Management Board with similar items in these Financial Statements is presented in the tables below.

Reconciliation of revenues:

	Year ended 31 December 2009	Year ended 31 December 2008
Total revenue for reportable segments	47,724,546	38,337,712
Inter-segment revenue elimination	(371,686)	(272,992)
Reclassification from other income	543	172,798
Other adjustments	-	3,663
Unallocated	-	61,064
Revenues per Statement of Comprehensive Income	47,353,403	38,302,245

Reconciliation of profit before income tax:

	Year ended 31 December 2009	Year ended 31 December 2008
Total profit before income tax for reportable segments	1,190,186	2,177,702
Adjustment for depreciation of property, plant and equipment	(408,720)	(37,024)
Bad debt allowance adjustment	848,423	151,128
Retirement benefit obligations recognition	(239,020)	(217,581)
Other adjustments	(75,659)	262,815
Unallocated	(23,592)	(353,347)
Other adjustments	(52,586)	170,486
Profit before tax per Statement of Comprehensive Income	1,239,032	2,154,179

Reconciliation of depreciation and amortization:

	Year ended 31 December 2009	Year ended 31 December 2008
Total depreciation for reportable segments	3,214,507	2,944,953
Adjustment for depreciation of property, plant and equipment	408,720	37,024
Other adjustments	114,307	114,819
Unallocated	5,234	1,285
Amortization of intangible assets	2,940	9
Depreciation and amortization per Statement of Comprehensive Income	3,745,708	3,098,090

Reconciliation of total assets:

	31 December 2009	31 December 2008
Total assets for reportable segments	58,574,868	55,564,433
Inter-segment balances	(63,285)	(44,383)
Adjustment due to different accounting principles:		
Statutory deferred expenses write-off	(349,501)	(300,118)
Adjustment for net book value of property, plant and equipment	(10,228,981)	(9,811,625)
Bad debt allowance	94	(848,329)
Adjustments for finance lease	194,974	156,569
Recognition of assets related to employee benefits	436,504	526,657
Other adjustments	(71,116)	(51,870)
Unallocated	3,416,135	4,163,545
Elimination of investments in subsidiaries	(335,772)	(335,772)
Statutory deferred expenses write-off	(122,825)	(216,014)
Other adjustments	(147,513)	(149,647)
Total assets per Statement of Financial Position	51,303,582	48,653,446

OJSC IDGC of Center and Volga Region
Notes of the Consolidated Financial Statements for the year ended 31 December 2009

(in thousands of Russian Roubles, unless otherwise stated)

Reconciliation of property, plant and equipment:

	31 December 2009	31 December 2008
Total property, plant and equipment for reportable segments	49,272,156	45,866,550
Adjustment for net book value of property, plant and equipment	(10,228,981)	(9,811,625)
Advances for acquisition of property, plant and equipment	1,175,776	3,351,937
Reclassification on other non-current assets	1,557	(40,471)
Adjustments for finance lease	209,399	173,543
Unallocated	16,767	42,867
Reclassification on other non-current assets	(284)	(19,353)
Property, plant and equipment per Statement of Financial Position	40,446,390	39,563,448

Reconciliation of capital expenditures:

	Year ended 31 December 2009	Year ended 31 December 2008
Total capital expenditures for reportable segments	6,700,172	8,153,086
Advances for acquisition of property, plant and equipment	(2,176,161)	3,095,645
Other adjustments	90,617	64,517
Unallocated	5,937	42,361
Reclassification on other non-current assets	-	(19,354)
Total capital expenditures per Statement of Financial Position	4,620,565	11,336,255

Reconciliation of total liabilities:

	31 December 2009	31 December 2008
Total liabilities for reportable segments	6,775,409	7,384,887
Intersegment balances	(63,285)	(44,383)
Accrued salaries and wages	218,757	175,332
Retirement benefit obligations	972,652	823,787
Other adjustments	(31,597)	(10,858)
Unallocated	14,372,324	12,065,318
Adjustment due to different accounting principles for deferred tax calculation	1,415,868	1,510,731
Discounting of promissory notes payable	(266,815)	(378,039)
Total liabilities per Statement of Financial Position	23,393,313	21,526,775

The Group performs most of its activities in the Russian Federation and does not have any significant revenues from foreign customers or any significant non-current assets located in foreign countries.

For the years ended 31 December 2009 and 2008 the group had one major customer – a distribution company in the Nizhniy Novgorod region of the Russian Federation - with individual turnover over 10% of total Group revenues. Revenues from this customer is reported by the transmission segments operating in the Nizhniy Novgorod region. The total amount of revenues for this major customer for the year ended 31 December 2009 was RUR 10,120,378 thousand (2008: RUR 7,965,596 thousand).

Note 6. Financial risk management

(a) Overview

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

- credit risk
- liquidity risk
- market risk.

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

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

OJSC IDGC of Center and Volga Region
Notes of the Consolidated Financial Statements for the year ended 31 December 2009

(in thousands of Russian Roubles, unless otherwise stated)

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

(b) Credit risk

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

Trade and other receivables

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

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

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

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

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

Cash and cash equivalents

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

(c) Liquidity risk

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

(d) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk

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

Interest rate risk

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

(e) Capital management

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

OJSC IDGC of Center and Volga Region
Notes of the Consolidated Financial Statements for the year ended 31 December 2009

(in thousands of Russian Roubles, unless otherwise stated)

Note 7. Property, plant and equipment

	Land and buildings	Transmission networks	Equipment for electricity transformation	Assets under construction	Other	Total
Deemed cost/cost						
Balance at						
1 January 2008	3,355,717	19,728,394	6,825,094	2,068,812	4,326,952	36,304,969
Additions	10,423	25,928	102,995	10,750,438	446,471	11,336,255
Transfers	590,034	1,129,350	2,180,718	(4,802,347)	902,245	-
Disposals	(65,584)	(81,785)	(22,295)	(41,664)	(152,929)	(364,257)
Balance at						
31 December 2008	3,890,590	20,801,887	9,086,512	7,975,239	5,522,739	47,276,967
Balance at						
1 January 2009	3,890,590	20,801,887	9,086,512	7,975,239	5,522,739	47,276,967
Additions	10,548	19,110	166,428	4,038,601	385,878	4,620,565
Transfers	1,008,749	1,996,073	3,221,696	(6,464,299)	237,781	-
Disposals	(7,072)	(8,052)	(5,457)	(16,273)	(58,124)	(94,978)
Balance at						
31 December 2009	4,902,815	22,809,018	12,469,179	5,533,268	6,088,274	51,802,554
Accumulated depreciation						
Balance at						
1 January 2008	(280,841)	(2,820,637)	(942,170)	-	(723,781)	(4,767,429)
Depreciation for the year	(176,327)	(1,541,143)	(786,158)	-	(513,174)	(3,016,802)
Disposals	5,346	21,147	6,169	-	38,050	70,712
Balance at						
31 December 2008	(451,822)	(4,340,633)	(1,722,159)	-	(1,198,905)	(7,713,519)
Balance at						
1 January 2009	(451,822)	(4,340,633)	(1,722,159)	-	(1,198,905)	(7,713,519)
Depreciation for the year	(225,166)	(1,751,533)	(1,169,882)	-	(524,225)	(3,670,806)
Disposals	1,313	2,007	2,654	-	22,187	28,161
Balance at						
31 December 2009	(675, 675)	(6,090,159)	(2,889,387)	-	(1,700,943)	(11,356,164)
Net book value						
At 1 January 2008	3,074,876	16,907,757	5,882,924	2,068,812	3,603,171	31,537,540
At 31 December 2008	3,438, 768	16,461,254	7,364,353	7,975,239	4,323, 834	39,563,448
At 31 December 2009	4,227, 140	16,718,859	9,579,792	5,533,268	4,387, 331	40,446,390

As at 31 December 2009 construction in progress includes advance prepayments for property, plant and equipment of RUR 1,175,776 thousand (as at 31 December 2008: RUR 3,351,937 thousand).

Borrowing costs totalling RUR 618,657 thousand at 31 December 2009 were included in cost of property, plant and equipment and represent interest on loans (as at 31 December 2008: RUR 292,100 thousand).

Security

As at 31 December 2009 equipment with a carrying amount of RUR 7,433 thousand is pledged as collateral according the bank loan agreements (as at 31 December 2008: nil).

Leased plant and machinery

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

OJSC IDGC of Center and Volga Region
Notes of the Consolidated Financial Statements for the year ended 31 December 2009

(in thousands of Russian Roubles, unless otherwise stated)

The net book value of leased property, plant and equipment, accounted for as part of the Group's property, plant and equipment follows:

	31 December 2009	31 December 2008
Cost	261,207	303,771
Accumulated depreciation	(37,017)	(46,607)
Net book value	224,190	257,164

Note 8. Intangible assets

	Patents and licenses	Computer software	Total
Cost			
Balance as 1 January 2008	202,871	20,588	223,459
Additions	5,766	4,022	9,788
Balance as 31 December 2008	208,637	24,610	233,247
Balance as 1 January 2009	208,637	24,610	233,247
Additions	1,230	35,668	36,898
Disposals	(55,591)	-	(55,591)
Balance as 31 December 2009	154,276	60,278	214,554
Accumulated amortisation			
Balance as at 1 January 2008	(37,224)	(2,402)	(39,626)
Amortisation for the year	(74,338)	(6,950)	(81,288)
Balance at 31 December 2008	(111,562)	(9,352)	(120,914)
Balance as at 1 January 2009	(111,562)	(9,352)	(120,914)
Amortisation for the year	(64,001)	(10,901)	(74,902)
Disposals	55,591	-	55,591
Balance at 31 December 2009	(119,972)	(20,253)	(140,225)
Net book value			
At 1 January 2008	165,647	18,186	183,833
At 31 December 2008	97,075	15,258	112,333
At 31 December 2009	34,304	40,025	74,329

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

Note 9. Investments in equity accounted investees

The Group has the following investments in equity accounted investees:

	Country	Ownership/Voting
OJSC "Tulenergokomplekt"	Russia	50.00%

The following is summarised financial information, in aggregate, in respect of equity accounted investees:

	31 December 2009	31 December 2008
Total assets	43,305	55,825
Total liabilities	(37,426)	(36,005)
Revenue	3,644	28,897
Loss for the year	(19,762)	(11,290)

OJSC IDGC of Center and Volga Region
Notes of the Consolidated Financial Statements for the year ended 31 December 2009

(in thousands of Russian Roubles, unless otherwise stated)

Note 10. Other investments

	31 December 2009	31 December 2008
Available-for-sale investments stated at fair value	52,637	27,095
Financial assets related to the employee benefit fund (available for sale)	436,504	526,657
Total	489,141	553,752

The fair value of available-for-sale investments with a carrying amount as at 31 December 2008 and 31 December 2009 of RUR 5,143 thousand was determined by reference to their quoted market prices; these investments are listed on the Moscow Interbank Currency Exchange (MICEX).

Financial assets related to the employee benefit fund relate to the Group contributions accumulated in “solidary” and employees’ individual pension accounts with the Non-State Pension Fund of Electric Power Industry (employee benefit fund). Subject to certain restrictions 80% of contributions to the employee benefit fund can be withdrawn at the discretion of the Group.

Note 11. Other non-current assets

	31 December 2009	31 December 2008
Unfinished intangible assets	215,317	95,950
Other receivables	104,271	78,836
Trade receivables	15,592	36,385
Prepayments	-	19,298
Less: Accounts receivable impairment allowance	(17,247)	(24,616)
Total	317,933	205,853

Unfinished intangible assets represent SAP/R3 software development costs.

The Group’s exposure to credit and currency risks and impairment losses related to non-current accounts receivable are disclosed in Note 31.

Note 12. Cash and cash equivalents

	31 December 2009	31 December 2008
Bank balances	2,496,075	1,866,822
Bank promissory notes	5,236	566,769
Call deposits	-	27,000
Petty cash	222	251
Total	2,501,533	2,460,842

All cash and cash equivalents are denominated in RUR.

The Group’s exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 31.

OJSC IDGC of Center and Volga Region
Notes of the Consolidated Financial Statements for the year ended 31 December 2009

(in thousands of Russian Roubles, unless otherwise stated)

Note 13. Trade and other receivables

	31 December 2009	31 December 2008
Trade receivables	5,492,658	3,231,614
Other receivables	492,826	1,147,984
VAT receivable	688,882	677,990
Taxes receivable	28,088	244,350
Finance lease receivables	2,750	12,128
Less: Allowance for impairment of trade receivable	(460,877)	(652,619)
Less: Allowance for impairment of other receivable	(17,185)	(149,277)
Total	6,227,142	4,512,170

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in Note 31.

Note 14. Prepayments for current assets

	31 December 2009	31 December 2008
Prepayments	144,735	360,466
Less: Allowance for impairment of prepayments	(13,570)	(30,670)
Total	131,165	329,796

Note 15. Inventories

	31 December 2009	31 December 2008
Raw materials and supplies	670,521	543,432
Spare parts	120,338	139,246
Other inventories	35,113	28,304
Total	825,972	710,982

Note 16. Equity

Share capital

	31 December 2009	31 December 2008
Number of ordinary shares authorised, issued and fully paid	112,697,817,043	112,697,817,043
Par value (in RUR)	0.10	0.10
Total share capital (in RUR)	11,269,781,704	11,269,781,704

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

On 29 February 2008 the Company registered the results of an issue of 112,597,817,043 ordinary shares which were placed by conversion upon the merger of the regional generation companies.

The formation of the Group was completed on 29 February 2008 through conversion of the shares of OJSC "Kalugaenero", OJSC "Tulenergo", OJSC "Ryazanenergo", OJSC "Vladimirenergo", OJSC "Nizhnovenergo", OJSC "Kirovenergo", OJSC "Marienergo", OJSC "Udmurtenergo" and OJSC "Ivenergo" into an additionally issued 112,597,817,043 ordinary shares of the Company as follows:

- 24,393/8,307,841 ordinary shares of OJSC "Vladimirenergo" with par value of RUR 72.00 were converted into one additionally issued ordinary share of the Company with par value of RUR 0.1;
- 24,393/116,435 ordinary shares of OJSC "Ivenergo" with par value of RUR 1.00 were converted into one additionally issued ordinary share of the Company with par value of RUR 0.1;
- 24,393/106,632 preference shares of OJSC "Ivenergo" with par value of RUR 1.00 were converted into one additionally issued ordinary share of the Company with par value of RUR 0.1;
- 24,393/3,660,401 ordinary shares of OJSC "Kalugaenero" with par value of RUR 10.00 were converted into one additionally issued ordinary share of the Company with par value of RUR 0.1;

OJSC IDGC of Center and Volga Region
Notes of the Consolidated Financial Statements for the year ended 31 December 2009

(in thousands of Russian Roubles, unless otherwise stated)

- 24,393/97,418 ordinary shares of OJSC “Kirovenergo” with par value of RUR 1.00 were converted into one additionally issued ordinary share of the Company with par value of RUR 0.1;
- 24,393/89,216 preference shares of OJSC “Kirovenergo” with par value of RUR 1.00 were converted into one additionally issued ordinary share of the Company with par value of RUR 0.1;
- 24,393/819,890 ordinary shares of OJSC “Marienergo” with par value of RUR 1.00 were converted into one additionally issued ordinary share of the Company with par value of RUR 0.1;
- 24,393/750,855 preference shares of OJSC “Marienergo” with par value of RUR 1.00 were converted into one additionally issued ordinary share of the Company with par value of RUR 0.1;
- 24,393/194,079,154 ordinary shares of OJSC “Nizhnovenergo” with par value of RUR 85.00 were converted into one additionally issued ordinary share of the Company with par value of RUR 0.1;
- 24,393/177,737,689 preference shares of OJSC “Nizhnovenergo” with par value of RUR 85.00 were converted into one additionally issued ordinary share of the Company with par value of RUR 0.1;
- 24,393/1,572,918 ordinary shares of OJSC “Ryazanenergo” with par value of RUR 10.00 were converted into one additionally issued ordinary share of the Company with par value of RUR 0.1;
- 24,393/117,828 ordinary shares of OJSC “Tulenergo” with par value of RUR 1.00 were converted into one additionally issued ordinary share of the Company with par value of RUR 0.1;
- 24,393/1,454,307 ordinary shares of OJSC “Udmurtenergo” with par value of RUR 1.00 were converted into one additionally issued ordinary share of the Company with par value of RUR 0.1;
- 24,393/1,331,854 preference shares of OJSC “Udmurtenergo” with par value of RUR 1.00 were converted into one additionally issued ordinary share of the Company with par value of RUR 0.1

The share capital as at 1 January 2008 was presented as if the restructuring completed in February 2008 had taken place at the beginning of the earliest period presented.

Dividends paid and declared

In accordance with Russian legislation the Company’s distributable reserves are limited to the balance of retained earnings as recorded in the Company’s statutory financial statements prepared in accordance with Russian Accounting Principles. As at 31 December 2009 the Company had retained earnings, including the profit for the current year, of RUR 4,121,542 thousand (as at 31 December 2008: RUR 3,625,867 thousand).

In 2008 and 2009 the Company did not declare dividends for the year 2007 and 2008.

Dividends per share at 31 December 2008 and 2009 were nil.

Earnings per share

The calculation of earnings per share is based upon the profit for the year and the outstanding number of ordinary shares after the merger on 29 February 2008 in order to determine earnings per share for the combined entities as if the merger was completed on 1 January 2006, the date of Group’s transition to IFRS. The Company has no dilutive potential ordinary shares.

	Year ended 31 December 2009	Year ended 31 December 2008
Weighted average number of ordinary shares issued	112,697,817,043	112,697,817,043
Profit attributable to the shareholders	764,089	1,874,157
Weighted average earnings per ordinary share – basic (in RUR)	0.0068	0.0166

OJSC IDGC of Center and Volga Region
Notes of the Consolidated Financial Statements for the year ended 31 December 2009

(in thousands of Russian Roubles, unless otherwise stated)

Note 17. Employee benefits

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

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

The table below summarises the amounts of defined benefit obligations recognised in the financial statements.

Amounts recognised in the consolidated statement of financial position:

	31 December 2009		31 December 2008	
	Post-employment benefits	Other benefits	Post-employment benefits	Other benefits
Present value of funded defined benefit obligations	1,861,434	41,698	1,716,873	21,352
Net actuarial gain not recognised in the Statement of financial position	(347,958)	-	(108,311)	-
Past service cost not recognised in the Statement of financial position	(582,522)	-	(806,127)	-
Net liability in the Statement of financial position	930,954	41,698	802,435	21,352

Amounts recognised in the consolidated statement of comprehensive income:

	Year ended 31 December 2009		Year ended 31 December 2008	
	Post-employment benefits	Other benefits	Post-employment benefits	Other benefits
Current service cost	106,374	2,853	96,146	1,274
Interest expenses	151,290	1,732	37,546	738
Recognised actuarial loss	-	7,226	5,511	10,555
Recognised past service cost	(8,010)	14,951	345,068	-
Total	249,654	26,762	484,271	12,567

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

	Year ended 31 December 2009		Year ended 31 December 2008	
	Post-employment benefits	Other benefits	Post-employment benefits	Other benefits
Benefit obligations				
Benefit obligations as at the beginning of the year	1,716,873	21,352	543,511	11,673
Current service cost	106,374	2,853	96,146	1,274
Interest cost	151,290	1,732	37,546	738
Actuarial losses/(gains)	239,647	7,226	(1,150)	10,555
Benefits paid	(121,135)	(6,416)	(77,254)	(2,888)
Past service cost	(231,615)	14,951	1,118,074	-
Benefit obligations as at the end of the year	1,861,434	41,698	1,716,873	21,352

During the year ended 31 December 2008 the Company signed an amended agreement with Non-State Pension Fund to unify the pension plans of the merged entities. This amended agreement increased pension benefit terms from fixed periods (an average of 5 years) to life time periods and also increased monthly pension payments to the plan participants. This resulted in an increased defined benefit obligation recognised in the Financial Statements.

OJSC IDGC of Center and Volga Region
Notes of the Consolidated Financial Statements for the year ended 31 December 2009

(in thousands of Russian Roubles, unless otherwise stated)

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

	Year ended 31 December 2009		Year ended 31 December 2008	
	Post-employment benefits	Other benefits	Post-employment benefits	Other benefits
Net benefit obligations				
Net benefit obligations as at the beginning of the year	802,435	21,352	395,418	11,673
Net costs for the year	249,654	26,762	484,271	12,567
Benefits paid	(121,135)	(6,416)	(77,254)	(2,888)
Net benefit obligations as at the end of the year	930,954	41,698	802,435	21,352

Principal actuarial estimations are as follows:

	Year ended 31 December 2009		Year ended 31 December 2008	
	Post-employment benefits	Other benefits	Post-employment benefits	Other benefits
Discount rate	8.70%	8.70%	8.85%	8.85%
Future Salary increase	5.50%	5.50%	5.81%	5.81%
Future inflation rate	5.50%	5.50%	5.81%	5.81%
Mortality table	Russian 2002	Russian 2002	Russian 2002	Russian 2002
Average working life (in years)	13	13	11	11

Note 18. Loans and borrowings

Non-current borrowings

	Effective interest rate, %	Currency	Year of maturity	31 December 2009	31 December 2008
Loans and borrowings					
including:					
OJSC Sberbank	8-12	RUR	2010-2011	2,545,000	2,645,000
OJSC Gazprombank	8.8-14	RUR	2012-2013	4,300,500	4,300,500
OJSC Eurofinance	9.45-16	RUR	2010	174,548	174,548
OJSC TransCreditBank	12.61-13	RUR	2010-2012	1,784,000	784,000
OJSC Sviaz-Bank	12.5-13.71	RUR	2012	701,702	-
OJSC Rosselkhozbank	16	RUR	2012	4,915	4,915
Promissory notes	10-15.61	RUR	2011-2013	1,259,855	1,772,051
Non-current finance lease liability				51,848	78,592
Total non-current debt				10,822,368	9,759,606
Less current portion of non-current loans				(3,425,426)	(100,000)
Total				7,396,942	9,659,606

OJSC IDGC of Center and Volga Region
Notes of the Consolidated Financial Statements for the year ended 31 December 2009

(in thousands of Russian Roubles, unless otherwise stated)

Current borrowings

Creditor	Effective interest rate, %	Currency	31 December 2009	31 December 2008
Current borrowings including:				
OJSC Sberbank	7.2-12.4	RUR	7,644	7,676
OJSC Alfa-Bank	8.3-14	RUR	1,000,767	-
OJSC Gazprombank	11-14	RUR	51,136	61,923
OJSC Sviaz-Bank	12.5	RUR	1,024	100,129
Promissory notes	10.0	RUR	794,784	705,485
Other current borrowings		RUR	-	1,639
Current portion of non-current loans	12.5	RUR	3,425,426	100,000
Current Finance lease liability			56,465	76,467
Total			5,337,246	1,053,319

All loans and borrowings listed above are fixed interest rate instruments.

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

As at 31 December 2009 the bank loans in the amount of RUR 370,000 thousand (as at 31 December 2008: RUR 385,000 thousand) are secured by cash flows on certain power supply contracts in the amount of RUR 513,375 thousand (as at 31 December 2008: RUR 559,704 thousand).

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

	31 December 2009			31 December 2008		
	Minimum lease payments	Interest	Principal	Minimum lease payments	Interest	Principal
Less than one year	72,607	8,090	64,517	75,811	11,472	64,339
Between one and five years	59,918	15,695	44,223	107,155	28,563	78,592
More than five years	-	-	-	-	-	-
Total	132,525	23,785	108,740	182,966	40,035	142,931

The finance lease liabilities are secured by leased assets.

The Group's exposure to currency, liquidity and interest rate risk related to borrowings and finance lease liabilities is disclosed in Note 31.

Note 19. Trade and other payables

Non-current payables

	31 December 2009	31 December 2008
Advances from customers	369,211	478,096
Other payables	116,721	123,546
Total	485,932	601,642

Current payables

	31 December 2009	31 December 2008
Trade payables	3,124,389	3,598,486
Advances from customers	2,457,108	2,440,817
Payables to employees	530,584	349,902
Dividends payable	61,780	72,504
Other payables	68,037	228,156
Total	6,241,898	6,689,865

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 31.

OJSC IDGC of Center and Volga Region
Notes of the Consolidated Financial Statements for the year ended 31 December 2009

(in thousands of Russian Roubles, unless otherwise stated)

Note 20. Current tax liabilities

	31 December 2009	31 December 2008
Unified social tax payable	128,835	106,892
Other taxes payable	78,824	79,087
Property tax payable	29,529	33,637
Fines and other penalties payable	7,808	16,166
Value added tax payable	182,275	11,832
Total	427,271	247,614

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 31.

Note 21. Revenue

	Year ended 31 December 2009	Year ended 31 December 2008
Electricity transmission	45,688,797	35,770,699
Connection services	1,174,789	1,924,622
Other revenue	489,817	606,924
Total	47,353,403	38,302,245

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

Note 22. Operating expenses

	Year ended 31 December 2009	Year ended 31 December 2008
Electricity transmission	16,436,408	11,037,959
Purchased electricity	9,979,481	8,325,835
Personnel costs	8,649,819	6,887,007
Depreciation and amortisation	3,745,708	3,098,090
Electricity metering services	546,962	1,637,904
Materials	1,097,180	1,270,605
Repair and maintenance	1,456,056	1,123,910
Consulting, legal and audit services	937,448	623,975
Electricity and heat power for own needs	329,716	279,880
Insurance	237,614	200,882
Taxes other than income tax	192,294	174,456
Rent	226,740	160,902
Land surveying	155,302	24,039
Transportation expenses	136,373	116,449
Communication services	109,036	109,315
Loss on the disposal of property, plant and equipment	37,177	109,039
Security services	112,257	108,635
Social expenditures and charity expenses	68,634	78,407
Allowance for impairment of debts	(59,243)	78,072
Management fee	321,000	64,374
Bank commission	49,426	21,588
Other expenses	584,714	641,906
Total	45,350,102	36,173,229

Note 23. Personnel costs

	Year ended 31 December 2009	Year ended 31 December 2008
Wages and salaries	6,887,912	5,272,045
Unified social tax	1,485,491	1,198,266
Expense in respect of post-employment defined benefit plan	276,416	416,696
Total	8,649,819	6,887,007

OJSC IDGC of Center and Volga Region
Notes of the Consolidated Financial Statements for the year ended 31 December 2009

(in thousands of Russian Roubles, unless otherwise stated)

The average number of employees (including production and non-production staff) was 21,198 in 2009 (2008: 20,150).

Note 24. Other income and expenses, net

	Year ended 31 December 2009	Year ended 31 December 2008
Tax and other penalties	92,212	139,103
Surplus of assets	4,427	83,653
Accounts payable written-off	8,387	17,537
Other income and expenses, net	92,428	137,389
Total	197,454	377,682

The surplus of assets is represented by ownerless inventories identified by the Group during the stock take. The Group used services of independent appraisers to determine the fair value of the identified assets recognized in the Statement of financial position.

Note 25. Finance income and costs

	Year ended 31 December 2009	Year ended 31 December 2008
Finance income		
Interest income	24,773	58,953
Interest income on financial assets related to employee benefit fund	-	12,189
	24,773	71,142
Finance costs		
Interest expense	(950,115)	(372,606)
Interest expense of finance lease liabilities	(26,500)	(45,410)
	(976,615)	(418,016)
Net finance costs recognised in profit or loss	(951,842)	(346,874)

Note 26. Income tax expense

	Year ended 31 December 2009	Year ended 31 December 2008
Current income tax charge	356,573	887,874
Underprovided in prior years	42,808	62,557
Deferred income charge/(benefit)	75,562	(179,822)
Change in tax rate	-	(489,704)
Income tax charge	474,943	280,905

The Group's applicable tax rate in the Russian Federation is the income tax rate of 20% (2008: 24%).

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

OJSC IDGC of Center and Volga Region
Notes of the Consolidated Financial Statements for the year ended 31 December 2009

(in thousands of Russian Roubles, unless otherwise stated)

Reconciliation of effective tax rate :

	Year ended 31 December 2009	%	Year ended 31 December 2008	%
Profit before income tax	1,239,032	100	2,154,179	100
Income tax at applicable tax rate	247,806	(20)	517,003	(24)
Effect of reduction in tax rate	-	-	(489,704)	23
Underprovided in prior years	42,808	(3)	62,557	(3)
Tax effect of items which are not deductible or taxable for taxation purposes	184,329	(15)	191,049	(9)
<i>Welfare, social and discretionary payments to employees</i>	47,148	(4)	82,441	(4)
<i>Written-off receivables</i>	48,565	(4)	16,590	(1)
<i>Non-refundable VAT</i>	1,481	0	5,082	0
<i>Other</i>	87,135	(7)	86,936	(4)
Total	474,943	(38)	280,905	(13)

Deferred tax assets and liabilities

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

	31 December 2008	Effect of tax rate changes	Disposed of	Recognised in income	Recognised in other comprehensive income	1 January 2008
Trade and other receivables	123,637	24,724	-	73,772	-	222,133
Inventories	90,931	18,185	157	(76,162)	-	33,111
Trade and other payables	27,566	5,508	21	110,568	-	143,663
Employee benefit obligation	164,757	32,951	-	(100,006)	-	97,702
Other	11,019	2,205	4	23,932	-	37,160
Deferred tax assets	417,910	83,573	182	32,104	-	533,769
Property, plant and equipment	(2,685,336)	(537,240)	(2,254)	(290,020)	-	(3,514,850)
Trade and other receivables	(203)	(41)	(6)	(21,399)	-	(21,649)
Trade and other payables	(74,667)	(14,930)	-	51,706	-	(37,891)
Employee benefit fund	(105,331)	(21,066)	-	47,787	-	(78,610)
Available-for-sale investments	(3,275)	(655)	-	-	(11,704)	(15,634)
Deferred tax liabilities	(2,868,812)	(573,932)	(2,260)	(211,926)	(11,704)	(3,668,634)
Net deferred tax liabilities	(2,450,902)	(490,359)	(2,078)	(179,822)	(11,704)	(3,134,865)

For the year ended 31 December 2009 deferred tax assets and liabilities are attributable to the following items:

	31 December 2009	Recognised in other in income	Recognised in other comprehensive income	1 January 2009
Trade and other receivables	70,243	53,394	-	123,637
Inventories	52,767	38,164	-	90,931
Trade and other payables	33,149	(5,583)	-	27,566
Employee benefit obligation	194,530	(29,773)	-	164,757
Other	-	11,019	-	11,019
Deferred tax assets	350,689	67,221	-	417,910
Property, plant and equipment	(2,757,918)	72,582	-	(2,685,336)
Trade and other receivables	-	(203)	-	(203)
Trade and other payables	(28,659)	(46,008)	-	(74,667)
Employee benefit fund	(87,301)	(18,030)	-	(105,331)
Available-for-sale investments	(8,152)	-	4,877	(3,275)
Deferred tax liabilities	(2,882,030)	8,341	4,877	(2,868,812)
Net deferred tax liabilities	(2,531,341)	75,562	4,877	(2,450,902)

OJSC IDGC of Center and Volga Region
Notes of the Consolidated Financial Statements for the year ended 31 December 2009

(in thousands of Russian Roubles, unless otherwise stated)

Note 27. Related parties

(a) Control relationships

As at 31 December 2008 and 2009, IDGC Holding was the parent company of the Company.

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

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

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

	Year ended 31 December 2009	Year ended 31 December 2008
Revenue		
Electricity transmission	-	1,828,595
Other sales	-	77,075
Expenses		
Electricity transmission fee	-	(2,453,621)
Purchased electricity	-	(380,799)
Other expenses	321,000	(20,673)

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

Balances on settlements were as follows:

	31 December 2009	31 December 2008
Accounts receivable and prepayments	2,315	-
Less: Allowance for impairment of debts	-	-
Accounts payable and accrued liabilities	(20,323)	-

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

(c) Transactions with other state controlled entities

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

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

	Year ended 31 December 2009	Year ended 31 December 2008
Revenue		
Electricity transmission	65,595	872,582
Connection services	255,478	536,737
Other sales	86,347	49,451
Interest income	8,782	2,895
Expenses		
Electricity transmission fee	(9,963,820)	(4,171,205)
Other expenses	(118,142)	(141,946)
Interest expenses	(542,661)	(272,419)

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

	31 December 2009	31 December 2008
Accounts receivable and prepayments	1,321,781	2,429,833
Allowance for impairment of debts	(88,960)	(605,081)
Loans and borrowings	(9,391,006)	(2,652,676)
Accounts payable and accrued liabilities	(1,487,978)	(745,248)

OJSC IDGC of Center and Volga Region
Notes of the Consolidated Financial Statements for the year ended 31 December 2009

(in thousands of Russian Roubles, unless otherwise stated)

(d) Transactions with management and close family members

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

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

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

	Year ended 31 December 2009		Year ended 31 December 2008	
	Members of Board of Directors	Top management	Members of Board of Directors	Top management
Salaries and bonuses	11,776	155,800	15,038	272,665

Note 28. Operating leases

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

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

	31 December 2009	31 December 2008
Less than one year	161,969	214,505
Between one year and five years	338,185	462,831
After five years	2,819,739	1,182,176
Total	3,319,893	1,859,512

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

During the year ended 31 December 2009 RUR 226,740 thousand (2008: RUR 160,902 thousand) was recognised in profit or loss in respect of operating lease.

Lease payments of contractors when the Company acts as a lessor are as follows:

	31 December 2009	31 December 2008
Less than one year	61,313	50,310
Between one year and five years	15,573	52,300
After five years	147,238	194,443
Total	224,124	297,053

Note 29. Commitments

Capital commitments

As at 31 December 2009 the Group has outstanding commitments under contracts for the purchase and construction of property, plant and equipment for RUR 5,031,120 thousand (as at 31 December 2008: RUR 11,315,401 thousand).

OJSC IDGC of Center and Volga Region
Notes of the Consolidated Financial Statements for the year ended 31 December 2009

(in thousands of Russian Roubles, unless otherwise stated)

Note 30. Contingencies

Insurance

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

Legal proceedings

The Group is a party to certain legal proceedings arising in the ordinary course of business.

In the opinion of management, there are no current legal proceedings or other claims outstanding, which, upon final disposition, will have a material adverse effect on the financial position of the Group.

Taxation

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

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

Environmental matters

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

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

Note 31. Financial instruments

(a) Fair value hierarchy

The fair value of financial assets and liabilities is determined as follows:

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- The fair value of other financial assets and financial liabilities (excluding derivatives) are determined in accordance with generally accepted pricing models based on a discounted cash flow analysis using prices from observable current market transactions.

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

OJSC IDGC of Center and Volga Region
Notes of the Consolidated Financial Statements for the year ended 31 December 2009

(in thousands of Russian Roubles, unless otherwise stated)

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

	31 December 2009	31 December 2008
Level 1	489,141	553,752
Total	489,141	553,752

The financial instruments of the Group carried at fair value represent available-for-sale investments. Management believes that at the reporting date the fair value of the Group's financial assets and liabilities approximates their carrying amounts.

(b) Credit risk

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

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

	31 December 2009	31 December 2008
Cash and cash equivalents	2,501,533	2,460,842
Available-for-sale investments	52,637	27,095
Accounts receivables (net of allowance for impairment)	5,507,422	3,577,702
Other non-current assets (net of allowance for impairment)	102,616	90,605
Financial assets related to employee benefit fund (available for sale)	436,504	526,657
Total	8,600,712	6,682,901

The maximum exposure to credit risk for trade receivables at the reporting date by type was:

	31 December 2009	31 December 2008
Electricity transmission	5,087,730	2,046,317
Connection services	180,265	144,740
Electricity and heat power	156,073	838,463
Other sales	84,182	238,479
Less: Allowance for impairment of accounts receivable	(474,858)	(674,045)
Total	5,033,392	2,593,954

The aging of trade and other receivables not impaired at the reporting date was:

	31 December 2009	31 December 2008
Not past due	4,029,538	3,297,898
Past due not more 3 months	478,643	53,663
Past due more than 3 months and not more than 6 months	388,471	35,072
Past due more than 6 months and not more than 1 year	465,129	163,901
Past due more than one year	248,257	117,573
Total	5,610,038	3,668,107

OJSC IDGC of Center and Volga Region
Notes of the Consolidated Financial Statements for the year ended 31 December 2009

(in thousands of Russian Roubles, unless otherwise stated)

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

	31 December 2009	31 December 2008
Opening balance	826,512	1,139,500
Charge of additional allowance for doubtful debtors	407,703	97,284
Reversal of the allowance for doubtful debtors	(466,946)	(19,212)
Accounts receivable written off through allowance for bad debts	(271,960)	(391,060)
Closing balance	495,309	826,512

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

(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 monitors the risk of cash shortfalls by means of current liquidity planning. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. This approach is used to analyze payment dates associated with financial assets, and also to forecast cash flows from operating activities.

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

As at 31 December 2009:

	Carrying amount	Forecast cash flows	12 months	1-2 years	2-5 years	Over 5 years
Financial liabilities:						
Loans and borrowings	12,625,875	13,957,624	5,388,422	1,159,911	7,409,291	-
Finance lease liabilities	108,313	132,591	72,673	36,959	22,959	-
Trade and other payables	3,370,927	3,422,261	3,193,134	7,920	126,833	94,374
Total	16,105,115	17,512,476	8,654,229	1,204,790	7,559,083	94,374

As at 31 December 2008:

	Carrying amount	Forecast cash flows	12 months	1-2 years	2-5 years	Over 5 years
Financial liabilities:						
Loans and borrowings	10,557,866	16,196,064	1,030,526	4,418,647	5,673,795	5,073,096
Finance lease liabilities	155,059	177,414	92,658	45,273	39,483	-
Trade and other payables	4,269,538	4,369,896	3,667,896	472,873	43,951	185,176
Total	14,982,463	20,743,374	4,791,080	4,936,793	5,757,229	5,258,272

(d) Foreign exchange risk

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

(e) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group is exposed to interest rate risk through market value fluctuations of interest-bearing long-term borrowings. The majority of interest rates on long term and short term borrowings are fixed, these are disclosed in Note 18. The Group has no significant interest-bearing assets. Currently the Group does not operate a formal management

OJSC IDGC of Center and Volga Region
Notes of the Consolidated Financial Statements for the year ended 31 December 2009

(in thousands of Russian Roubles, unless otherwise stated)

program focusing on the unpredictability of financial markets or seeking to minimise potential adverse effects on the financial performance of the Group.

Fair values sensitivity analysis for fixed rate instruments

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

The ongoing global liquidity crisis which commenced in the middle of 2008 has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the Russian banking sector, and higher interbank lending rates. The uncertainties in the global financial market have also led to bank failures and bank rescues in the US, Western Europe and Russia. Such circumstances could affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions.

(f) Capital management

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

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

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

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