RUSHYDRO GROUP
COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) AS AT AND FOR THE THREE YEARS ENDED 31 DECEMBER 2008, 2007 AND 2006

PRICEWATERHOUSECOOPERS

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INDEPENDENT AUDITOR'S REPORT

To the shareholders and the Board of Directors of Open Joint Stock Company "RusHydro" (OJSC "RusHydro"):

We have audited the accompanying combined and consolidated balance sheets of **OJSC "RusHydro"** and its subsidiaries (the "Group") as of 31 December 2008, 2007 and 2006 and the related combined and consolidated income statements, combined and consolidated statements of changes in equity and combined and consolidated cash flow statements for the years then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the accompanying combined and consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2008, 2007 and 2006, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

15 May 2009
Moscow, Russian Federation

RusHydro Group
Combined and Consolidated Balance Sheet as at 31 December 2008, 2007 and 2006
(in thousands of Russian Rubles)

	Note	31 December 2008	31 December 2007	31 December 2006
ASSETS				
Non-current assets				
Property, plant and equipment	7	337,117,452	271,578,940	142,869,195
Investments in associates and jointly controlled entities	8	15,799,183	6,105,985	-
Available-for-sale financial assets	9	2,011,215	102,504	20,499
Other non-current assets	10	14,990,718	2,488,141	1,968,660
Total non-current assets		**369,918,568**	**280,275,570**	**144,858,354**
Current assets				
Cash and cash equivalents	11	24,837,862	8,266,748	6,604,333
Accounts receivable and prepayments	12	25,685,109	20,785,306	16,063,708
Inventories	13	1,035,211	1,020,329	993,217
Other current assets	14	4,894,349	3,198,408	486,676
Total current assets		**56,452,531**	**33,270,791**	**24,147,934**
TOTAL ASSETS		**426,371,099**	**313,546,361**	**169,006,288**
EQUITY AND LIABILITIES				
Equity				
Share capital	15	245,014,059	156,864,374	140,954,760
Treasury shares	15	(8,172,275)	(5,427,507)	-
Share premium	15	12,005,099	12,005,099	391,080
Merger reserve	15	(77,449,212)	(40,249,247)	(39,473,786)
Retained earnings and other reserves		171,238,173	85,858,152	3,061,546
Equity attributable to shareholders of OJSC RusHydro		**342,635,844**	**209,050,871**	**104,933,600**
Minority interest		**976,352**	**29,129,055**	**21,208,867**
TOTAL EQUITY		**343,612,196**	**238,179,926**	**126,142,467**
Non-current liabilities				
Deferred income tax liabilities	16	34,819,008	32,561,956	6,408,017
Non-current debt	18	20,015,485	20,839,133	16,396,769
Other non-current liabilities	19	2,735,694	2,112,696	2,142,475
Total non-current liabilities		**57,570,187**	**55,513,785**	**24,947,261**
Current liabilities				
Current debt and current portion of non-current debt	18	3,376,901	3,178,035	5,186,176
Accounts payable and accruals	20	16,239,906	15,188,505	11,279,237
Current income tax liabilities		362,165	106,391	69,323
Other taxes payable	21	5,209,744	1,379,719	1,381,824
Total current liabilities		**25,188,716**	**19,852,650**	**17,916,560**
TOTAL LIABILITIES		**82,758,903**	**75,366,435**	**42,863,821**
TOTAL EQUITY AND LIABILITIES		**426,371,099**	**313,546,361**	**169,006,288**

Member of Management Board S.A. Yushin

Chief Accountant O.V. Otto

15 May 2009

(in thousands of Russian Rubles)

	Note	Year ended 31 December 2008	Year ended 31 December 2007	Year ended 31 December 2006
Revenue	22	107,669,781	80,756,471	53,436,335
Operating expenses	23	(84,658,214)	(70,391,958)	(53,318,240)
Impairment (charge) / reversal related to property, plant and equipment	7	(32,552,821)	-	14,971,413
Operating (loss)/profit		**(9,541,254)**	**10,364,513**	**15,089,508**
Finance costs, net	24	(1,494,816)	(1,824,819)	(816,209)
Impairment of available-for-sale financial assets	9	(6,464,323)	-	-
Share of loss of associates and jointly controlled entities	8	(1,531,348)	(119,309)	-
(Loss) / Profit before income tax		**(19,031,741)**	**8,420,385**	**14,273,299**
Total income tax charge	16	(448,557)	(2,949,364)	(6,649,609)
(Loss) / Profit for the period		**(19,480,298)**	**5,471,021**	**7,623,690**
Attributable to:				
Shareholders of OJSC RusHydro		(19,955,433)	5,663,018	6,034,402
Minority interest		475,135	(191,997)	1,589,288
Earnings per ordinary share for (loss)/ profit attributable to the shareholders of OJSC RusHydro – basic and diluted (in Russian Rubles per share)	25	(0.0925)	0.0381	0.0487
Weighted average number of shares outstanding – basic and diluted	25	215,648,425	148,502,176	124,027,549

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Chief Accountant O.V. Otto

15 May 2009

RusHydro Group
Combined and Consolidated Cash Flow Statement for the three years ended 31 December 2008, 2007 and 2006
(in thousands of Russian Rubles)

	Note	Year ended 31 December 2008	Year ended 31 December 2007	Year ended 31 December 2006
CASH FLOWS FROM OPERATING ACTIVITIES:				
(Loss)/Profit before income tax		**(19,031,741)**	**8,420,385**	**14,273,299**
Depreciation of property, plant and equipment	7, 23	9,332,702	8,457,485	4,292,271
Loss on disposal of property, plant and equipment	23	303,336	164,417	2,587,178
Interest expense, net		1,494,816	1,824,819	816,209
Gain on disposal of subsidiary to a jointly-controlled entity	2	-	(270,565)	-
Write-off and charge of impairment of accounts receivable		1,087,764	505,311	521,462
Impairment charge / (reversal) related to property, plant and equipment	7	32,552,821	-	(14,971,413)
Impairment of available-for-sale financial assets	9	6,464,323	-	-
Share of loss of associates and jointly controlled entities		1,531,348	119,309	-
Effect of share option plan	6	749,994	268,405	-
Pension expenses		478,481	194,803	736,128
Other		389,630	(452,705)	(403,587)
Operating cash flows before working capital changes and income tax paid		**35,353,474**	**19,231,664**	**7,851,547**
Working capital changes:				
Increase in accounts receivable and prepayments		(9,294,172)	(4,752,848)	(8,522,746)
Decrease / (increase) in other current assets		2,715,784	(516,768)	755,340
Decrease/ (increase) in inventories		77,625	(189,620)	(3,951)
Decrease / (increase) in other non-current assets		86,337	(181,963)	631,884
Increase / (decrease) in accounts payable and accruals		3,167,501	8,965,768	(4,182,077)
Increase / (decrease) in other taxes payable		5,760,178	(205,739)	(268,325)
Increase / (decrease) in other non-current liabilities		1,176,309	(1,032,929)	(178,447)
Income tax paid		(11,422,296)	(4,283,309)	(2,298,578)
Net cash generated by (used in) operating activities		**27,620,740**	**17,034,256**	**(6,215,353)**
CASH FLOWS FROM INVESTING ACTIVITIES:				
Proceeds from sale of property, plant and equipment		34,494	229,230	25,528
Purchase of property, plant and equipment		(25,354,163)	(32,308,097)	(20,834,630)
Purchase of promissory notes and other short-term investments		(7,549,261)	(4,120,047)	(430,190)
Purchase of entities under common control		(1,820,784)	-	-
Purchase of subsidiaries from third parties, net of cash acquired		(1,297,241)	-	-
Loans issued		-	(311,680)	(140,000)
Proceeds from sale of investments		980,274	1,503	-
Proceeds from loan redemption		60,000	174,923	-
Interest received		1,924,069	451,169	-
Net cash used in investing activities		**(33,022,612)**	**(35,882,999)**	**(21,379,292)**

(in thousands of Russian Rubles)

	Note	Year ended 31 December 2008	Year ended 31 December 2007	Year ended 31 December 2006
CASH FLOWS FROM FINANCING ACTIVITIES:				
Proceeds from short-term debt		24,671,748	16,285,320	5,407,567
Proceeds from long-term debt		150,000	1,500,000	14,300,000
Repayment of debt		(4,596,127)	(9,899,514)	(7,268,965)
Interest paid		(1,544,163)	(1,660,803)	(902,731)
Dividends paid by the Group to RAO UES of Russia shareholders		-	(2,049,054)	(1,004,402)
Dividends paid by the Group to minority interest shareholders		(7,758)	(609,442)	(312,748)
Proceeds from share issuance		6,013,971	26,637,507	20,990,000
Purchase of treasury shares		-	(5,427,507)	-
Purchase of the Group's subsidiaries additional share issuance by RAO UES of Russia		-	-	892,427
Advances received from RAO UES of Russia under Investment agreements		-	4,344	1,291,358
Repayment of advances to RAO UES of Russia under Investment agreements		(625,866)	(3,760,442)	(834,520)
Finance lease payments		(2,088,819)	(509,251)	(343,693)
Net cash generated by financing activities		**21,972,986**	**20,511,158**	**32,214,293**
Increase in cash and cash equivalents		**16,571,114**	**1,662,415**	**4,619,648**
Cash and cash equivalents at the beginning of the period		**8,266,748**	**6,604,333**	**1,984,685**
Cash and cash equivalents at the end of the period		**24,837,862**	**8,266,748**	**6,604,333**

Member of Management Board S.A. Yushin

Chief Accountant O.V. Otto

15 May 2009

Combined and Consolidated Statement of Changes in Equity for the three years ended 31 December 2008, 2007 and 2006

(in thousands of Russian Rubles)

	Ordinary share capital	Treasury shares	Share premium	Merger reserve	Revaluation reserve	Retained earnings	Equity attributable to shareholders of OJSC RusHydro	Minority interest	Total equity
As at 1 January 2006	**103,951,323**	**-**	**-**	**(21,944,450)**	**-**	**(1,111,657)**	**80,895,216**	**18,522,241**	**99,417,457**
Profit for the period	-	-	-	-	-	6,034,402	6,034,402	1,589,288	7,623,690
Total recognised income for 2006	-	-	-	-	-	6,034,402	6,034,402	1,589,288	7,623,690
Share issuance (Note 15)	37,003,437	-	391,080	(17,149,516)	-	-	20,245,001	-	20,245,001
Effect of changes in minority interest (Note 15)	-	-	-	-	-	(82,733)	(82,733)	1,526,549	1,443,816
Acquisition of subsidiary (Note 15)	-	-	-	(206,593)	-	-	(206,593)	-	(206,593)
Effect of carve-out accounting (Note 15)	-	-	-	(173,227)	-	-	(173,227)	-	(173,227)
Dividends (Note 15)	-	-	-	-	-	(1,778,466)	(1,778,466)	(429,211)	(2,207,677)
As at 31 December 2006	**140,954,760**	**-**	**391,080**	**(39,473,786)**	**-**	**3,061,546**	**104,933,600**	**21,208,867**	**126,142,467**
As at 1 January 2007	**140,954,760**	**-**	**391,080**	**(39,473,786)**	**-**	**3,061,546**	**104,933,600**	**21,208,867**	**126,142,467**
Revaluation of property, plant and equipment, net of deferred taxes (Note 7)	-	-	-	-	74,190,300	-	74,190,300	13,978,481	88,168,781
Net income recognised directly in equity	-	-	-	-	74,190,300	-	74,190,300	13,978,481	88,168,781
Profit for the period	-	-	-	-	-	5,663,018	5,663,018	(191,997)	5,471,021
Total recognised income for 2007	-	-	-	-	74,190,300	5,663,018	79,853,318	13,786,484	93,639,802
Share issuance (Note 15)	15,909,614	-	11,614,019	(750,260)	-		26,773,373	-	26,773,373
Effect of share option plan (Note 6)	-	-	-	-	-	268,405	268,405	-	268,405
Purchase of treasury shares (Note 15)	-	(5,427,507)	-	-	-		(5,427,507)	-	(5,427,507)
Disposal of subsidiary to jointly controlled entity (Note 2, Note 15)	-	-	-	-	(218,395)	2,598,803	2,380,408	(2,380,408)	-
Effect of changes in minority interest (Note 15)	-	-	-	(25,201)	-	1,534,528	1,509,327	(3,104,344)	(1,595,017)
Dividends (Note 15)	-	-	-	-	-	(1,240,053)	(1,240,053)	(381,544)	(1,621,597)
As at 31 December 2007	**156,864,374**	**(5,427,507)**	**12,005,099**	**(40,249,247)**	**73,971,905**	**11,886,247**	**209,050,871**	**29,129,055**	**238,179,926**

Combined and Consolidated Statement of Changes in Equity for the three years ended 31 December 2008, 2007 and 2006

(in thousands of Russian Rubles)

	Ordinary share capital	Treasury shares	Share premium	Merger reserve	Revaluation reserve	Retained earnings	Equity attributable to shareholders of OJSC RusHydro	Minority interest	Total equity
As at 1 January 2008	**156,864,374**	**(5,427,507)**	**12,005,099**	**(40,249,247)**	**73,971,905**	**11,886,247**	**209,050,871**	**29,129,055**	**238,179,926**
Change in tax rate (Note 7)	-	-	-	-	4,622,059	-	4,622,059	-	**4,622,059**
Revaluation of property, plant and equipment, net of deferred taxes (Note 7)	-	-	-	-	58,846,669	-	58,846,669	265,986	**59,112,655**
Change in associate's net assets (Note 8)	-	-	-	-	-	237,109	237,109	-	**237,109**
Net income recognised directly in equity	-	-	-	-	63,468,728	237,109	63,705,837	265,986	**63,971,823**
Loss for the period	-	-	-		-	(19,955,433)	(19,955,433)	475,135	**(19,480,298)**
Total recognised income for 2008	-	-	-	-	63,468,728	(19,718,324)	43,750,404	741,121	**44,491,525**
Share issuance (Note 15)	88,149,685	(2,744,768)	-	(33,789,018)	13,857,936	26,075,863	91,549,698	(28,581,425)	**62,968,273**
Effect of share option plan (Note 6)	-	-	-	-	-	749,994	749,994	-	**749,994**
Effect of changes in minority interest (Note 15)	-	-	-	-	-	1,150,248	1,150,248	(318,548)	**831,700**
Purchase of subsidiaries (Note 15)	-	-	-	(3,410,947)	-	(204,424)	(3,615,371)	6,949	**(3,608,422)**
Dividends (Note 15)	-	-	-	-	-	-	-	(800)	**(800)**
As at 31 December 2008	**245,014,059**	**(8,172,275)**	**12,005,099**	**(77,449,212)**	**151,298,569**	**19,939,604**	**342,635,844**	**976,352**	**343,612,196**

Member of Management Board S.A. Yushin

Chief Accountant O.V. Otto

15 May 2009

Note 1. The Group and its operations

Open Joint Stock Company RusHydro (OJSC RusHydro - hereinafter referred to as "the Company") was founded by the sole founder party - the Russian Open Joint Stock Company for Energy and Electrification Unified Energy System of Russia (hereinafter referred to as "RAO UES of Russia") on 26 December 2004 based on the Decision of the Board of Directors of RAO UES dated 24 December 2004 in accordance with the Resolution of the Russian Government No 526 dated 11 July 2001 "On reforming the Russian Federation electric utilities industry" and Resolutions of the Russian Government No1254-r dated 1 September 2003 and No 1367-r dated 25 October 2004.

RusHydro Group (hereinafter referred to as "the Group") was formed for the purpose of implementation of the Russian Federation government policy in the hydropower industry, creating the conditions for effective functioning of wholesale electricity generation market, implementation of a strategy toward attracting of funds and capital raising for the purpose of development of the hydropower industry, development and realisation of scientific and technological policy and implementation of new progressive types of equipment and technology, including exploration of renewable sources of electric energy.

The Group's primary activity is generation and sale of electricity (capacity), transportation of electricity, exploitation of electricity equipment in accordance with the effective legal requirements, performing an on-time and high-quality repair of the equipment, technical re-equipment and reconstruction, carrying out investment activities.

The Company's registered office is located at 51, Respubliki Street, Krasnoyarsk, Krasnoyarsk region, the Russian Federation.

The Group consists of the Company, which has 20 branches across the Russian Federation, its subsidiaries, associates and jointly controlled entities. The Group's principal subsidiaries are presented in Note 2. The Group's associates and jointly controlled entities are presented in Note 8.

The ordinary shares of the Company are traded on the Moscow Interbank Currency Exchange and the Russian Commodities and Raw Materials Exchange.

Operating environment of the Group. The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation. Despite strong economic growth in recent years, the financial situation in the Russian market significantly deteriorated during 2008, particularly in the fourth quarter. As a result of global volatility in financial and commodity markets, among other factors, there has been a significant decline in the Russian stock market since mid-2008. Since September 2008, there has been increased volatility in currency markets and the Russian Rouble (RR) has depreciated significantly against some major currencies. The official US Dollar (USD) exchange rate of the Central Bank of the Russian Federation ("CBRF") increased from RR 25.37 at 1 October 2008 to RR 29.38 at 31 December 2008.

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and frequent changes. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

Management is unable to predict all developments in the economic environment which could have an impact on the Group's operations and consequently what effect, if any, they could have on the financial position of the Group.

Relations with the State and current regulation. As at 31 December 2008 the Russian Federation owned 61.32 percent (*) of the voting ordinary shares of the Company (as at 31 December 2007, RAO UES of Russia (itself controlled by the Russian Federation) owned 96.16 percent and the Russian Federation directly owned 1.84 percent, as at 31 December 2006 – 100 percent belonged to RAO UES of Russia). The Group's customer base includes a number of entities controlled by the State (Note 5).

(*) The percentage has been calculated including an additional share emission in favour of the Government of the Russian Federation in the amount of 6,000,000,000 which increased the Government's share in the Company's share capital by 0.95 percent. The shares were paid in December 2008 and subsequently registered in March 2009 (Note 31).

The Government affects the Group's operations through:

- participation of its representatives in the Board of Directors of the Company;
- its tariff regulation within wholesale electricity markets;
- its control over and approval of the Company's investment program; and
- its antimonopoly regulation.

The Federal Service on Tariffs (hereinafter referred to as "FST") regulates electricity tariff by setting maximum electricity tariff levels for final consumers and on the wholesale market, and the Regional services on tariffs (hereinafter referred to as "RSTs") set tariffs for electricity for final consumers and tariffs for electricity distribution through the low voltage grids on regional retail markets. Although there is now some free trading of limited volumes of electricity, currently for the great majority of sales the tariffs which the Group may charge for sales of electricity are governed both by regulations specific to the electricity industry and by regulations applicable to natural monopolies.

The Group's investment programme is subject to agreement with state regulators: the Russian Ministry of Energy (former Russian Ministry of Industry and Energy), the Russian Ministry of Economic Development and FST.

The Company's investment programme is determined in accordance with the General scheme of location of electricity sites for the period through 2020 which was established by the Russian Government as the basis for investment in the sector as at 19 January 2007 (approved by the resolution of the Russian Government No. 215-r dated 22 February 2008).

In accordance with the resolution of the Russian Government (minutes of the Russian Government's meeting No. 27 dated 3 August 2006), construction of the most significant hydropower projects in 2007 through 2008 is financed by including special-purpose investment funds into the revenue from electricity and capacity sales in the wholesale market.

As described above, the Russian Government's economic, social and other policies could have material effects on the Group's operations.

Sector restructuring. The Russian electric utilities industry is presently undergoing a restructuring process designed to introduce competition into the electricity and capacity sector and to create an environment in which electric utility sector companies can raise the capital required to maintain and expand current capacity. On 28 June 2008 the changes to the Wholesale Electric Power (capacity) Market Rules of the Transition Period (NOREM) were approved by the Resolution of the Government of the Russian Federation No. 476, which provide that starting from 1 July 2008 capacity exceeding the regulated contracts, as well as that of new input generating capacities, is traded at non-regulated prices on a wholesale market. According to the Resolution of the Government of the Russian Federation, capacity can be traded in several ways, including by means of bilateral contracts for the sale of electricity and capacity between the wholesale market participants.

Thus, from 1 July 2008 up to 25 percent of electricity could be sold at market prices, and the schedule of the capacity market liberalisation coincides with that of the electricity power market liberalisation approved by Resolution of the Russian Government No. 643. By 1 January 2011 the schedule envisages that 100 percent of wholesale electricity and capacity will be sold at unregulated market prices. Currently the schedule of the market liberalisation can be revisited.

Establishment and reorganisation of the Group. RAO UES of Russia made the following contributions to the share capital of the Company when the Company was established (Note 15):

- shares of subsidiaries: OJSC Volzhskaya HPP, OJSC Zhigulevskaya HPP, OJSC Votkinskaya HPP, OJSC SShHPP named after P.S. Neporozhny, OJSC Bureiskaya HPP, OJSC Zeiskaya HPP, OJSC Boguchanskaya HPP, OJSC Zaramagskie HPPs, OJSC Zelenchukskie HPPs, OJSC Kabbalk HPP, OJSC Sulakenergo, OJSC Nizhegorodskaya HPP, OJSC Saratovskaya HPP, OJSC Kamskaya HPP, OJSC Kaskad VV HPPs, OJSC HydroWGC Management Company;
- cash funds.

On 30 September 2005 the decision of the Board of Directors of RAO UES of Russia approved the target model of the Company's operation. When the model was finalized the Company became a unified operating company that manages its branches - hydroelectric power plants (hereinafter referred to as "HPP" or "HPPs") and subsidiaries created for the purposes of new activities and implementation of investment projects. The ownership share of the Russian Federation in the share capital of the Company should be not less than 50 percent + 1 share.

In August 2006, in the course of further sector reorganisation, RAO UES of Russia made the following contributions to the Company in exchange for an additional share issue (Note 15):

- shares of subsidiaries: OJSC Cheboksarskaya HPP, OJSC Dagestanskaya Regional Hydrogenerating Company, OJSC Zagorskaya HAEPP, OJSC Stavropolskaya Electric Hydrogenerating Company, OJSC VNIIG named after B. E. Vedeneev, OJSC NIIES, OJSC Zaramagskie HPPs and OJSC Zelenchukskie HPPs;
- the assets of Novosibirskaya HPP;
- cash funds;
- other assets.

On 27 April 2007 the Board of Directors of RAO UES of Russia approved the scheme of the accelerated consolidation of the Company into a unified operating company which provided for the following stages:

Stage 1. Additional issue of the Company's shares in 2007:

The decision about the increase in the charter capital was made by the Board of Directors of RAO UES of Russia on 25 May 2007.

The Report on the results of the additional issue was registered by the Federal Service on Financial Markets of Russia on 1 November 2007. As a result an additional 15,909,613,920 shares were placed (Note 15).

In October 2007 RAO UES of Russia and the Russian Federation made contributions to the Group in exchange for the additional shares issued.

RAO UES of Russia's contribution was made by:

- shares of subsidiaries: OJSC Verhne-Mutnovskaya GeoES, OJSC Zelenchukskie HPPs, OJSC Zaramagskie HPPs, OJSC Sulakenergo, OJSC ESKO UES, OJSC Severo-Osetinskaya HGC (HGC -Hydrogenerating Company), OJSC Geoterm (Note 15);
- shares of other companies: OJSC Vilyuiskaya HPP-3, OJSC Krasnoyarskaya HPP (Note 9);
- cash funds.

The Russian Federation represented by the Federal agency of federal property management made contribution by cash.

Stage 2. The Company's reorganisation in 2008:

On 9 January 2008 the following entities were merged into the Company:

OJSC Volzhskaya HPP, OJSC Zhigulevskaya HPP, OJSC Votkinskaya HPP, OJSC SShHPP named after P.S. Neporozhny, OJSC Zeiskaya HPP, OJSC Sulakenergo, OJSC Zelenchukskie HPPs, OJSC Kabbalk HPP, OJSC Dagestanskaya Regional Hydrogenerating Company, OJSC Stavropolskaya Electric Hydrogenerating Company, OJSC Zagorskaya HAEPP, OJSC Bureiskaya HPP, OJSC Severo-Osetinskaya HGC, OJSC Cheboksarskaya HPP, OJSC Nizhegorodskaya HPP, OJSC Saratovskaya HPP, OJSC Kamskaya HPP, OJSC Kaskad VV HPPs, CSJC EOZ, OJSC Kabbalk Hydrogenerating Company (Note 2).

On 1 July 2008 as a result of RAO UES of Russia's reorganisation the shares of the Company owned by RAO UES of Russia were split between OJSC State Holding HydroWGC and OJSC Minority Holding HydroWGC in proportion to the State and the minorities' stakes in RAO UES of Russia.

On 1 July 2008 OJSC State Holding HydroWGC, OJSC Minority Holding HydroWGC, OJSC Irganayskaya HPP and OJSC Kaskad NChHPP were merged into the Company. The merger was performed by conversion of additionally issued shares of the Company into shares of OJSC State Holding HydroWGC, OJSC Minority Holding HydroWGC, OJSC Irganayskaya HPP and OJSC Kaskad NChHPP. According to the merger agreement the Company's shares received from the merged entities and not used in the conversion of shares of the merged entities were cancelled during 2008.

The Company received the following investments as a result of the reorganisation:

- shares of subsidiaries LLC Index Energetiki - HydroWGC, OJSC Kolymaenergo, OJSC Ust'-Srednekanskaya HPP, OJSC Ust'-Srednekangesstroy, OJSC Chirkeygesstroy, OJSC Krasnoyarskenergosbyt, OJSC Lengidroproekt;

- shares of associates OJSC WGC-1, OJSC GVC Energetiki, OJSC UEMC;
- other investments.

Seasonality of business. The Group's own electricity (capacity) generation depends on the water levels of rivers and weather conditions. In spring and in summer (flood period) electricity production is significantly higher than in autumn and in winter. Demand for electricity (capacity) varies with seasons and weather conditions. The seasonal nature of electricity generation has a significant influence on the volume of energy generated and purchased by the Group.

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

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

The uncertainty in the global markets combined with other local factors has during 2008 led to very high volatility in the Russian Stock Markets and at times much higher than normal interbank lending rates.

The existing economic situation of the world and Russian economies and a forecast decrease of GDP may affect electricity consumption. Accordingly, the Government of the Russian Federation could revise its forecast of social-economic development during 2009-2012, and that could result in changes to the terms of the liberalisation of wholesale market and plans of electricity tariff indexation.

Any change of terms of the wholesale market liberalisation and plans of electricity tariff indexation may influence the Group's revenues. Debtors of the Group may be adversely affected by the financial and economic environment which could in turn impact their ability to repay the amounts owed. Deteriorating economic conditions for customers may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, management has properly reflected revised estimates of expected future cash flows in its impairment assessments of accounts receivables (Note 12), property, plant and equipment (Note 7), available-for-sale financial assets (Note 9), investments in associates and jointly controlled entities (Note 8).

Current economic environment may result in the adjustment of the investment programs of utility sector entities that were defined by the general scheme of the utility objects allocation (approved in 2007). The scheme was devised on basis of electricity consumption growth rate that is not achievable under current circumstances.

In conditions of cut-back in financing, in developing an amended investment programme the Company's management made an assessment of the possible change in demand for electricity after electricity stations are put in operation, the feasibility of investors meeting their obligations.

As a result of the amendment of the Company's investment programme, including decrease of state financing amounts through the Company's additional issue of stock the following was amended: expenses to construct new electricity stations were cut back, in some projects terms of putting into operation were postponed, except for investment projects which have a high priority. High priority projects are those which are at a final stage and to be put into operation in the near future.

Therefore, the Company's investment programme is adjusted to the actual economic environment.

The fair values of property, plant and equipment (except for construction in progress, office buildings and land) measured using the revaluation model in accordance with IAS 16 are updated with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. If there is no market-based evidence of fair value, fair value is estimated using a depreciated replacement cost approach. Management has updated the carrying value of property, plant and equipment (except for construction in progress, office buildings and land) measured in accordance with the revaluation model as at the reporting date using a depreciated replacement cost approach (Notes 4, 7).

Management is unable to reliably determine the effects on the Group's future financial position of any further deterioration in the Group's operating environment as a result of the ongoing crisis. Management believes it is taking all the necessary measures to support the sustainability and development of the Group's business in the current circumstances.

Note 2. Principal subsidiaries

The following are the principal subsidiaries which have been consolidated into these combined and consolidated financial statements (hereinafter referred to as the "Financial Statements"). All subsidiaries are incorporated and operate in the Russian Federation except for HydroOGK Power Company Ltd and HydroOGK Aluminium Company Ltd which were incorporated in the Republic of Cyprus.

(in thousands of Russian Rubles)

		31 December 2006		31 December 2007		31 December 2008	
		% of ownership	% of voting	% of ownership	% of voting	% of ownership	% of voting
1	OJSC Bureiskaya HPP**	94.71%	94.71%	94.71%	94.71%	-	-
2	OJSC Cheboksarskaya HPP*	100% - 1 share	100% - 1 share	100% - 1 share	100% - 1 share	-	-
3	OJSC Dagestanskaya Regional Hydrogenerating Company*	51.00%	51.00%	51.00%	51.00%	-	-
4	CJSC EOZ*	-	-	99.98%	99.98%	-	-
5	OJSC Kabbalk HPP*	81.42%	81.42%	83.37%	83.37%	-	-
6	OJSC Kabardino-Balkarskaya Hydrogenerating Company**	65.27%	65.27%	69.36%	69.36%	-	-
7	OJSC Kamskaya HPP*	100% - 1 share	100% - 1 share	100% - 1 share	100% - 1 share	-	-
8	OJSC Kaskad VV HPPs*	100% - 1 share	100% - 1 share	100% - 1 share	100% - 1 share	-	-
9	OJSC Nizhegorodskaya HPP*	100% - 1 share	100% - 1 share	100% - 1 share	100% - 1 share	-	-
10	OJSC Saratovskaya HPP*	100% - 1 share	100% - 1 share	100% - 1 share	100% - 1 share	-	-
11	OJSC Severo-Osetinskaya HGC*	50.33%	50.33%	97.43%	97.43%	-	-
12	OJSC SSh HPP named after P.S. Neporozhny*	78.90%	82.78%	78.90%	82.78%	-	-
13	OJSC Stavropolskaya Electric Hydrogenerating Company*	55.12%	71.93%	55.12%	71.93%	-	-
14	OJSC Sulakenergo*	78.53%	78.53%	99.35%	99.35%	-	-
15	OJSC Volzhskaya HPP*	83.31%	86.39%	83.31%	86.39%	-	-
16	OJSC Votkinskaya HPP*	59.84%	74.20%	59.84%	74.20%	-	-
17	OJSC Zagorskaya HAEPP*	50.90%	50.90%	50.90%	50.90%	-	-
18	OJSC Zeiskaya HPP*	56.39%	72.20%	56.39%	72.20%	-	-
19	OJSC Zelenchukskie HPPs*	53.49%	53.49%	99.97%	99.97%	-	-
20	OJSC Zhigulevskaya HPP*	84.11%	86.86%	84.11%	86.86%	-	-
21	OJSC Kaskad NChHPP**	65.27%	65.27%	69.36%	69.36%	-	-
22	OJSC Irganayskaya HPP**	-	-	100.00%	100.00%	-	-
23	OJSC VNIIG named after B.E.Vedeneev	100% - 1 share	100% - 1 share	100% - 1 share	100% - 1 share	100.00%	100.00%
24	CJSC Boguchanskaya HPP	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
25	CJSC Boguchanskaya HPP Construction Organizer	-	-	51.00%	51.00%	51.00%	51.00%
26	CJSC Boguchansky Aluminium Plant Construction Customer	-	-	51.00%	51.00%	51.00%	51.00%
27	OJSC Chuvashskaya energy retail company**	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
28	OJSC Electroremont VKK	84.11%	86.86%	84.11%	86.86%	100.00%	100.00%
29	OJSC ESKO UES	51.00%	51.00%	100.00%	100.00%	100.00%	100.00%
30	OJSC Geoterm**	71.61%	71.61%	71.61%	71.61%	71.61%	71.61%
31	OJSC Gidroinvest (former OJSC Lengidroproekt)	-	-	100% - 1 share	100% - 1 share	100.00%	100.00%

(in thousands of Russian Rubles)

		31 December 2006		31 December 2007		31 December 2008	
		% of ownership	% of voting	% of ownership	% of voting	% of ownership	% of voting
32	OJSC Gidroremont VKK	84.11%	86.86%	84.11%	86.86%	100.00%	100.00%
33	HydroOGK Power Company Ltd	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
34	HydroOGK Aluminium Company Ltd	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
35	OJSC Karachaevo-Cherkesskaya Hydrogenerating Company	53.49%	53.12%	99.97%	99.97%	100.00%	100.00%
36	OJSC Malaya Mezenskaya TidalPP	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
37	OJSC MosoblGidroproekt	-	-	-	-	62.54%	62.54%
38	OJSC Nizhne-Bureiskaya HPP	99.99%	99.99%	99.99%	99.99%	100.00%	100.00%
39	OJSC Nizhne-Zeiskaya HPP	99.99%	99.99%	99.99%	99.99%	100.00%	100.00%
40	OJSC Novy binarny energoblok	-	-	100% - 1 share	100% - 1 share	100.00%	100.00%
41	OJSC Prometey	51.00%	51.00%	51.00%	51.00%	100.00%	100.00%
42	OJSC REMIK	56.39%	72.20%	56.39%	72.20%	100.00%	100.00%
43	OJSC HydroWGC Management Company	100% - 1 share	100% - 1 share	100% - 1 share	100% - 1 share	100.00%	100.00%
44	OJSC Ryazanskaya energy retail company**	49.00%	49.00%	49.00%	49.00%	90.52%	90.52%
45	OJSC SShATC	78.90%	82.78%	78.90%	82.78%	100.00%	100.00%
46	OJSC SShGER	78.90%	82.78%	78.90%	82.78%	100.00%	100.00%
47	OJSC NIIES	100% - 1 share	100% - 1 share	100% - 1 share	100% - 1 share	100.00%	100.00%
48	LLC SpetsEnergoService	-	-	-	-	99.90%	not applicable
49	OJSC Sulaksky Gidrokaskad	-	-	71.74%	71.74%	100.00%	100.00%
50	CJSC Technopark Rumyantsevo***	-	-	-	-	100.00%	100.00%
51	OJSC Turboremont VKK	83.31%	86.39%	83.31%	86.39%	100.00%	100.00%
52	OJSC Verhne-Mutnovskaya GeoES **	56.03%	56.03%	56.03%	56.03%	56.03%	56.03%
53	OJSC Zagorskaya HAEPP-2	99.99%	99.99%	99.99%	99.99%	100.00%	100.00%
54	OJSC Zaramagskie HPPs	89.87%	89.87%	95.45%	95.45%	95.45%	95.45%
55	OJSC Yuzhno-Yakutsky GEK	99.99%	99.99%	99.99%	99.99%	100.00%	100.00%
56	OJSC Kolymaenergo**	78.63%	78.63%	70.32%	70.32%	64.27%	64.27%
57	OJSC Ust'-Srednekanskaya HPP**	-	-	70.32%	70.32%	51.86%	51.86%
58	OJSC Ust'-Srednekangesstroy**	-	-	70.32%	70.32%	64.27%	64.27%
59	OJSC Krasnoyarskenergosbyt**	51.75%	66.47%	51.75%	66.47%	51.75%	66.47%
60	OJSC ESK RusHydro	-	-	-	-	100.00%	100.00%
61	OJSC Boguchanskaya HPP	64.22%	64.22%	-	-	-	-
62	LLC Index Energetiki - HydroWGC	-	-	-	-	100.00%	not applicable
63	OJSC Chirkeygesstroy**	75.00%-1 share	75.00%-1 share	75.00%-1 share	75.00%-1 share	75.00%-1 share	75.00%-1 share
64	OJSC Lengidroproekt**	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Differences between the ownership interest and voting interest held in subsidiaries normally represent the effect of preference shares.

Changes in Group structure

2006

In August 2006, in the course of sector restructuring, RAO UES of Russia made contributions to the Company in exchange for additional shares issued (Notes 1, 15).

In September 2006 the Group established the wholly-owned subsidiaries: HydroOGK Power Company Ltd and HydroOGK Aluminium Company Ltd registered in the Republic of Cyprus within the Boguchansk Energy-Metallurgical Association (hereinafter referred to as "BEMA") framework agreement.

In 2006 the Group acquired 56.0 percent of the share capital of OJSC Severo-Osetinskaya HGC from OJSC Sevkavkazenergo, a fellow subsidiary of RAO UES of Russia.

2007

In October 2007, in the course of further sector restructuring, RAO UES of Russia made further contributions to the Group in exchange for additional shares issued (Notes 1, 15).

The increase of ownership percent in OJSC Sulakenergo and OJSC Zaramagskie HPPs was principally explained by additional shares issues acquired by the Group for cash (Note 15).

In May 2007 the Group acquired a 99.98 percent interest in CJSC EOZ from a third party (Note 15).

The change in ownership in other subsidiaries was due to the establishment of these new entities in the reporting period ended 31 December 2007.

2008

On 9 January 2008 the 18 subsidiaries marked with * above, OJSC Bureiskaya HPP and OJSC Kabardino-Balkarskaya Hydrogenerating Company ceased to exist as separate legal entities and were merged into the Company forming a single legal entity. That reorganisation was accounted for prospectively. The Group acquired control over OJCS Bureiskaya HPP and OJSC Kabardino-Balkarskaya Hydrogenerating Company simultaneously with the legal merger; immediately before the merger both companies were controlled by RAO UES of Russia. The acquisition of OJCS Bureiskaya HPP and OJSC Kabardino-Balkarskaya Hydrogenerating Company has been accounted for as a business combination under common control using the predecessor value method (Note 3).

In March 2008 at an open auction the Group acquired a 100 percent interest in OJSC Chuvashskaya energy retail company and a controlling interest of 49 percent in OJSC Ryazanskaya energy retail company for cash considerations of RR 650,000 thousand and RR 630,000 thousand respectively. Subsequently, in the second half of 2008, an additional 41.52 percent interest in OJSC Ryazanskaya energy retail company was acquired by the Group from minority shareholders for cash consideration of RR 540,784 thousand resulting in the increase of the Group's ownership share in OJSC Ryazanskaya energy retail company to 90.52 percent as at 31 December 2008.

Immediately before the acquisition of those two companies by the Group both companies were controlled by RAO UES of Russia and the acquisition was accounted for as a business combination under common control using the predecessor value method (Note 3). The Group controls OJSC Ryazanskaya energy retail company through the ability to appoint the majority of the members of the Board of Directors of OJSC Ryazanskaya energy retail company, including the chairman of the Board of Directors and the ability to cast an additional vote, if necessary.

In June 2008 the Group acquired an additional interest resulting in a controlling interest in OJSC Kaskad NChHPP from OJSC KabbalkEnergo in exchange for setting-off KabbalkEnergo liabilities to the Company in the amount of RR 2,130,947 thousand. Before and after the acquisition OJSC KabbalkEnergo and the Group were controlled by RAO UES of Russia and therefore the Group accounted for this acquisition as a business combination under common control using the predecessor value method (Note 3).

On 1 July 2008 OJSC Irganayskaya HPP and OJSC Kaskad NChHPP were merged into the Company.

On 1 July 2008 during the reorganisation of RAO UES of Russia the Company received control over former subsidiaries of RAO UES of Russia: OJSC Kolymaenergo, OJSC Ust'-Srednekanskaya HPP, OJSC Ust'-Srednekangesstroy, OJSC Irganayskaya HPP, LLC Index Energetiki - HydroWGC, OJSC Krasnoyarskenergosbyt, OJSC Chirkeygesstroy, OJSC Lengidroproekt. The acquisition of these companies has been accounted for as a business combination under common control using the predecessor value method (Note 3).

In the first half of 2008 the Group purchased a 99.90 percent interest in LLC SpetsEnergoService, which has 62.60 percent of the shares of OJSC MosoblGidroproekt (Note 15), from an unrelated party.

In December 2008 the Group formed the holding company OJSC ESK RusHydro for the purpose of developing the Group retailing segment in accordance with the Group's strategy. The shares of OJSC Krasnoyarskenergosbyt, OJSC Chuvashskaya energy retail company and OJSC Ryazanskaya energy retail company were contributed to this holding by the Group.

The companies marked with ** are accounted for under the predecessor value method and the ownership and percent of voting as at 31 December 2007 and 31 December 2006 reflect the percent of the predecessor as at this date.

The purchase of the subsidiary marked with *** above is in substance an acquisition of land and is accounted for as an asset acquisition (Note 15).

Disposal to jointly controlled Groups

In May 2006 the Company, RAO UES of Russia and RUSAL signed an agreement on mutual financing, construction and exploitation of Boguchanskaya HPP and Boguchansky Aluminium Plant.

The BEMA project includes the completion of construction of Boguchanskaya HPP with installed capacity of 3,000 MWT on the Angara River and construction of Boguchansky Aluminium Plant with a capacity in the order of 600,000 tons a year, which will become one of the major consumers of the electricity generated by HPP.

Pursuant to the terms of the agreement and for financing and controlling of construction and exploitation of Boguchanskaya power plant and Boguchansky Aluminium Plant, the Company and RUSAL have established two limited liability companies in Cyprus with an authorized share capital of ten thousand Cyprus Pounds each, which are jointly controlled by the Company and RUSAL, namely BoGES Ltd and BALP Ltd.

In June 2007 the Company transferred its 64.22 percent interest in OJSC Boguchanskaya HPP, which currently undertakes construction of the Boguchanskaya power plant, and RUSAL transferred its 29.47 percent interest in OJSC Boguchanskaya HPP, USD 80 million of cash and a RUSAL BoAZ Ltd promissory note with a nominal value of USD 30 million to BoGES Ltd. According to the Subscription agreement in respect of BoGES Ltd, the Company's and RUSAL's contributions shall be equal to USD 203.88 million each.

In June 2007 the Company transferred its 50 percent interest in CJSC Boguchansky Aluminium Plant and a RUSAL BoAZ Ltd promissory note with a nominal value of USD 30 million and RUSAL transferred its 50 percent interest in CJSC Boguchansky Aluminium Plant and a RUSAL Energy Ltd promissory note with a nominal value of USD 30 million to BALP Ltd. According to the Subscription agreement in respect of BALP Ltd, the Company's and RUSAL's contributions were to be equal to USD 30 million each.

In December 2007 the promissory notes received by BALP Ltd for the total amount of USD 60 million were exchanged for a license for aluminium production technology, which in turn will be transferred to CJSC Boguchansky Aluminium Plant.

As a result of the above transactions the Company and RUSAL have created: BoGES Group, consisting of BoGES Ltd and OJSC Boguchanskaya HPP, and BALP Group, consisting of BALP Ltd and CJSC Boguchansky Aluminium Plant.

Management assessed the level of control that the Group has over the BoGES Group and the BALP Group and determined that BoGES Group and the BALP Group are jointly controlled and the Group applies the equity accounting method to recognise these investments.

(in thousands of Russian Rubles)

The carrying value of assets and liabilities de-recognised as a result of the formation of the jointly controlled Groups was as follows:

	Carrying value
Property, plant and equipment	16,945,703
Investments in jointly controlled entity	8,169
Other non-current assets	1,084,690
Accounts receivable and prepayments	983,435
Cash and cash equivalents	945,555
Deferred income tax assets	6,032
Non-current and current debt	(12,919,128)
Accounts payable and accrued charges	(435,395)
Carrying value of net assets	**6,619,061**

A gain of RR 270,565 thousand was recognised in 2007 on the transfer of the Company's interest in OJSC Boguchanskaya HPP from a subsidiary to the jointly controlled BoGES Group.

Note 3. Basis of preparation

Statement of compliance

These Financial Statements have been prepared in accordance with International Financial Reporting Standards (hereinafter referred to as "IFRS") and related interpretations adopted by the International Accounting Standards Board (hereinafter referred to as "IASB").

Each company of the Group individually maintains its own books of accounts and prepares its statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation (hereinafter referred to as "RAR"). The accompanying financial statements are based on the statutory records and adjusted and reclassified for the purpose of fair presentation in accordance with IFRS.

Functional and presentation currency

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

Accounting for the effects of hyperinflation

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

Predecessor accounting

In these combined and consolidated financial statements, the Group accounted for the acquisition of businesses under the control of RAO UES of Russia and its subsidiaries as business combinations amongst entities under common control under an accounting policy using the predecessor values method (Note 4).

Accordingly, assets and liabilities of the contributed entity were accounted for at the carrying value as determined by RAO UES of Russia in its IFRS consolidated financial statements. Information in respect of the comparative period and opening balances as at 1 January 2006 has been restated as if the business combination took place at the beginning of the earliest period presented.

The prior year income statement and balance sheet are not the same as those previously presented due to the transfer of businesses under common control during the current period that have been accounted for using the predecessor values method and retrospectively presented in all periods reported.

All businesses acquired in 2006 and 2007 were accounted for using the predecessor values method.

In 2008 the following former subsidiaries of RAO UES of Russia were received by the Group during reorganisation: OJSC Bureiskaya HPP, OJSC Chuvashskaya energy retail company, OJSC Ryazanskaya energy retail company, OJSC Kabardino–Balkarskaya Hydrogenerating Company and OJSC Kaskad NChHPP, OJSC Kolymaenergo, OJSC Ust'-Srednekanskaya HPP, OJSC Ust'-Srednekangesstroy, OJSC Irganayskaya HPP, LLC Index Energetiki - HydroWGC, OJSC Krasnoyarskenergosbyt, OJSC Chirkeygesstroy, OJSC Lengidroproekt, which were accounted for using predecessor values.

Acquisitions of assets that are not business from entities under common control are not accounted for using the predecessor values method, but rather are accounted for under appropriate accounting standards.

The establishment of the Group is described in the Note 1.

New accounting developments

These combined and consolidated financial statements have been prepared by applying the accounting policies consistent with those of the annual financial statements for the year ended 31 December 2007, except for those policies which were changed to comply with the new or amended standards and interpretations that are in force for the year beginning on 1 January 2008.

The following new standards, amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 January 2008 and have not been early adopted:

- IFRS 8, "Operating Segments" (effective for annual periods beginning on or after 1 January 2009). The Standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments and specifies how an entity should report such information. The Group will apply the new amendment from 1 January 2009 and is currently assessing what impact the new IFRS will have on its combined and consolidated financial statements;

- Amendment to IAS 23, "Borrowing Cost" (effective for borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009). The revised IAS 23 was issued in March 2008. The main change to IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset. The revised standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. The Group is currently assessing the impact of the amended standard on its combined and consolidated financial statements.

- Amendment to IAS 1, "Presentation of Financial Statements" (revised September 2007, effective for annual periods beginning on or after 1 January 2009). The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Group expects the revised IAS 1 to affect the presentation of its combined and consolidated financial statements starting in 2009.

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

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

- Amendments to IFRS 2, "Share-based Payment Vesting Conditions and Cancellations" (effective for annual periods beginning on or after 1 January 2009). The amendment deals with two matters: it clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. It also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group is currently assessing the impact of the amended standard on its combined and consolidated financial statements.
- IFRS 3, "Business Combinations" (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the acquisition method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer will have to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The Group will apply the new standard to any business combination in 2010.
- Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate—IFRS 1 and IAS 27 Amendment (revised May 2008; effective for annual periods beginning on or after 1 January 2009). The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous GAAP carrying value as deemed cost in the separate financial statements. The amendment also requires distributions from pre-acquisition net assets of investees to be recognised in profit or loss rather than as a recovery of the investment. The amendments will not have an impact on the Group's combined and consolidated financial statements.
- Eligible Hedged Items—Amendment to IAS 39, "Financial Instruments: Recognition and Measurement" (effective with retrospective application for annual periods beginning on or after 1 July 2009, with earlier application permitted). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The Group is currently assessing the impact of the amendment on its combined and consolidated financial statements.
- IFRIC 13, "Customer Loyalty Programmes", which is effective for annual periods beginning on or after 1 July 2008; IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. The Group does not operate any loyalty programmes.
- IFRIC 15, "Agreements for the Construction of Real Estate" (effective from 1 January 2009). The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. It also provides criteria for determining when entities should recognise revenue on such transactions. IFRIC 15 is not currently relevant to the Group's operations because it does not have any agreements for the construction of real estate.
- IFRIC 16, "Hedges of a Net Investment in a Foreign Operation" (effective for annual periods beginning or after 1 October 2008). The interpretation explains which currency risk exposures are eligible for hedge accounting and states that translation from the functional currency to the presentation currency

does not create an exposure to which hedge accounting could be applied. The IFRIC allows the hedging instrument to be held by any entity or entities within a group except the foreign operation that itself is being hedged. The interpretation also clarifies how the gain or loss recycled from the currency translation reserve to profit or loss is calculated on disposal of the hedged foreign operation. Reporting entities will apply IAS 39 to discontinue hedge accounting prospectively when their hedges do not meet the criteria for hedge accounting in IFRIC 16. The Group is currently assessing the impact of the amended standard on its combined and consolidated financial statements.

- IFRIC 17, "Distribution of Non-Cash Assets to Owners" (effective for annual periods beginning on or after 1 July 2009, with earlier application permitted). The amendment clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets will be recognised in profit or loss when the entity settles the dividend payable. The Group will apply IFRIC 17 if it distributes non-cash assets to owners in the future.

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

- The amendments to the IFRSs which are the part of the IASB's annual improvements project published in May 2008 are effective from 1 January 2009. In 2007, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments issued in May 2008 consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The Group does not expect the amendments to have any material effect on its combined and consolidated financial statements.

- On 16 April 2009 the IASB issued "Improvements to IFRSs", a collection of amendments to 12 standards as part of its program of annual improvements. The latest amendments were included in exposure drafts published in October 2007, August 2008 and January 2009. Most of the amendments are effective for annual periods beginning on or after 1 January 2010. The Group is assessing the impact of those pronouncements on its consolidated and combined financial statements.

- On 13 October 2008, the IASB issued amendments to IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures". The amendments allow entities the options (a) to reclassify a financial asset out of the held to trading category if, in rare circumstances, the asset is no longer held for the purpose of selling or repurchasing it in the near term; and (b) to reclassify an available-for-sale asset or an asset held for trading to the loans and receivables category, if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity (subject to the asset otherwise meeting the definition of loans and receivables). The amendments may be applied with retrospective effect from 1 July 2008 for any reclassifications made before 1 November 2008; the reclassifications allowed by the amendments may not be applied before 1 July 2008 and retrospective reclassifications are only allowed if made prior to 1 November 2008. Any reclassification of a financial asset made on or after 1 November 2008 takes effect only from the date when the reclassification is made. The Group has not elected to make any of the optional reclassifications during the period.

- IFRIC 18, "Transfers of Assets from Customers" (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. IFRIC 18 is not expected to have any impact on the Group's combined and consolidated financial statements.
- Improving Disclosures about Financial Instruments - Amendment to IFRS 7, "Financial Instruments: Disclosures" (issued in March 2009; effective for annual periods beginning on or after 1 January 2009). The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity will be required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (b) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. The Group is currently assessing the impact of the amendment on disclosures in its combined and consolidated financial statements.
- Embedded Derivatives - Amendments to IFRIC 9 and IAS 39 (effective for annual periods ending on or after 30 June 2009). The amendments clarify that on reclassification of a financial asset out of the 'at fair value through profit or loss' category, all embedded derivatives have to be assessed and, if necessary, separately accounted for. The Group is currently assessing the impact of the amendment on disclosures in its combined and consolidated financial statements.

The following new standards, amendments to standards or interpretations are mandatory for the first time for the financial year beginning 1 January 2008 but did not result in a significant impact for the Group:

- IFRIC 12, "Service Concession Agreements", effective for annual periods beginning on or after 1 January 2008;
- IFRIC 14, IAS 19, "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction", which is effective for annual periods beginning on or after 1 January 2008.

Unless otherwise described above, the analysis in respect of these new standards and interpretations has been carried out by the Group, and they are not expected to significantly affect the Group's combined and consolidated financial statements.

Critical accounting estimates and assumptions

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

Revaluation of property, plant and equipment

As at 31 December 2008 the Company's management decided to carry out the revaluation of property, plant and equipment based on changes in economic conditions of business environment and an increase of the inflation rate. Fair value of property, plant and equipment and remaining useful lives as at 31 December 2008 were determined by an independent appraiser.

The carrying value and depreciation of property, plant and equipment are effected by the estimates of replacement cost, depreciated replacement cost and remaining useful life. Changes in these assumptions could have a material impact to the fair value of property, plant and equipment (Note 7).

Impairment provision of accounts receivable

Provision for impairment of accounts receivable is based on the Group's assessment of whether the collectibility of specific customer accounts deteriorated compared to prior estimates. If there is deterioration in a major customer's creditworthiness or actual defaults are higher than the estimates, the actual results could differ from these estimates (Note 12).

Impairment of other assets and accounting for provisions

At each balance sheet date the Group assesses whether there is any indication that the recoverable amount of the Group's assets has declined below the carrying value. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. When such a decline is identified, the carrying amount is reduced to the recoverable amount. The amount of the reduction is recorded in the period in which the reduction is identified. If conditions change and management determines that the assets' value has increased, the impairment provision will be fully or partially reversed.

Accounting for impairment includes provisions against property, plant and equipment, investments, other non-current assets and inventory obsolescence. The provisions for liabilities and charges primarily include provisions for legal proceedings. The Group records impairment or accrues these provisions when its assessments indicate that it is probable that a liability has been incurred or an asset will not be recovered and an amount can be reasonably estimated. The Group's estimates for provisions for liabilities and charges are based on currently available facts and the Group's estimates of the ultimate outcome or resolution of the liability in the future.

Provisions for pension obligations are periodically adjusted based on updated actuarial assumptions (Note 17).

Actual results may differ from the estimates and the Group's estimates can be revised in the future, either negatively or positively, depending upon the outcome or expectations based on the facts surrounding each exposure.

Based on external sources of information about considerable changes in the economic situation in Russia as a result of the global financial crisis, it was decided to perform an impairment test for non-current assets.

Impairment of available-for-sale financial assets

In determination under IAS 39 whether an available-for-sale financial asset is impaired, the Group evaluates whether, among other factors, how long and to what extent the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow. The impairment decision is made on a case by case basis to determine whether a decline in fair value of an available-for-sale financial asset below its cost is significant or prolonged. Impairment charges are disclosed in Note 9.

Tax contingencies

Russian tax legislation is subject to varying interpretations and changes, which can occur frequently. Where the Group management believes it is probable that their interpretation of the relevant legislation and the Group's tax positions cannot be sustained, an appropriate amount is accrued for in the IFRS financial information (Note 30).

Useful life of property, plant and equipment

The estimation of the useful life of an item of property, plant and equipment is a matter of management judgment based upon experience with similar assets and other factors. In determining the useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear and tear, warranty terms as well as the physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments for future depreciation rates.

Note 4. Summary of significant accounting policies

Principles of consolidation. The Financial Statements comprise the financial statements of the Company and the financial statements of those entities whose operations are controlled by the Company. Control is presumed to exist when the Company controls, directly or indirectly through subsidiaries, more than 50 percent of voting rights. Also subsidiary undertakings include entities in which the Group controls less than 50 percent of the voting share capital but where the Group controls the entity through other means. This may include a history of casting the majority of the votes at the meetings of the board of directors or equivalent governing body.

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

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

Investments in associates and jointly controlled entities. Investments in associated enterprises and jointly controlled entities are accounted for using the equity method of accounting, based upon the percentage of ownership held by the Group. Associated enterprises are entities over which the Company exercises significant influence but which it does not control.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Jointly controlled entities are joint ventures that involve the establishment of a corporation, partnership or other entity in which each venturer has an interest. The entities operate in the same way as other entities, except that a contractual arrangement between the venturers establishes joint control over the economic activity of the entities.

The Group discontinues the use of the equity method from the date on which it ceases to have joint control over, or have significant influence in, associates and jointly controlled entities.

Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in the entity.

Investments. Investments intended to be held for an indefinite period of time are classified as available-for-sale. Available-for-sale investments are measured at fair value with gains and losses recorded directly in equity. Investments in equity securities that are not quoted on a stock exchange and where fair value cannot be estimated on a reasonable basis by other means are stated at cost less impairment losses. Impairment losses are recognised in profit or loss when incurred as a result of one or more events that occurred after the initial recognition of available-for-sale investments.

Derivative financial instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value.

The Group's policy is to measure these instruments at fair value, with resultant gains or losses being reported within the consolidated statement of income. Derivatives are not accounted for as hedges.

Transfers between parties under common control. Transfers of subsidiaries between parties under common control are accounted for using the predecessor values basis of accounting method. Under this method the financial statements of the combined entity are presented as if the businesses had been combined from the beginning of the earliest period presented. The assets and liabilities of the subsidiary transferred under common control are recognised at the predecessor entity's IFRS carrying amounts. Any difference between the carrying amount of net assets and the nominal value of share capital issued is accounted for in these combined and consolidated financial statements as an adjustment to equity (a merger reserve).

Carve-out methodologies. These consolidated and combined financial statements include carved out financial statement data of Novosibirskaya HPP and Lengidroproekt for the period and from the predecessor legal entities as outlined in the table below.

Company	Predecessor legal entity	Period requiring carve-out accounting
Novosibirskaya HPP	RAO UES of Russia	from 1 January 2006 to 1 November 2006
Lengidroproekt	OJSC Inzhenernyi centre UES	from 1 January 2006 to 3 December 2007

In carving out this financial statement data, the following determinations were made:

- sales were determined on an actual basis;
- operating expenses were determined on an actual basis;
- depreciation of property, plant and equipment was calculated on IFRS predecessor values;
- general and administrative overheads were not allocated but were determined on an actual basis;
- current income tax was determined using the effective income tax rate of the predecessor entities;
- deferred income tax was determined from movements in deferred tax assets/liabilities between 1 January 2006 and the date of set up of stand-alone legal entities;
- property, plant and equipment were based on IFRS predecessor values and rolled back to 1 January 2006 taking into account additions and disposals before their spin-off;
- accounts payable, taxes payable, accounts receivable, inventories were determined on an actual basis.

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

As at 31 December 2008, the official rate of exchange, as determined by the Central Bank of the Russian Federation, between RR and US Dollar (hereinafter referred to as "USD") was RR 29.38: USD 1.00 (31 December 2007: RR 24.55: USD 1.00, 31 December 2006: RR 26.33: USD 1.00), between RR and EURO RR 41.44: EURO 1.00 (31 December 2007: RR 35.93: EURO 1.00, 31 December 2006: RR 34.70: EURO 1.00).

Property, plant and equipment. In years 2005 and 2006 property, plant and equipment were recognised at the carrying value determined in accordance with IFRS at the date of their transfer to the Group from the predecessor entities.

Starting from 1 January 2007 the Group changed its accounting policy for property, plant and equipment (except for construction in progress, office buildings and land) which are now stated at revalued cost. Management of the Group assumes that use of revaluation model of property, plant and equipment provides more relevant information. Prior to 1 January 2007 property, plant and equipment were stated at depreciated cost less impairment. Deemed cost for the purposes of presenting IFRS financial statements for the first time by the predecessor was initially determined by a third party valuation as at 31 December 1997 and restated for the impact of inflation until 31 December 2002. Adjustments are made for additions, disposals and depreciation charges. Property, plant and equipment of merged common control entities are included into the Group property, plant and equipment for the years 2008, 2007, 2006 based on predecessor accounting.

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If such indication exists, management estimates the recoverable amount which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the difference is recognised as an expense (impairment charge) in the income statement. An impairment charge recognised in prior years is reversed if there has been a change in the estimates used to determine an asset's recoverable amount.

Increases in the carrying amount arising on revaluation of property, plant and equipment are credited to revaluation reserves in equity, unless there is a decrease of the reserve previously recognised in the statement of operations. Decreases that offset previous increases of the same asset are charged against revaluation reserves directly in equity, all other decreases are charged to the income statement as an impairment loss. Any accumulated depreciation at the date of revaluation is eliminated against the gross amount of the asset, and the net amount is restated to the revalued amount of the asset.

The Group charges deferred tax liabilities directly to equity in respect of revaluation of property, plant and equipment that are recorded directly in equity.

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

(in thousands of Russian Rubles)

The useful life of property, plant and equipment are subject to annual assessment by management and if expectations differ from previous estimates, the changes of useful life are accounted for as a change in an accounting estimate prospectively.

The revised useful lives, in years, of revalued assets by type of facility were as follows :

Type of facility	Revised starting from 1 January 2007	Revised starting from 1 January 2009
Production buildings	20-70	40-65
Hydrotechnical buildings	35-75	35-77
Substations' equipment	5-40	5-30
Electricity grids	6-30	3-30
Other	4-35	2-25

Other property, plant and equipment include motor vehicles, computer equipment, office fixtures and other equipment.

Up to 31 December 2008, borrowing costs incurred for the financing of construction of property, plant and equipment are expensed and not capitalised within the cost of property, plant and equipment.

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

Depreciation is charged once an asset is available for service.

Impairment of property, plant and equipment. Impairments of property, plant and equipment are calculated as the difference between the carrying values of the net assets of cash-generating units, including where appropriate, investments, and their recoverable amounts. Recoverable amount is defined as the higher of fair value less cost to sell or estimated value in use at the date the impairment review is undertaken. Fair value less cost to sell represents the amount that can be generated through the sale of assets. Value in use represents the present value of expected future cash flows discounted on a pre-tax basis, using the estimated cost of capital of the cash-generating unit.

Impairment reviews for property, plant and equipment are carried out when there is an indication that impairment may have occurred, or where it is otherwise required to ensure that property, plant and equipment are not carried above their estimated recoverable amounts. Impairments are recognised in the profit and loss account, and, where material, are disclosed as exceptional. Impairment reversals are recognised when there is a change in the estimates that gave rise to impairment and when, in management's opinion, the reversal is permanent (Note 7).

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

Accounts receivable and prepayments. Accounts receivable are recorded inclusive of value added taxes. Accounts receivable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 90 days overdue, from 45 to 90 days overdue) are considered indicators that the trade receivable is impaired. Management assess the receivables using the above indicators, and make a decision about amount of impairment at the end of the reporting period. The amount of the allowance is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers at the date of origination of receivables.

Inventories. Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business, less selling expenses.

Income tax. The income tax expense represents the sum of the tax currently payable and deferred income tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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

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

Deferred tax is not provided for the undistributed earnings of subsidiaries and jointly controlled entities, as it is probable that the temporary difference will not be reversed in the foreseeable future (Note 16).

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

Borrowing costs. Prior to 1 January 2009, the Group recognised all borrowing costs as an expense in the period in which they are incurred.

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

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

The Group recognises past service cost as an expense on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits are already vested immediately following the introduction of, or changes to, a defined benefit plan, the Group recognises past service cost immediately. Past service cost arises when the Group introduces a defined benefit plan or changes the benefits payable under an existing defined benefit plan. Such changes are in return for employee service over the period until the benefits concerned are vested. Therefore, past service cost is recognised over that period, regardless of the fact that the cost refers to employee service in previous periods. Past service cost is measured as the change in the liability resulting from the amendment.

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

Value added tax on purchases and sales. Output VAT related to sales is payable to tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice.

VAT related to sales and purchases is recognised in the balance sheet on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT. The related deferred VAT liability is maintained until the debtor is written off for tax purposes.

Share-based payment transactions. The share option programme allows the Group employees to acquire shares of the Company. The fair value of the options is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options is measured based on the Black-Scholes formula.

Finance lease liabilities. Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in borrowings. The interest cost is charged to the income statement over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

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

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

Environmental liabilities. Liabilities for environmental remediation are recorded where there is a present obligation, the payment is probable and reliable estimates exist.

Revenue recognition. Revenue is recognised on the delivery of electricity (capacity) and on the dispatch of goods and non-utility services during the period. Revenue from retailing operations is recognised on delivery of electricity to the customer. Revenue amounts are presented exclusive of value added tax.

Segment reporting. A segment is a distinguishable component of the Group that is engaged in providing products or services (business segment), which is subject to risks and rewards that are different from those of other segments. Segments with a majority of revenue earned from sales to external customers and whose revenue or result are ten percent or more of all the segments are reported separately. The Group operates substantially in one geographical segment – the Russian Federation.

Earnings per share. The earnings per share are determined by dividing the profit attributable to ordinary shareholders of the parent company of the Group by the weighted average number of ordinary shares outstanding during the reporting period, excluding the average number of treasury shares held by the Group.

Treasury shares. Treasury shares are stated at weighted average cost. Any gains or losses arising on the disposal of treasury shares are recorded directly in shareholders' equity.

Minority interest. Minority interest represents the minority shareholders' proportionate share of the equity and results of operations of the Group's subsidiaries. This has been calculated based upon the minority's ownership percentage of these subsidiaries.

Purchases and sales of minority interests. The Group applies economic entity model to account for transactions with minority shareholders. Any difference between the purchase consideration and the carrying amount of minority interest acquired is recorded as gain or loss directly in equity. The Group recognises the difference between sales consideration and carrying amount of minority interest sold as a gain or loss in the statement of changes in equity.

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

Social expenditure. To the extent that the Group's contributions to social programmes benefit the community at large without creating constructive obligations to provide such benefits in the future and are not restricted to the Group's employees, they are recognised in the income statement as incurred.

Note 5. Segment information

The Group is organised into three main business segments:

"Generation segment" consists of companies responsible for electricity (capacity) generation, including hydrogenerating stations under construction. The great majority of electricity (capacity) is produced on hydroelectric power stations and sold through the Wholesale electricity market based on tariff set by FST.

"Retailing segment" was formed as a result of the acquisition of three electricity retailing companies (OJSC Chuvashskaya energy retail company, OJSC Ryazanskaya energy retail company, OJSC Krasnoyarskenergosbyt) during the year ended 31 December 2008 (Note 2). Those companies are responsible for sale of electricity to final customers based mainly on tariffs set by RSTs. The retailing segment operates independently of the generation segment. The cost of sales of the retailing segment includes power purchased from third party companies and only a small part of electricity (capacity) is purchased from the generation segment.

"Unallocated segment" consists of numerous insignificant segments including research and development, construction, repair, and others.

Transactions between the business segments are on normal commercial terms and conditions. Internal charges between segments have been reflected in the performance of each business segment.

Segment assets consist primarily of property, plant and equipment, inventories, receivables and operating cash, and mainly exclude investments and income tax balances. Segment liabilities comprise operating liabilities and exclude items such as taxation and corporate borrowings. Capital expenditure comprises additions to property, plant and equipment and intangible assets, including additions through business combinations. Impairment loss provisions relate only to those charges made against allocated assets.

(in thousands of Russian Rubles)

Segment information for the main reportable business segments of the Group for the years ended 31 December 2008, 2007 and 2006 is set out below:

Year ended 31 December 2008

Operations	Generation	Retailing	Unallocated	Consolidation adjustment	Total
Revenue	63,676,480	40,016,630	3,976,671	-	107,669,781
Inter-segment revenue	584,307	-	1,386,738	(1,971,045)	-
Total Revenues	**64,260,787**	**40,016,630**	**5,363,409**	**(1,971,045)**	**107,669,781**
Segment result	21,684,133	1,617,796	(290,362)	-	23,011,567
Impairment release /charge of property, plant and equipment	(32,589,332)	-	36,511		(32,552,821)
Operating (loss) / profit	**(10,905,199)**	**1,617,796**	**(253,851)**	**-**	**(9,541,254)**
Finance income	-	-	-	-	1,911,063
Finance costs	-	-	-	-	(3,405,879)
Impairment of available-for-sale investments	-	-	-	-	(6,464,323)
Share of result of associates and jointly controlled entities	219,911	-	(1,751,259)	-	(1,531,348)
Loss before income tax	**-**	**-**	**-**	**-**	**(19,031,741)**
Income tax expense	-	-	-		(448,557)
Loss for the year	**-**	**-**	**-**	**-**	**(19,480,298)**
Segment assets	396,814,838	3,391,481	8,306,761	-	408,513,080
Inter-segment balances	18,669,979	-	5,672,338	(24,342,317)	-
Total segment assets	**415,484,817**	**3,391,481**	**13,979,099**	**(24,342,317)**	**408,513,080**
Investments in associates and jointly controlled entities	11,456,943	-	4,342,240	-	15,799,183
Current and deferred tax assets	-	-	-	-	2,058,836
Total assets	**-**	**-**	**-**	**-**	**426,371,099**
Segment liabilities	18,009,624	2,107,204	4,068,516	-	24,185,344
Inter-segment balances	5,672,338	-	18,669,979	(24,342,317)	-
Total segment liabilities	**23,681,962**	**2,107,204**	**22,738,495**	**(24,342,317)**	**24,185,344**
Current and deferred tax liability	-	-	-	-	35,181,173
Non-current and current debt	-	-	-	-	23,392,386
Total liabilities	**-**	**-**	**-**	**-**	**82,758,903**
Other segment items					
Capital expenditure	33,328,620	79,298	519,475	-	33,927,393
Depreciation and amortisation	(9,299,019)	(21,009)	(12,674)	-	(9,332,702)

(in thousands of Russian Rubles)

Year ended 31 December 2007

Operations	Generation	Retailing	Unallocated	Consolidation adjustment	Total
Revenue	46,450,454	30,838,243	3,467,774	-	80,756,471
Inter-segment revenue	849,960	37,082	2,340,150	(3,227,192)	-
Total Revenues	**47,300,414**	**30,875,325**	**5,807,924**	**(3,227,192)**	**80,756,471**
Segment result	10,253,553	156,820	(45,860)	-	10,364,513
Operating profit / (loss)	**10,253,553**	**156,820**	**(45,860)**	**-**	**10,364,513**
Finance income	-	-	-	-	439,050
Finance costs	-	-	-	-	(2,263,869)
Share of result of associates and jointly controlled entities	(17,036)	-	(102,273)	-	(119,309)
Profit/(loss) before income tax	**-**	**-**	**-**	**-**	**8,420,385**
Income tax expense	-	-	-		(2,949,364)
Profit/(loss) for the year	**-**	**-**	**-**	**-**	**5,471,021**
Segment assets	299,284,137	2,199,876	5,295,721	-	306,779,734
Inter-segment balances	370,346	-	5,253,343	(5,623,689)	-
Total segment assets	**299,654,483**	**2,199,876**	**10,549,064**	**(5,623,689)**	**306,779,734**
Investments in associates and jointly controlled entities	159,721	-	5,946,264	-	6,105,985
Current and deferred tax assets	-	-	-	-	660,642
Total assets	**-**	**-**	**-**	**-**	**313,546,361**
Segment liabilities	13,715,478	1,591,861	3,373,581	-	18,680,920
Inter-segment balances	5,253,343		370,346	(5,623,689)	-
Total segment liabilities	**18,968,821**	**1,591,861**	**3,743,927**	**(5,623,689)**	**18,680,920**
Current and deferred tax liability	-	-	-	-	32,668,347
Non-current and current debt	-	-	-	-	24,017,168
Total liabilities	**-**	**-**	**-**	**-**	**75,366,435**
Other segment items					
Capital expenditure	36,683,569	48,671	1,182,254		37,914,493
Depreciation and amortisation	(8,425,714)	(13,296)	(18,474)		(8,457,485)

(in thousands of Russian Rubles)

Year ended 31 December 2006

Operations	Generation	Retailing	Unallocated	Consolidation adjustment	Total
Revenue	23,489,197	25,714,720	4,232,418		53,436,335
Inter-segment revenue	509,412		1,752,671	(2,262,083)	-
Total Revenues	**23,998,609**	**25,714,720**	**5,985,089**	**(2,262,083)**	**53,436,335**
Segment result	222,072	42,305	(146,282)		118,095
Impairment release /charge of property, plant and equipment	14,942,709	-	28,704		14,971,413
Operating profit / (loss)	**15,164,781**	**42,305**	**(117,578)**		**15,089,508**
Finance income	-	-	-	-	175,462
Finance costs	-	-	-	-	(991,671)
Profit/(loss) before income tax	-	-	-	-	**14,273,299**
Income tax expense	-	-	-	-	(6,649,609)
Profit/(loss) for the year	-	-	-	-	**7,623,690**
Segment assets	163,922,308	1,115,638	2,973,061		168,011,007
Inter-segment balances	563,365	6,379	5,322,749	(5,892,493)	-
Total segment assets	**164,485,673**	**1,122,017**	**8,295,810**	**(5,892,493)**	**168,011,007**
Current and deferred tax assets	-	-	-	-	995,281
Total assets	-	-	-	-	**169,006,288**
Segment liabilities	12,285,446	1,000,652	1,517,438		14,803,536
Inter-segment balances	5,329,128	6,259	557,106	(5,892,493)	-
Total segment liabilities	**17,614,574**	**1,006,911**	**2,074,544**	**(5,892,493)**	**14,803,536**
Current and deferred tax liability	-	-	-	-	6,477,340
Non-current and current debt	-	-	-	-	21,582,945
Total liabilities	-	-	-	-	**42,863,821**
Other segment items					
Capital expenditure	21,542,947	28,320	379,920		21,951,187
Depreciation and amortisation	(4,238,119)	(9,654)	(44,498)		(4,292,271)

(in thousands of Russian Rubles)

Note 6. Related party transactions

The Group's principal related parties are RAO UES of Russia and its subsidiaries, other enterprises controlled by the state, and the directors of the Group. As at 30 June 2008 77.93 percent of the ordinary shares of the Company were owned by RAO UES of Russia. On 1 July 2008 RAO UES of Russia was liquidated. Shares of the Company held by RAO UES of Russia were transferred to OJSC State Holding HydroWGC and OJSC Minority Holding HydroWGC. Transactions with subsidiaries of RAO UES of Russia, which are controlled by the state as at 31 December 2008, are included in transactions with state-controlled entities.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions in 2008, 2007 and in 2006 or had significant balances outstanding at 31 December 2008, 31 December 2007 or at 31 December 2006 is detailed below.

RAO UES of Russia

The Group had the following significant transactions with RAO UES of Russia for the first half of 2008 and for the years ended 31 December 2007 and 31 December 2006 and outstanding balances as at 31 December 2007 and 31 December 2006.

Balances with RAO UES of Russia were as follows:

Short-term

	31 December 2007	31 December 2006
Trade and other accounts receivable (Note 12)	24,860	26,193
Promissory notes receivable: effective interest rate 11,6 % p.a. (included in accounts receivable and prepayments) (Note 12)	2,023,409	6,219,850
Dividends payable (Note 15)	-	809,000
Advances received (Note 20)	1,120,866	4,995,936
Accounts payable (Note 20)	6,650,594	300,000

During 2007 significant purchases of movable assets and real estate assets were made by the Group from RAO UES of Russia. The total amount of property, plant and equipment purchased from RAO UES of Russia amounted to RR 1,073,473 thousand.

The Group paid transmission fees to RAO UES of Russia in the first half of 2008 in the amount of RR 756,704 thousand (during the year ended 31 December 2007: RR 1,243,196 thousand, during the year ended 31 December 2006: RR 1,807,935 thousand).

RAO UES of Russia's subsidiaries and associates

The Group had the following significant transactions with RAO UES of Russia's subsidiaries and associates for the periods ended 31 December 2008, 31 December 2007 and 31 December 2006 and outstanding balances as at 31 December 2007 and 31 December 2006.

Balances with subsidiaries and associates of RAO UES of Russia were as follows:

Long-term

	31 December 2007	31 December 2006
Accounts receivable (Note 12)	-	67,053
Loan to TGC-5 (effective interest rate: 11.58%, due to 2013) (Note 10)	-	65,275
Accounts payable (Note 20)	19,572	86,257

(in thousands of Russian Rubles)

Short-term

	31 December 2007	31 December 2006
Trade and other accounts receivable (Note 12)	2,383,710	1,172,804
Promissory notes receivable: effective interest rate: 11.6 % p.a. (included in accounts receivable and prepayments) (Note 12)	2,127,078	1,802,209
Promissory notes receivable: yield to maturity 9.8-13.2 % p.a. (included in other current assets)	139,212	408,807
Advances received (Note 20)	247,470	92,578
Trade and other accounts payable (Note 20)	427,445	379,470

Transactions with subsidiaries and associates of RAO UES of Russia were as follows:

	Year ended 31 December 2008*	Year ended 31 December 2007	Year ended 31 December 2006
Electricity (capacity) revenue (Note 22)	11,151,089	28,922,476	18,308,302
Other revenue (Note 22)	2,805	110,022	2,274,478
Purchased electric power expenses (Note 23)	2,806,131	10,478,917	4,005,654
Electricity distribution expenses (Note 23)	3,441,935	1,570,447	9,339,434
Services of SO-CDU (Note 23)	-	1,231,018	1,076,840
Other expenses (Note 23)	27,946	411,387	328,292

*As a result of the RAO UES of Russia reorganisation during 2007 and 2008 and the liquidation of RAO UES of Russia on 1 July 2008, transactions are presented up to the date of disposal of the entities from the RAO UES Group.

State-controlled entities

In the normal course of business the Group enters into transactions with entities under Government control. Prices for electricity are based on tariffs set by FST and RST. Bank loans are granted at market rates. Taxes are charged and paid in accordance with Russian tax legislation.

During the year ended 31 December 2008 the Group sold electricity to a number of state-controlled entities in the amount of RR 4,800,769 thousand (during the year ended 31 December 2007: RR 2,035,568 thousand, during the year ended 31 December 2006: 774,410 thousand). The major customers were LLC Ryazan municipal retail supplier, LLC Transnefteservice-S, OJSC Nijnovatomenergosbit and OJSC Nevinnomissky Azot.

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

	31 December 2008	31 December 2007	31 December 2006
Trade and other accounts receivable (Note 12)	1,179,330	1,096,229	367,597
Other current assets (Note 14)	2,160,034	-	-
Advances received (Note 20)	148,211	-	-
Payables to the Federal Agency for State Property Management of the Russian Federation	6,000,000	-	-
Payables to Federal Energy Agency	2,450,000	-	-
Trade and other accounts payable (Note 20)	364,969	199,333	113,135

(in thousands of Russian Rubles)

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

	Year ended 31 December 2008	Year ended 31 December 2007	Year ended 31 December 2006
Electricity (capacity) revenue (Note 22)	4,800,769	2,035,568	774,410
Other revenue (Note 22)	2,438,688	1,932	-
Purchased electric power expenses (Note 23)	3,211,198	2,971,114	1,866,400
Services of SO-CDU (Note 23)	2,349,816	-	-
Other expenses (Note 23)	594,322	735,771	504,156

Associates

The Group had the following significant balances with associates:

	31 December 2008
Trade and other accounts receivable (Note 12)	32,168
Other current assets (Note 14)	40,000
Trade and other accounts payable (Note 20)	21,848

The Group had the following significant transactions with associates:

	Year ended 31 December 2008
Other revenue (Note 22)	8,410
Purchased electric power expenses (Note 23)	158,155
Other expenses (Note 23)	6,914

Jointly controlled entities

The Group had the following significant balances with jointly controlled entities:

Short-term

	31 December 2008	31 December 2007
Promissory notes receivable: effective interest rate: 11.6 % p.a. (included in accounts receivable and prepayments) (Note 12)	7,280,207	2,967,898
Advances received (Note 20)	217,704	-
Trade and other accounts payable (Note 20)	16,285	298,004

The Group had the following significant transactions with jointly controlled entities:

	Year ended 31 December 2008	Year ended 31 December 2007
Electricity (capacity) revenue (Note 22)	103,681	-
Other revenue (Note 22)	383,934	8,438
Other expenses (Note 23)	5,968	-

The Group directors' compensation

Compensation is paid to members of the Management Board of the Group for their services in full time management positions. The compensation is made up of a contractual salary, performance bonus depending on work results for the period based on key performance indicators. The compensation is approved by the Board of Directors.

(in thousands of Russian Rubles)

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

Total remuneration in the form of salaries paid to the members of the Board of Directors and Management Board for the year ended 31 December 2008 was RR 96,413 thousand (for the year ended 31 December 2007: RR 104,839 thousand, for the year ended 31 December 2006: RR 75,158 thousand).

Employee share option programme. In May 2007 the Board of Directors approved the Share Option Programme of the Company (hereinafter referred to as "the Programme") which participants are members of the Management Board and other key employees of the Group (hereinafter referred to as "the Programme participants").

The Programme provides for the granting of share options at predetermined fixed price to the Programme participants starting from the date of signing of the first share option contract, i.e. from 3 September 2007.

In accordance with the Programme the participants should sign agreements for purchase of the Company's shares implying the property title for the shares to be transferred and payment done in 3 years, starting from 3 September 2007.

Participation of members in the Programme and the number of shares in their share option agreements are determined by decision of the Company's Board of Directors.

A total of up to 3,137,287,475 ordinary shares are allocated under the Programme (or approximately two percent of the issued ordinary shares of the Company). 917,656,581 ordinary shares are allocated for granting share options to the members of the Company's Management Board, the rest - to other key employees of the Group. The ordinary shares ultimately allocated under the Programme were allocated from treasury shares purchased by the Group for this purpose for LLC EZOP - operator of the Programme in 2007. The treasury shares held for the purpose of the Programme are not allowed to vote.

The number of shares, which the Programme participants may purchase as part of implementation of the Programme, will be calculated proportionally based on the number of days worked prior to terminating the employment. In case of breaching certain defined provisions of the labor agreement and termination of employment at the initiative of the Group, the Programme participants will lose their right to purchase the shares.

One of the vesting terms of the share option is prepayment by the members of the Company's Management Board (in the amount of 10 percent of the share option agreement) and by the other Programme participants (in the amount of 0.2 percent of the share option agreement).

In 2007 the Company issued to the members of the Company's Management Board interest free loans for the prepayments for the share options agreements. The loans were issued with the maturity till 31 March 2011. As at 31 December 2008 the amount of loans issued to employees was RR 148,058 thousand (Net of discount of RR 47,332 thousand, effective interest rate: 11.8 percent). As at 31 December 2007 - RR 121,027 thousand (net of discount of RR 52,653 thousand, effective interest rate: 11.8 percent).

The Programme participant can exercise the share option at any time over the period of 2 September 2010 through 16 April 2011. The requirement for the exercise of the stock option agreements is to have the Company's shares traded on a public security market as at 3 August 2010.

The number of undistributed shares at 31 December 2008 was 379,559,226 including forfeited options.

Changes in amounts of options granted are described in the table below:

Options granted under the Programme	
Number of options at 1 January 2008	1,685,127,092
Option agreements signed in 2008	1,229,347,156
Options forfeited in 2008	(156,745,999)
Number of options outstanding at 31 December 2008	**2,757,728,249**

(in thousands of Russian Rubles)

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

Share price (in RR)	1.73
Exercise price (in RR)	1.73
Expected volatility	27.00%
Option life	1,096 days
Risk-free interest rate	6.13%
Fair value of the option at measurement date (in RR)	**0.456**

To determine volatility the Group used the historical volatility of the share prices of publicly traded shares of peer group companies. The measure of historical volatility used in the option pricing model is the annualised standard deviation of logarithms of daily changes in share price over a period of time comparable with expected lifetimes of the options granted under the Programme.

In the year ended 31 December 2008 the Group recognised an expense of RR 749,994 thousand within employee costs related to the fair value of the options (in the year ended 31 December 2007 the Group recognised an expense of RR 268,405 thousand).

(in thousands of Russian Rubles)

Note 7. Property, plant and equipment

Cost	Production buildings	Hydrotechnical buildings	Electricity grids	Substation's equipment	Assets under construction	Other	Total
Opening balance as at 31 December 2007	61,847,070	117,317,435	2,678,419	65,148,167	68,941,434	12,032,285	327,964,810
Revaluation reserve (net)	23,038,908	27,664,701	1,022,760	19,591,170	-	2,573,280	73,890,819
Transfers	1,419,880	4,202,986	531,571	2,026,943	(10,605,010)	2,423,630	-
Additions	156,268	824,642	5,158	226,619	31,215,148	1,499,558	33,927,393
Disposals	(73,645)	(171)	(7,790)	(329,074)	(149,025)	(58,437)	(618,142)
Elimination of accumulated depreciation	(3,864,232)	(4,724,396)	(297,806)	(8,551,750)	-	(2,930,750)	(20,368,934)
Closing balance as at 31 December 2008	**82,524,249**	**145,285,197**	**3,932,312**	**78,112,075**	**89,402,547**	**15,539,566**	**414,795,946**
Accumulated depreciation (including impairment)							
Opening balance as at 31 December 2007	(7,032,087)	(11,792,257)	(274,546)	(6,699,901)	(27,374,246)	(3,212,833)	(56,385,870)
Charge of impairment	(4,630,836)	(9,800,466)	(691,240)	(2,864,761)	(14,149,598)	(1,038,215)	(33,175,116)
Reversal of impairment	69,553	29,740	691	23,689	328,974	169,648	622,295
Charge for the year	(1,377,558)	(2,414,196)	(143,647)	(4,144,050)	-	(1,253,251)	(9,332,702)
Transfers	(117,340)	(28,298)	-	(15,033)	232,218	(71,547)	-
Disposals	30,600	9	1,011	39,392	-	152,953	223,965
Elimination of accumulated depreciation	3,864,232	4,724,396	297,806	8,551,750	-	2,930,750	20,368,934
Closing balance as at 31 December 2008	**(9,193,436)**	**(19,281,072)**	**(809,925)**	**(5,108,914)**	**(40,962,652)**	**(2,322,495)**	**(77,678,494)**
Net book value as at 31 December 2008	**73,330,813**	**126,004,125**	**3,122,387**	**73,003,161**	**48,439,895**	**13,217,071**	**337,117,452**
Net book value as at 31 December 2007	**54,814,983**	**105,525,178**	**2,403,873**	**58,448,266**	**41,567,188**	**8,819,452**	**271,578,940**

(in thousands of Russian Rubles)

Cost	Production buildings	Hydrotechnical buildings	Electricity grids	Substation's equipment	Assets under construction	Other	Total
Opening balance as at 31 December 2006	**30,656,984**	**65,984,794**	**2,988,812**	**58,443,803**	**90,003,735**	**14,344,579**	**262,422,707**
Elimination of accumulated depreciation	(9,599,990)	(14,063,297)	(924,870)	(26,986,983)	-	(6,584,847)	(58,159,987)
Revaluation reserve	31,693,192	50,425,236	438,527	31,119,708	-	2,334,891	116,011,554
Additions	1,366,376	3,584,678	42,778	104,791	32,228,880	586,990	37,914,493
Transfers	8,374,014	11,386,024	70,796	2,471,235	(24,319,435)	2,017,366	-
Disposals	(53,125)	-	(4,734)	(304,447)	(222,499)	(290,165)	(874,970)
Disposal of subsidiary to entity under common control (Note 2)	(752,501)	-	(34,478)	(87,750)	(28,859,944)	(684,993)	(30,419,666)
Transfer from joint venture (Note 2)	162,120	-	101,588	387,810	110,697	308,464	1,070,679
Closing balance as at 31 December 2007	**61,847,070**	**117,317,435**	**2,678,419**	**65,148,167**	**68,941,434**	**12,032,285**	**327,964,810**
Accumulated depreciation (including impairment)							
Opening balance as at 31 December 2006	**(13,685,257)**	**(21,710,985)**	**(1,031,477)**	**(29,680,574)**	**(44,649,666)**	**(8,795,553)**	**(119,553,512)**
Elimination of accumulated depreciation	9,599,990	14,063,297	924,870	26,986,983	-	6,584,847	58,159,987
Charge for the year	(1,350,225)	(1,928,905)	(136,099)	(3,994,978)	-	(1,047,278)	(8,457,485)
Transfer	(1,573,001)	(2,215,664)	-	(57,951)	3,852,014	(5,398)	-
Disposals	22,203	-	200	201,318	33,898	114,946	372,565
Disposal of subsidiary to entity under common control (Note 2)	43,334	-	887	6,822	13,389,508	33,412	13,473,963
Transfer from joint venture (Note 2)	(89,131)	-	(32,927)	(161,521)	-	(97,809)	(381,388)
Closing balance as at 31 December 2007	**(7,032,087)**	**(11,792,257)**	**(274,546)**	**(6,699,901)**	**(27,374,246)**	**(3,212,833)**	**(56,385,870)**
Net book value as at 31 December 2007	**54,814,983**	**105,525,178**	**2,403,873**	**58,448,266**	**41,567,188**	**8,819,452**	**271,578,940**
Net book value as at 31 December 2006	**16,971,727**	**44,273,809**	**1,957,335**	**28,763,229**	**45,354,069**	**5,549,026**	**142,869,195**

(in thousands of Russian Rubles)

Cost	Production buildings	Hydrotechnical buildings	Electricity grids	Substation's equipment	Assets under construction	Other	Total
Opening balance as at 31 December 2005	**30,149,426**	**63,672,710**	**2,893,717**	**57,725,628**	**79,231,707**	**12,835,877**	**246,509,065**
Additions	198,435	1,221,746	2,084	273,692	19,739,740	515,490	21,951,187
Transfers	311,176	1,130,565	111,755	807,497	(3,641,963)	1,280,970	-
Disposals	(2,053)	(40,227)	(18,744)	(363,014)	(5,325,749)	(287,758)	(6,037,545)
Closing balance as at 31 December 2006	**30,656,984**	**65,984,794**	**2,988,812**	**58,443,803**	**90,003,735**	**14,344,579**	**262,422,707**
Accumulated depreciation (including impairment)							
Opening balance as at 31 December 2005	**(17,865,416)**	**(30,766,585)**	**(1,190,615)**	**(40,184,672)**	**(34,403,716)**	**(8,235,989)**	**(132,646,993)**
Charge of impairment	(568,975)	(901,497)	(31,503)	(1,430,973)	(12,150,572)	(189,029)	(15,272,549)
Reversal of impairment	5,173,780	11,298,714	237,931	13,133,393	-	400,144	30,243,962
Charge for the year	(425,701)	(1,372,100)	(65,747)	(1,480,608)	-	(948,115)	(4,292,271)
Disposals	1,055	30,483	18,457	282,286	1,904,622	177,436	2,414,339
Closing balance as at 31 December 2006	**(13,685,257)**	**(21,710,985)**	**(1,031,477)**	**(29,680,574)**	**(44,649,666)**	**(8,795,553)**	**(119,553,512)**
Net book value as at 31 December 2006	**16,971,727**	**44,273,809**	**1,957,335**	**28,763,229**	**45,354,069**	**5,549,026**	**142,869,195**
Net book value as at 31 December 2005	**12,284,010**	**32,906,125**	**1,703,102**	**17,540,956**	**44,827,991**	**4,599,888**	**113,862,072**

Construction in progress represents the carrying amount of property, plant and equipment that has not yet been put into operation, including hydrogenerating stations under construction, and advances to construction companies and suppliers of property, plant and equipment. As at 31 December 2008 such advances amounted to RR 6,793,191 thousand (31 December 2007: RR 5,861,046 thousand, 31 December 2006: RR 2,228,607 thousand).

In 2006 the Company signed an Investing agreement with the Federal Agency of Railway Transport and OJSC Russian Railway. The purpose of the agreement is the joint construction and renovation of a railway line Izvestkovaya-Chegdomin, which is close to the zone of water reservoirs of Bureiskaya HPP. The Company incurred costs in 2007 in the amount of RR 956,800 thousand. The amount of the Company's investment in this project was included in Construction in progress as at 31 December 2008.

In March 2007 the Joint Venture under partnership agreement signed in 1998 between OJSC Geoterm, RAO UES of Russia, OJSC Kamchatskenergo and Kamchatka Region State Property Management Committee (hereinafter referred to as "KUGI"), which financed the construction of Mutnovskaya GeoES, ceased and the assets were transferred to OJSC Geoterm. As a result, OJSC Geoterm's interest in Mutnovskaya GeoES increased from 74.76 percent to 100 percent. This is shown as a "Transfer from joint venture".

The assets transferred to the Group did not include the land on which the Group's buildings and facilities are situated. The relationships of use and alienability of the land are regulated by Land Code of the Russian Federation. According to the Land Code the plots of land located under hydraulic engineering structures are limited in their alienability and shall not be conveyed to become private property, except for the cases established by federal laws.

Impairment. The impairment provision included in accumulated depreciation balance as at 31 December 2008 was RR 77,678,494 thousand (31 December 2007: RR 45,789,420 thousand, 31 December 2006: RR 59,396,136 thousand).

Impairment as at 31 December 2008. Management of the Company analyzed the current economic situation and decided that new indications of impairment existed due to volatility of markets and ongoing global financial and economic crisis (Note 1). Cash flow testing was performed to calculate the value in use of property, plant and the equipment. Hydropower plants were considered to be separate cash-generating units. The following key assumptions were used in performing the cash flow testing:

- Cash flows were projected based on actual operating results and business plans for 2009-2012;

- A discount rate of 13.80% was applied in determining the recoverable amount of the plants. The discount rate was estimated based on an average weighted average cost of capital;
- The forecast period was 12 years for all Group companies;
- The values assigned to the key assumptions represent management's assessment of future trends in the business and are based on both external sources and internal sources.

Charge of impairment as at 31 December 2008. Due to the poor relative economic circumstances and the deterioration in expectations as regards the achievable sales prices and volumes in the new market conditions, for a number of cash-generating units the discounted cash flows calculated as at 31 December 2008 supported a value for related property, plant and equipment below their historic carrying value prior to any previously recognised revaluation surpluses. For these assets an additional impairment was recognised in the amount of RR 33,175,116 thousand as at 31 December 2008.

Reversal of impairment as at 31 December 2008. Management's assessment indicated that the value in use of certain property, plant and equipment, previously impaired, is higher than their net book value for some stations. Consequently, the Group recorded as at 31 December 2008 the reversal of the previously recognised impairment loss in the amount of RR 622,295 thousand.

Impairment as at 31 December 2006. Management of the Company concluded that as at 31 December 2006 there were indications for reversing the previously recognised impairment losses based on significant changes with a favorable effect on the Group that have occurred or were expected to occur in the near future in the market and economic environment in which the Group operates. Such changes included:

- Upward revisions, based on recent trends, in the expected growth of demand for electricity in the majority of regions of Russia;
- Higher degree of certainty about the free trading sector for electricity, which has been enacted by the government of the Russian Federation as of August 2006 (see Note 1);
- These developments resulted in a change to the assumptions that were used to determine the value in use of assets that comprise the cash-generating units as at 31 December 2006. An impairment review was carried out by comparing the recoverable amount of the individual cash-generating units with their net book values. For the purposes of the review, for generating assets each of the Group's Hydropower plants was used as the relevant cash-generating unit. The recoverable amount for generating and other operating assets was based on their value in use, which was calculated based on the estimated future cash flows using various assumptions including the following:
- Inflation rate would not exceed 8 percents year;
- Increase of major variable costs would not exceed the inflation rate;
- The discount rate range used to determine assets value in use of 13.24 percents.

Charge of impairment as at 31 December 2006. Management's assessment indicated that the value in use of property, plant and equipment is lower than their net book for OJSC Kolymaenergo recorded an additional charge for impairment as a result of the lack of access to the free trading sector for electricity and the setting of low tariffs for this operating unit. Consequently, the Group recorded as at 31 December 2006 the charge of impairment in the amount of RR 15,272,549 thousand.

Reversal of impairment as at 31 December 2006. Management's assessment indicated that the value in use of certain property, plant and equipment, previously impaired, is higher than their net book value for some stations. Consequently, the Group recorded as at 31 December 2006 the reversal of the previously recognised impairment loss in the amount of RR 30,243,962 thousand.

Revaluation as at 31 December 2008. As at 31 December 2008 the Group performed the revaluation of property, plant and equipment (except for construction in progress, office buildings and land) using an independent appraiser. Economic obsolescence was estimated based on profitability test results for each cash-generating unit. The discount rate used in the profitability tests was 13.80 percent. The forecast period was 12 years for all Group companies. The long-term rate of growth in sales volumes was approximately 0.5 percent for all Group companies.

(in thousands of Russian Rubles)

As a result of the revaluation undertaken as at 31 December 2008, a number of the separately identified cash-generating units had revalued amounts in excess of the carrying value of the related property, plant and equipment, but below the recoverable amount when calculated using the discounted cashflows. For these assets, the revaluation surplus recognised as a result of the revaluation was restricted to that supported by the relevant discounted cash flow.

As a result of the revaluation, the Group's equity increased by RR 63,256,282 thousand, comprising an increase in the carrying value of property, plant and equipment of RR 79,070,353 thousand, net of a related deferred tax liability of RR 15,814,071 thousand.

Where the recoverable value was lower than the carrying value of the property, plant and equipment before the revaluation undertaken as at 31 December 2008, but above the historic carrying value excluding the effect of past revaluations, the reduction in the carrying value was taken directly to equity and shown as a reduction in the historically recognised revaluation surplus.

The Group's equity decreased by RR 4,143,627 thousand, comprising a decrease in the carrying value of property, plant and equipment of RR 5,179,534 thousand, net of a related deferred tax assets of RR 1,035,907 thousand.

Revaluation as at 01 January 2007. Starting from 1 January 2007 the Group adopted the revaluation model for property, plant and equipment (except for construction in progress, office buildings and land) (Note 4). Fair values were determined by independent appraisers primarily based on the depreciated replacement cost method. The replacement cost of production and hydrotechnical buildings and electricity grids were estimated based on technical characteristics. The replacement cost of equipment was estimated based on data of aggregative replacement cost, current purchase contracts and price-list of producers and trading companies. The economic obsolescence was estimated based on profitability test results for each cash-generating unit. The discount rate used in the profitability tests varied from 10.5 to 19.1 percent. The forecast period is 19-20 years for all Group companies. The long-term rate of growth in sales volumes is approximately 3 percent for all Group companies.

As a result of the revaluation, the Group's equity increased by RR 88,168,781 thousand, comprising an increase in the carrying value of property, plant and equipment of RR 116,011,554 thousand, net of a related deferred tax liability of RR 27,842,773 thousand.

Due to the decrease of the income tax rate from 24% to 20%, the amount of deferred tax related to revaluation reserve recognised as at 31 December 2007 was reassessed in 2008 as RR 4,622,059 thousand. This decrease of deferred tax liability amount was accounted for in equity.

For each revalued class of property, plant and equipment stated at a revalued amount in these combined and consolidated financial statements, the carrying amount that would have been recognised had the assets been carried under the cost model is as follows:

	Production buildings	Hydrotechnical buildings	Electricity grids	Substation's equipment	Assets under construction	Other	Total
Net book value as at 31 December 2008	26,803,719	61,100,475	2,509,207	30,392,924	48,439,895	9,536,906	178,783,126
Net book value as at 31 December 2007	25,787,686	57,749,755	2,053,240	29,965,315	41,567,188	6,671,433	163,794,617

Leased property, plant and equipment. The Group leases property, plant and equipment 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. As at 31 December 2008 the net book value of leased property plant and equipment was RR 3,882,821 thousand (31 December 2007: RR 4,709,290 thousand, 31 December 2006: RR 1,495,143 thousand). The leased equipment is pledged as a security for the lease obligation.

Operating lease. The Group leases a number of land areas owned by local governments under non-cancellable operating lease agreements. Land lease payments are determined by lease agreements. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

(in thousands of Russian Rubles)

	31 December 2008	31 December 2007	31 December 2006
Less than one year	336,707	314,656	264,470
Between one year and five years	1,264,308	1,150,064	957,428
After five years	10,561,027	10,858,639	9,253,163
Total	**12,162,042**	**12,323,359**	**10,475,061**

The land areas leased by the Group are the territories on which the Group's electric power stations and other assets are located. The leases typically run for an initial period of 5-49 years with an option to renew the lease after that date. Lease payments are reviewed regularly to reflect market rentals.

Note 8. Investments in associates and jointly controlled entities

As at 31 December 2008 the Group's interests in associates and jointly controlled entities were as follows:

	Carrying value as at 31 December 2007	Additions	Share of profit/ (loss) of associates and jointly controlled entities	Charge directly to equity	Other movements	Carrying value as at 31 December 2008
Associates						
OJSC Corporation of South Yakutiya development	33,021	-	(3,984)	-	-	29,037
OJSC GVC Energetiki	-	151,553	(3,956)	-	-	147,597
OJSC WGC-1	-	10,708,048	249,524	152,657	-	11,110,229
OJSC UEMC	-	72,690	(457)		-	72,233
CJSC Boguchanskaya HPP Construction Customer	6	-	(6)	-	-	-
CJSC Boguchansky Aluminium Plant Construction Organizer	252	-	739	-	-	991
Total Associates	**33,279**	**10,932,291**	**241,860**	**152,657**	**-**	**11,360,087**
Jointly controlled entities						
BoGES Group	5,081,203	-	(886,198)	75,309	-	4,270,314
BALP Group	865,061	-	(855,299)	-	55,146	64,908
LLC Corporation of Zabaikalie Development	16,849	-	(6,259)	-	-	10,590
OJSC Corporation of Krasnoyarsk region development	30,506	-	(120)	-	-	30,386
RusSUNHydroLimited	79,087	-	(25,332)	9,143	-	62,898
Total Jointly controlled entities	**6,072,706**	**-**	**(1,773,208)**	**84,452**	**55,146**	**4,439,096**
Total Investments in associates and jointly controlled entities	**6,105,985**	**10,932,291**	**(1,531,348)**	**237,109**	**55,146**	**15,799,183**

(in thousands of Russian Rubles)

As at 31 December 2007 the Group's interests in associates and jointly controlled entities were as follows:

	Carrying value as at 31 December 2006	Additions	Share of profit/ (loss) of associates and jointly controlled entities	Carrying value as at 31 December 2007
Associates				
OJSC Corporation of South Yakutiya development	-	37,650	(4,629)	33,021
CJSC Boguchanskaya HPP Construction Customer (Note 2)	-	5	1	6
CJSC Boguchansky Aluminium Plant Construction Organizer (Note 2)	-	5	247	252
Total Associates	**-**	**37,660**	**(4,381)**	**33,279**
Jointly controlled entities				
BoGES Group	-	5,282,443	(201,240)	5,081,203
BALP Group	-	766,104	98,957	865,061
LLC Corporation of Zabaikalie Development	-	30,000	(13,151)	16,849
OJSC Corporation of Krasnoyarsk region development	-	30,000	506	30,506
RusSUNHydroLimited	-	79,087	-	79,087
Total Jointly controlled entities	**-**	**6,187,634**	**(114,928)**	**6,072,706**
Total Investments in associates and jointly controlled entities	**-**	**6,225,294**	**(119,309)**	**6,105,985**

The following is summarised financial information, in aggregate, in respect of significant associates and jointly controlled entities:

31 December 2008	Ownership, %	Voting, %	Assets	Liabilities	Revenues	Expenses	Profit / (Loss)
Associates							
OJSC Corporation of South Yakutiya development	25.10	25.10	140,937	(25,253)	52,896	(68,769)	(15,873)
OJSC GVC Energetiki	42.53	42.53	644,245	(297,204)	122,698	(131,999)	(9,301)
OJSC WGC-1	22.69	22.69	70,411,168	(21,445,856)	25,120,000	(24,020,290)	1,099,710
OJSC UEMC	20.67	20.67	355,267	(5,809)	141,135	(143,344)	(2,209)
CJSC Boguchanskaya HPP Construction Customer	49.00	49.00	3,648	(3,691)	46,093	(46,149)	(56)
CJSC Boguchansky Aluminium Plant Construction Organizer	49.00	49.00	157,145	(155,123)	250,063	(248,555)	1,508
Jointly controlled entities							
BoGES Group	50.00	50.00	30,983,030	(22,442,402)	224,974	(1,997,369)	(1,772,395)
BALP Group	50.00	50.00	14,130,140	(18,035,451)	126,051	(5,769,253)	(5,643,202)
LLC Corporation of Zabaikalie Development	50.00	50.00	21,788	(608)	-	(12,518)	(12,518)
OJSC Corporation of Krasnoyarsk region development	25.00	25.00	122,027	(483)	7,927	(8,407)	(480)
RusSUNHydroLimited	50.00	50.00	139,996	(14,202)	-	(50,663)	(50,663)

In 2008, as a result of the reorganisation of RAO UES of Russia, the Company received shares of associates OJSC WGC-1, OJSC GVC Energetiki and OJSC UEMC. The assets and liabilities of the associates transferred under common control are recognised at the predecessor entity's carrying amounts.

(in thousands of Russian Rubles)

31 December 2007	Ownership, %	Voting, %	Assets	Liabilities	Revenues	Expenses	Profit / (Loss)
Associates							
OJSC Corporation of South Yakutiya development	25.10	25.10	134,042	(2,485)	5,960	(24,403)	(18,443)
CJSC Boguchanskaya HPP Construction Customer	49.00	49.00	2,290	(2,277)	29,358	(29,355)	3
CJSC Boguchansky Aluminium Plant Construction Organizer	49.00	49.00	11,876	(11,361)	83,862	(83,357)	505
Jointly controlled entities							
BoGES Group	50.00	50.00	24,110,291	(14,191,405)	147,722	(550,201)	(402,479)
BALP Group	50.00	50.00	14,439,512	(12,701,222)	343,803	(145,870)	197,933
LLC Corporation of Zabaikalie Development	50.00	50.00	36,409	(2,711)	-	(26,301)	(26,301)
OJSC Corporation of Krasnoyarsk region development	25.00	25.00	121,908	(955)	8,229	(6,204)	2,025
RusSUNHydroLimited	50.00	50.00	79,087	-	-	-	-

During 2007 the Group entered into the following arrangements:

- together with OJSC Techsnabexport, OJSC IG ALROSA, CJSC Yakutskie ugli - Novie technologii and the Government of the SAHA region the Group participated in *OJSC Corporation of South Yakutiya Development*. One of the main purposes of this company is the construction of Kankunskaya HPP on the river Timpton with the capacity of 1,600 MWT;
- together with LLC IFC Metropol the Group participated in the foundation of *LLC Corporation of Zabaikalie Development*. The purpose of this company is the construction of a large industrial complex, including Mokskaya HPP and Ivanovskaya HPP on the river Vitim with total capacity of 1,410 MWT and other industrial facilities to consume the electricity produced by these HPPs;
- together with LLC Company Bazovy element, OJSC Krasnoyarskiy zavod cvetnyh metallov named after V.N. Gulidov, Vnesheconombank the Group participated in *OJSC Corporation of Krasnoyarsk region Development* for the purpose of development the Krasnoyarskiy region and joint investment into construction of OJSC Boguchanskaya HPP and CJSC Boguchansky Aluminium Plant together with OJSC RUSAL;
- in June 2007 the Group and the SUN Group of India signed a memorandum about cooperation in the development of the hydropower industry in India. As a result, the jointly controlled entity *RusSunHydro Limited* was created for the purpose of managing the construction of new HPPs in the territory of India;
- in June 2007, together with RUSAL, the Group established BoGES Group and BALP Group, CJSC Boguchanskaya HPP Construction Customer, CJSC Boguchansky Aluminium Plant Construction Organizer (Note 2).

Note 9. Available-for-sale financial assets

In 2007 the Company received as a contribution to its share capital by RAO UES of Russia the following shares: 1.9 percent interest in OJSC Vilyuiskaya HPP-3 and 0.12 percent interest in OJSC Krasnoyarskaya HPP (Note 2).

In 2008 as a result of the reorganisation of RAO UES of Russia the Company obtained 100% share of LLC Index Energetiki – HydroWGC with investments in various utilities companies. These investments are classified as available-for-sale financial assets in these combined and consolidated financial statements and accounted at fair values as of the date of receipt of these investments on 1 July 2008.

The fair values of the available-for-sale financial instruments accounted for by LLC Index Energetiki-HydroWGC as at 1 July 2008 were calculated based on the quoted market prices or, where the quotations were not available, based on valuation techniques.

(in thousands of Russian Rubles)

The Group assessed them for impairment as at 31 December 2008 and concluded that an impairment had taken place as there was evidence of a significant and prolonged decline in the fair value of an investment of an equity instrument below its cost.

The analysis of trading volumes for the period from July to December 2008 confirmed lack of that there were no reductions in the trading activity or significant changes in the free float or other circumstances and therefore that an active market exists at 31 December 2008.

The impairment of these investments as at 31 December 2008 totaled RR 6,464,323 thousand and was recorded through profit and loss.

The Company's management does not have an intention to sell the shares in the short-term period.

Note 10. Other non-current assets

	31 December 2008	31 December 2007	31 December 2006
VAT recoverable	1,311,118	1,046,157	1,103,707
Long-term loans receivable (Net of discount of RR 125,398 thousand, effective interest rate: 11.76%-17% due 2011 as at 31 December 2008)	213,243	600,994	531,250
Promissory notes and deposits (Net of discount of RR 1,000,765 thousand, due 2010 as at 31 December 2008)	11,942,734	-	-
Other long-term assets (Net of provision for impairment on debtors of RR 231,281 thousand, effective interest rate: 11.76%-16%, due 2010 - 2020 as at 31 December 2008 and RR 288,005 thousand as at 31 December 2007, effective interest rate: 11.5% - 11.76%, due 2010 – 2013 and RR 256,100 thousand as at 31 December 2006, effective interest rate: 11.58%-15.5%, due 2009 – 2013)	1,523,623	840,990	333,703
Total other non-current assets	**14,990,718**	**2,488,141**	**1,968,660**

Promissory notes and deposits	Rating	Rating agency	Effective interest rate	Maturity date	31 December 2008
LLC Finance corporation Otkritie	CCC	S&P	9.2% – 9.6%	not earlier 2010	4,113,924
LLC VTB bank	BBB	S&P	7.0%	not earlier 2010	5,312,307
Investment company KIT Finance	-	-	13.0%	2010	2,516,503
					11,942,734

Note 11. Cash and cash equivalents

	31 December 2008	31 December 2007	31 December 2006
Cash at bank and in hand	7,060,429	5,493,798	2,826,263
Cash equivalents (contractual interest rate: 1.10% - 12.94%)	17,777,433	2,772,950	3,778,070
Total cash and cash equivalents	**24,837,862**	**8,266,748**	**6,604,333**

Cash equivalents held as at 31 December 2008, 31 December 2007 and 31 December 2006 comprised short-term RR bank deposits and short-term bank promissory notes of less than 3 months duration.

Cash balances denominated in USD currency amounts as at 31 December 2008 were RR 623 thousand

(in thousands of Russian Rubles)

(31 December 2007: RR 2,545 thousand, 31 December 2006: RR 734 thousand). Cash balances denominated in EURO were RR 12,578 thousand as at 31 December 2008 (31 December 2007: RR 25 thousand, 31 December 2006: RR 1,805 thousand).

Cash and cash equivalents are deposited in several institutions as follows:

	Rating	Rating agency	31 December 2008	31 December 2007	31 December 2006
Bank deposits and promissory notes					
OJSC Sberbank of Russia	Baa1	Moody's	9,981,630	120,000	-
CJSC VTB24	BBB	Standard & Poor's	7,116,303	-	358,000
OJSC Alemar Bank	-	-	400,000	500,000	-
OJSC Bank Vozrozhdenie	BB-	Standard & Poor's	275,000	-	-
OJSC Commercial Bank of Support to Commerce and Business	B2	Moody's	4,500	-	-
OJSC KIT Finance	-	-	-	1,800,000	3,000,000
OJSC Alfa-Bank	BB-	Standard & Poor's	-	352,950	-
OJSC VTB	BBB	Standard & Poor's	-	-	205,000
OJSC Vostochny Express Bank	-	-	-	-	120,000
OJSC Gazprombank	BBB-	Standard & Poor's	-	-	56,000
OJSC Aziatsko-Tihookeansky Bank	-	-	-	-	39,000
OJSC Bank of Moscow	Baa2	Moody's	-	-	70
Total cash equivalents			**17,777,433**	**2,772,950**	**3,778,070**
Cash at banks					
OJSC Gazprombank	BB+	Standard & Poor's	5,277,330	1,648,438	69,050
OJSC Sberbank of Russia	Baa1	Moody's	621,871	1,835,901	860,250
CJSC VTB24	BBB	Standard & Poor's	309,049	543,585	19,075
OJSC Alfa-Bank	BB-	Standard & Poor's	159,183	10,314	-
LLC Creditinvest	-	-	114,914	77,295	16,707
OJSC CB Sotsgorbank	B-	Standard & Poor's	98,859	151,000	-
OJSC Evrofinance Mosnarbank	Ba3	Moody's	88,108	424,904	298,996
OJSC Bank Vozrozhdenie	BB-	Standard & Poor's	75,284	14,746	-
OJSC VTB	BBB	Standard & Poor's	66,757	153,793	444,891
OJSC Strategia	-	-	65,514	-	-
OJSC Bank of Moscow	Baa1	Moody's	36,306	43,046	201,349
OJSC Promsvyazbank	BB-	Standard & Poor's	14,058	48,598	107,620
OJSC Kolyma-Bank	-	-	12,610	-	-
OJSC ROSBANK	BB+	Standard & Poor's	10,615	27,321	8,513
OJSC Kamchatkomagprombank	-	-	10,311	-	-
OJSB Bank of Khakassia	-	-	10,102	116,663	5,061
OJSC Prio-Vneshtorgbank	-	-	9,266	13,987	16,169
LLC Commercial bank of social development Dagestan	-	-	9,031	-	-
LLC CB Uzdan	-	-	8,813	-	-
OJSC Orienbank	-	-	7,425	1,784	10,850
CJSC Gazbank	Baa1	Moody's	7,189	-	-
OJSC Tembr-Bank	-	-	5,792	-	-
OJSC Moscow Industrial Bank	-	-	4,104	-	-
OJSC Chuvachcreditprombank	-	-	3,697	1,440	1,796
LLC CB ChirkeyEnergoBank	-	-	3,516	16,231	15,308
OJSC Rosevrobank	-	-	3,010	85,734	-
OJSC Dig-Bank	-	-	2,538	-	-
OJSC Commercial Bank of Support to Commerce and Business	B2	Moody's	1,650	-	-
CJSC ING Bank (Eurasia)	AA-	Standard & Poor's	1,390	-	-
OJSC Nomos-Bank	-	-	-	124,912	-
OJSC Lesprombank	-	-	-	45,116	14,348
RTS Settlement Chamber	-	-	-	36,997	80,105
CJSC Texbank	-	-	-	21,941	-

(in thousands of Russian Rubles)

	Rating	Rating agency	31 December 2008	31 December 2007	31 December 2006
OJSB Mezhtopenergobank	-	-	-	20,216	1,125
LLC Municipal Bank named after S. Zhivago	-	-	-	9,759	-
OJSC Volgoprombank	-	-	-	4,190	2,527
LLC TransinvestBank	-	-	-	-	398,961
OJSC Sobinbank	Baa2	Moody's	-	-	168,987
LLC Dagenergobank	-	-	-	-	44,550
Other	-	-	22,137	15,887	40,025
Total cash at banks			**7,060,429**	**5,493,798**	**2,826,263**

Note 12. Accounts receivable and prepayments

	31 December 2008	31 December 2007	31 December 2006
Trade receivables (Net of provision for impairment debtors of RR 1,952,695 thousand as at 31 December 2008, RR 922,352 thousand as at 31 December 2007 and RR 710,974 thousand as at 31 December 2006)	6,363,168	3,419,220	1,618,638
Promissory notes (Net of discount of RR 0 thousand as at 31 December 2008, RR 43,465 thousand as at 31 December 2007: effective interest rate 11.6% p.a. (Note 6) and RR 0 thousand as at 31 December 2006)	8,647,698	7,576,764	7,974,284
Total financial assets	**15,010,866**	**10,995,984**	**9,592,922**
Advances to suppliers and prepayments (Net of provision for impairment debtors of RR 14,997 thousand as at 31 December 2008, RR 70,200 thousand as at 31 December 2007 and RR 2,207 thousand as at 31 December 2006)	1,179,690	1,216,006	856,999
Income tax receivables	2,058,836	660,642	995,281
Value added tax recoverable	6,284,104	5,981,657	3,483,979
Other prepaid taxes	43,582	41,477	-
Other receivables (Net of provision for impairment debtors of RR 36,890 thousand as at 31 December 2008, RR 81,845 thousand as at 31 December 2007 and RR 8,310 thousand as at 31 December 2006)	1,108,031	1,889,540	1,134,527
Total accounts receivable and prepayments	**25,685,109**	**20,785,306**	**16,063,708**

The majority of customers, balances of which are included in trade receivables, comprise a single class, as they bear the same characteristics. Those customers belong to the same wholesale market of electricity (capacity) (hereinafter referred to as "NOREM"), which is regulated by Non-commercial Partnership Administrator of Trade System (hereinafter referred to as "NP ATS").

The provision for impairment of accounts receivable has been determined based on specific customer identification, customer payment trends, subsequent receipts and settlements and the analyses of expected future cash flows. The Group believes that the Group entities will be able to realise the net receivable amount through direct collections and other non-cash settlements, and the recorded value approximates their fair value.

As at 31 December 2008, receivables of RR 785,648 thousand (31 December 2007: RR 433,139 thousand, 31 December 2006: RR 299,153 thousand) were past due but not impaired. These relate to a number of independent customers without recent history of default. The ageing analysis of these trade receivables is as follows:

31 December 2008	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Beyond 12 months	Total
Accounts Receivable past due, not impaired	1,934	121,005	336,539	326,170	785,648
% to total	0%	15%	43%	42%	

(in thousands of Russian Rubles)

31 December 2007	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Beyond 12 months	Total
Accounts Receivable past due, not impaired	194,439	122,679	111,977	4,044	433,139
% to total	45%	28%	26%	1%	

31 December 2006	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Beyond 12 months	Total
Accounts Receivable past due, not impaired	182,219	43,666	72,234	1,034	299,153
% to total	61%	15%	24%	0%	

Trade and other receivables individually determined to be impaired (gross):

	Year ended 31 December 2008	Year ended 31 December 2007	Year ended 31 December 2006
As at 1 January	1,074,397	721,491	481,141
Charge for the year	1,202,085	371,486	328,944
Reversal of impairment	(170,196)	(9,732)	(88,360)
Trade receivables written-off as uncollectible	(101,704)	(8,848)	(234)
As at 31 December	**2,004,582**	**1,074,397**	**721,491**

The counterparties, balances of which fall into trade receivables and other receivables, and which are neither past due nor impaired, have approximately the same credit quality.

The Group does not hold any collateral as security.

Note 13. Inventories

	31 December 2008	31 December 2007	31 December 2006
Materials and supplies	574,202	634,324	804,157
Other inventories	461,009	386,005	189,060
Total inventories	**1,035,211**	**1,020,329**	**993,217**

The above inventory balances are shown net of an obsolescence provision for RR 11,999 thousand as at 31 December 2008, RR 28,062 thousand as at 31 December 2007, and RR 65,251 as at 31 December 2006 respectively.

As at 31 December 2008, 31 December 2007 and 31 December 2006, the inventory balances did not include any inventories pledged as collateral under loan agreements.

Note 14. Other current assets

	31 December 2008	31 December 2007	31 December 2006
Promissory notes and deposits: yield to maturity 8.8%–17.0% p.a.	4,727,041	3,152,753	424,329
Other short-term investments	60,148	45,655	62,347
Derivative financial instruments	107,160	-	-
Total other current assets	**4,894,349**	**3,198,408**	**486,676**

(in thousands of Russian Rubles)

Promissory notes and deposits	Rating	Rating agency	Effective interest rate	31 December 2008	31 December 2007	31 December 2006
Promissory notes						
LLC FC Otkrytie	CCC	Standards & Poor's	9.4%–10.1%	2,223,489	3,008,130	-
OJSC SO UES	-	-	8.8%	2,160,034	-	-
OJSC GVC Energetiki	-	-	17.0%	40,000	-	-
OJSC Evrofinance Mosnarbank	Ba3	Moody's	-	3,500	5,116	-
OJSC KabBalkenergo	-	-	14.0%	-	139,212	327,025
OJSC DagEnergo	-	-	-	-	-	81,782
Others	-	-	-	18	295	15,522
Short-term Deposits						
OJSC Sberbank	Baa1	Moody's	9.0%	150,000	-	-
OJSC Kamchatkomagprombank	-	-	9.0%	150,000	-	-
Total promissory notes and deposits				**4,727,041**	**3,152,753**	**424,329**

Note 15. Equity

Basis of presentation of movements in equity. The Group was formed by the combination of a number of businesses under common control. Because of the consequent use of the predecessor values basis of accounting (Note 3), the principal component of the net equity recognised for the Group is based on the historic carrying value of the net assets of the businesses contributed as recorded in the IFRS financial records of the predecessor enterprises, rather than the fair values of those net assets. Similarly, for the purpose of comparability, the equity of the Group has been presented for comparative period and as at 1 January 2006 as if the current Group structure had existed from 1 January 2006 (Note 3). As the Group was formed as a result of share issues completed after 1 January 2006, the equity statement reflects additions to share capital in the amount equal to the statutory nominal value of the shares issued which is based on the fair value of the net assets of the businesses contributed. In accordance with the predecessor basis of accounting, the effect of such additions to equity is offset by a corresponding adjustment in the merger reserve and recognition of minority interest.

	Ordinary shares 31 December 2008	Ordinary shares 31 December 2007	Ordinary shares 31 December 2006
Number of issued ordinary shares	245,014,059,191	156,864,373,776	140,954,759,856
Par value (in RR)	1.00	1.00	1.00

On 26 December 2004, the date when the Company was established, the number of issued ordinary shares amounted to 103,951,322,702 with a par value of RR 1.00 each.

The contributions to the Company's share capital were effected as follows:

- RR 103,849,528 thousand received by way of contribution of RAO UES of Russia's controlling interest in the Group's subsidiaries and investments in other companies (Note 2);
- cash contributions amounting to RR 101,795 thousand.

In August 2006, in the course of further sector restructuring, 37,003,437,154 additional ordinary shares of the Company with a par value of RR 1.00 each were issued. RAO UES of Russia made the following contributions to the Company in exchange for additional shares issued:

- RR 14,346,885 thousand received by way of contribution of RAO UES of Russia's controlling interest in the Group's subsidiaries and investments in other companies (Note 2);
- RR 91,058 thousand received by way of contribution of RAO UES of Russia's 12.4 percent interest in OJSC Zaramagskie HPPs and 1.6 percent interest in OJSC Zelenchukskie HPPs;
- RR 2,711,573 thousand received by way of contribution of Novosibirskaya HPP assets (business);
- cash contributions amounted to RR 20,000,000 thousand;

(in thousands of Russian Rubles)

- RR 245,001 thousand received by way of contribution of other various assets.

Total contribution was RR 37,394,517 thousand. Share premium received in excess of the par value was RR 391,080 thousand.

In October 2007, in the course of further sector restructuring 15,909,613,920 additional ordinary shares of the Company with a par value of RR 1 each were issued. RAO UES of Russia made the following contributions to the Company in exchange for additional share issue:

- RR 2,146,125 thousand received by way of contribution of RAO UES of Russia's interest in the Group's subsidiaries and investments in other companies (Note 2);
- cash contributions amounted to RR 14,950,000 thousand.

Russian Federation cash contributions amounted to RR 5,000,000 thousand.

The total contribution was RR 27,523,632 thousand, including treasury shares purchased by the Company. Share premium received in excess of the par value was RR 11,614,019 thousand.

On 9 January 2008 18 subsidiaries of the Group, OJSC Bureiskaya HPP and OJSC Kabardino-Balkarskaya Hydrogenerating Company merged into the Company and became one legal entity as a result of the legal reorganisation (Notes 1, 2). According to the results of the share conversion, 38,996,122,959 additional shares of the Company were placed and share capital increased to RR 195,860,497 thousand. Minority stakes in these companies were exchanged for ordinary shares of the Company. Major movements in minority interest for the reporting period result from the above reorganisation.

On 1 July 2008, as a result of the reorganisation of RAO UES of Russia, OJSC State Holding HydroWGC, OJSC Minority Holding HydroWGC, OJSC Irganayskaya HPP and OJSC Kaskad NChHPP merged into the Company. According to the results of the share conversion, additional shares of the Company were placed and share capital increased to RR 245,014,059 thousand.

Treasury shares. Treasury shares as at 31 December 2008 represent 5,882,055,227 ordinary shares in the amount of RR 8,172,275 thousand (3,137,287,475 ordinary shares in the amount of RR 5,427,507 thousand as at 31 December 2007 allocated for the Share Option Programme (Note 6), as at 31 December 2006 – 0).

	Year ended 31 December 2008	Year ended 31 December 2007
As at 1 January	**5,427,507**	-
Treasury shares received as a result of reorganisation	2,744,768	5,427,507
As at 31 December	**8,172,275**	**5,427,507**

Treasury shares were received by the Group during the reorganisation process in the form of a legal merger in 2008. The Company's treasury shares were held by the following subsidiaries: LLC Index Energetiki - HydroWGC, OJSC Chirkeygesstroy, OJSC Zaramagskie HPP and OJSC Irganayskaya HPP, OJSC Kaskad NChHPP.

Treasury shares received during 2008 are accounted for at nominal value of 1 RR per share. Difference between the nominal value and the cost of received treasury shares has been recorded in retained earnings within equity.

Merger reserve. Based on the application of predecessor values basis of accounting (Note 3) the difference of RR 77,449,212 thousand as at 31 December 2008 (31 December 2007: 40,249,247 thousand, 31 December 2006: RR 39,473,786 thousand) between the statutory value of share capital issued and the IFRS carrying value of the contributed assets and minority interest has been recorded as a merger reserve within equity.

Effect of changes in minority interest. In 2006 OJSC Zelenchukskie HPPs issued 89,242,749 additional ordinary shares with a par value of RR 10.0 each fully paid by RAO UES of Russia. The cash contribution amounted to RR 892,427 thousand and the increase of minority interest was reflected in the statement of changes in equity at the date of the additional share issue.

In 2006 OJSC Kolymaenergo issued 600,000,000 additional ordinary shares with a par value of RR 1 each fully paid by the State. The increase of minority interest was reflected in the statement of changes in equity at the date of the additional share issue.

In 2007 OJSC Sulakenergo issued 145,280,300 additional ordinary shares with a par value of RR 10 each fully paid by the Group. The cash contribution amounted to RR 1,452,803 thousand and the decrease of minority interest was reflected in the statement of changes in equity at the date of the additional share issue.

In 2007 OJSC Zaramagskie HPPs issued 1,004,740 additional ordinary shares with a par value of RR 1,000 each fully paid by the Group. The cash contribution amounted to RR 1,004,740 thousand and the decrease of minority interest was reflected in the statement of changes in equity at the date of the additional share issue.

In 2007 OJSC Kolymaenergo issued 1,274,380,327 additional ordinary shares with par value of RR 1 each. 1,200,000,000 ordinary shares were paid by the State and 74,380,327 ordinary shares were paid by RAO UES of Russia. The change in minority interest was reflected in the statement of changes in equity at the date of the additional share issue.

In 2008 OJSC Kolymaenergo issued 1 050 000 000 additional ordinary shares with a par value of RR 1 each in favour of the State. The change in minority interest was reflected in the statement of changes in equity at the date of the additional share issue.

Acquisition and disposal of subsidiaries. In 2006 the Group acquired 56.00 percent of the share capital of OJSC Severo-Osetinskaya HGC from OJSC Sevkavkazenergo, a subsidiary of RAO UES of Russia, for a cash consideration of RR 110,327 thousand.

The acquisition of OJSC Severo-Osetinskaya HGC was accounted for using the predecessor values basis of accounting method from 1 January 2006.

In 2007 all the contributions and purchases of shares were of entities that were already subsidiaries of the Group except for OJSC Geoterm and OJSC Verhne-Mutnovskaya GeoES.

In 2007 the Group acquired 99.98 percent of the share capital of CJSC EOZ from a third party for a cash consideration of RR 969,203 thousand. CJSC EOZ owned an office building only and therefore this transaction is not a business combination and no goodwill arose on the acquisition.

In 2007 OJSC Boguchanskaya HPP was disposed from a subsidiary to jointly-controlled entity (Note 2).

In 2008 the Group acquired OJSC Chuvashskaya energy retail company and OJSC Ryazanskaya energy retail company for cash consideration and additional interest in OJSC Kaskad NChHPP from OJSC KabbalkEnergo in exchange for setting-off KabbalkEnergo liabilities to the Company and accounted for these transactions as business combinations under common control (Note 2).

In 2008 the Group acquired 100 percent of the share capital of CJSC Technopark Rumyantsevo from a third party for a cash consideration of RR 1,061,779 thousand. CJSC Technopark Rumyantsevo owns 5.8 hectares of land, which is its main asset. This transaction is not a business combination as the acquiree is not a business and was accounted as an acquisition of assets.

In 2008 the Group acquired 99.90 percent of the share capital of LLC SpetsEnergoService from a third party for a cash consideration of RR 352,651 thousand. At the time of acquisition LLC SpetsEnergoService owned 62.60 percent of shares of OJSC MosoblGidroproekt, which is a research and design institute. LLC SpetsEnergoService and OJSC MosoblGidroproekt have not prepared IFRS financial statements before and the disclosure of IFRS values of acquired assets, liabilities and contingent liabilities is impracticable. The disclosure of the provisional purchase price allocation has not been made due to immateriality, and is mostly attributable to goodwill and intangible assets included in other non-current assets. The effect of the acquired business on the Group's profit and revenue was insignificant.

Effect of carve-out accounting. In 2006 the Group recorded the effect resulting from the carve-out accounting of Novosibirskaya HPP and related rental agreement for the period and from the predecessor legal entity. Included within the merger reserve in 2006 is RR 173,227 thousand of carved out rental revenues and expenses related to periods from 1 January 2006 to 1 November 2006 for Novosibirskaya HPP property, plant and equipment within RAO UES of Russia, predecessor legal entity (Note 3).

Dividends. In accordance with Russian legislation, the Group distributes profits as dividends on the basis of financial statements prepared in accordance with Russian Accounting Rules. The statutory accounting reports are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the net profit. However, this legislation and other statutory laws and regulations are open to legal interpretation and accordingly management believes at present it would not be appropriate to disclose an amount for the distributable reserves in these financial statements.

(in thousands of Russian Rubles)

The Company did not declare any dividends for the year ended 31 December 2008. The dividends declared by the Company were recognised as a liability and deducted from equity for the year 31 December 2007 in the amount RR 1,240,053 thousand (for the year ended 31 December 2006: RR 1,778,466 thousand).

Note 16. Income tax

Income tax charge is as follows:

	Year ended 31 December 2008	Year ended 31 December 2007	Year ended 31 December 2006
Current income tax expense	8,347,610	4,653,474	1,836,144
Deferred income tax (benefit)/ expense	(7,899,053)	(1,704,110)	4,813,465
Total income tax charge	**448,557**	**2,949,364**	**6,649,609**

During 2008, 2007 and 2006 most entities of the Group were subject to tax rates of 24 percent on taxable profit.

In accordance with Russian tax legislation, tax losses in different Group companies may not be offset against taxable profits of other Group companies. Accordingly, tax may be accrued even where there is a net consolidated tax loss.

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

A reconciliation between the expected and the actual taxation charge is provided below:

	Year ended 31 December 2008	Year ended 31 December 2007	Year ended 31 December 2006
(Loss) / Profit before income tax	**(19,031,741)**	**8,420,385**	**14,273,299**
Theoretical income tax charge at an average statutory tax rate of 24 percent	4,567,618	(2,020,892)	(3,425,592)
Tax effect of items which are not deductible or assessable for taxation purposes	(1,351,914)	(798,964)	(456,189)
Non-deductible items related to impairment of investments	(1,735,451)	-	-
Effect of change in tax rate	(693,632)	-	-
Unrecognised deferred tax assets	(1,235,178)	(129,508)	(2,767,828)
Total income tax charge	**(448,557)**	**(2,949,364)**	**(6,649,609)**

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

	31 December 2008	Charged (credited) to the income statement	Charged directly to equity	31 December 2007
Deferred income tax liabilities	**43,574,595**	**(3,405,491)**	**10,156,105**	**36,823,981**
Property, plant and equipment	43,050,394	(3,319,856)	10,156,105	36,214,145
Loans and borrowings	457,529	(44,501)	-	502,030
Other	66,672	(41,134)	-	107,806
Deferred income tax assets	**(8,755,587)**	**(4,493,562)**	**-**	**(4,262,025)**
Property, plant and equipment	(6,458,730)	(4,336,839)	-	(2,121,891)
Accounts receivable	(230,134)	520,002	-	(750,136)
Other	(2,066,723)	(676,725)	-	(1,389,998)
Deferred income tax liabilities, net	**34,819,008**	**(7,899,053)**	**10,156,105**	**32,561,956**

(in thousands of Russian Rubles)

	31 December 2007	Charged (credited) to the income statement	Charged directly to equity	Disposal of subsidiary	31 December 2006
Deferred income tax liabilities	**36,823,981**	**35,370**	**27,852,017**	**(109,738)**	**9,046,332**
Property, plant and equipment	36,214,145	71,165	27,842,773	(107,331)	8,407,538
Loans and borrowings	502,030	(59,405)	-	(48)	561,483
Other	107,806	23,610	9,244	(2,359)	77,311
Deferred income tax assets	**(4,262,025)**	**(1,739,480)**	**-**	**115,770**	**(2,638,315)**
Property, plant and equipment	(2,121,891)	(545,823)	-	105,073	(1,681,141)
Accounts receivable	(750,136)	12,200	-	8,104	(770,440)
Other	(1,389,998)	(1,205,857)	-	2,593	(186,734)
Deferred income tax liabilities, net	**32,561,956**	**(1,704,110)**	**27,852,017**	**6,032**	**6,408,017**

	31 December 2006	Charged (credited) to the income statement	31 December 2005
Deferred income tax liabilities	**9,046,332**	**3,508,536**	**5,537,796**
Property, plant and equipment	8,407,538	4,075,352	4,332,186
Loans and borrowings	561,483	(40,724)	602,207
Other	77,311	(526,092)	603,403
Deferred income tax assets	**(2,638,315)**	**1,304,929**	**(3,943,244)**
Property, plant and equipment	(1,681,141)	1,471,810	(3,152,951)
Accounts receivable	(770,440)	(222,839)	(547,601)
Other	(186,734)	55,958	(242,692)
Deferred income tax liabilities, net	**6,408,017**	**4,813,465**	**1,594,552**

In 2008 a deferred tax expense of RR 10,156,105 thousand (in 2007: RR 27,842,773 thousand) has been recorded directly in equity in respect of the revaluation of the Group's property, plant and equipment (Note 7).

Investments in subsidiaries and jointly controlled entities. Prior to 31 December 2008 the Group did not record a deferred income tax liability in respect of taxable temporary differences associated with investments in subsidiaries and jointly controlled entity as it was not probable that the Company would receive dividends in the foreseeable future. The estimated unrecorded deferred tax liabilities for such differences as at 31 December 2006 were RR 15,150,212 thousand. With effect from 1 January 2008 no tax is payable on dividends paid to a parent by subsidiaries (if certain requirements are met). Also, in 2008 22 subsidiaries ceased to exist as separate legal entities and became branches of the Company. Consequently, as at 31 December 2008 and 31 December 2007, no significant unrecorded deferred tax liabilities existed in the Group in respect of the investments.

Note 17. Pension benefits

The tables below provide information about the benefit obligations and actuarial assumptions used for the year ended 31 December 2008, 2007 and 2006.

(in thousands of Russian Rubles)

Amounts recognised in the Group's consolidated balance sheet:

	31 December 2008	31 December 2007	31 December 2006
Present value of defined benefit obligations	1,984,215	1,731,455	1,388,626
Present value of unfunded obligations	1,984,215	1,731,455	1,388,626
Unrecognised actuarial (loss)/gains	227,997	9,650	-
Unrecognised past service cost	(726,276)	(733,649)	(575,975)
Net liability	**1,485,936**	**1,007,456**	**812,651**

Amounts recognised in the Group's consolidated income statement:

	Year ended 31 December 2008	Year ended 31 December 2007	Year ended 31 December 2006
Current service cost	96,393	71,114	11,563
Interest cost	116,627	108,108	28,740
Net actuarial loss	1,402	12,223	-
Past service cost	390,066	133,011	8,873
Curtailment gain	(22,321)	-	-
Other	-	-	731,414
Net expense recognised in income statement	**582,167**	**324,456**	**780,590**

Changes in the present value of the Group's pension benefit obligation are as follows:

	31 December 2008	31 December 2007	31 December 2006
Projected Benefit Obligation at the beginning of the year	1,731,455	1,388,626	283,595
Service cost	96,393	71,114	11,563
Interest cost	116,627	108,108	28,740
Actuarial loss/(gain)	(205,530)	2,573	(1,619)
Past service cost	382,693	290,686	341,922
Benefits paid	(103,686)	(129,652)	(6,989)
Curtailment gain	(33,737)	-	-
Other	-	-	731,414
Present value of pension benefit obligations at end of the year	**1,984,215**	**1,731,455**	**1,388,626**

Experience adjustment on plan liabilities is as follows:

	31 December 2008	31 December 2007	31 December 2006
Defined benefit obligation	1,984,215	1,731,455	1,388,626
Plan assets	-	-	-
Deficit	1,984,215	1,731,455	1,388,626
Experience adjustments on plan liabilities	40,433	2,573	(1,619)
Experience adjustments on plan assets	-	-	-

The Group expects to contribute RR 138,895 thousand to the defined benefit plans during the year beginning 1 January 2009.

Principal actuarial assumptions are as follows:

	31 December 2008	31 December 2007	31 December 2006
Nominal discount rate	9.0%	6.75%	6.8%
Wage growth rate	8.0%	7.0%	7.0%
Inflation rate	7.0%	6.0%	5.0%

(in thousands of Russian Rubles)

Note 18. Current and non-current debt

Non-current debt

	Currency	Effective interest rate	Due date	31 December 2008	31 December 2007	31 December 2006
Bonds issue (OJSC HydroWGC Management Company)	RR	8.10%	2011	5,000,000	5,000,000	5,000,000
EBRD (tranche 1)	RR	3.65%+MOSPRIME	2020	2,023,778	2,000,015	2,000,015
EBRD (tranche 2)	RR	2.75%+MOSPRIME	2014	850,000	850,000	850,000
EBRD (tranche 3)	RR	3.05%+MOSPRIME	2016	3,150,000	3,150,000	3,150,000
Morgan Stanley Bank International Ltd	RR	8.75%	2013	3,000,000	3,000,000	3,000,000
CF Structured Products B.V.	USD	10.5%	2013	1,762,824	1,472,772	-
Morgan Stanley Bank International Ltd	RR	1.5%+MOSPRIME	2014	1,500,000	1,500,000	-
Municipal authority of Kamchatka region	RR	LIBOR+3%	2035	1,197,979	964,528	992,710
Ministry of Railways of Russia	RR	12.00%	2009	-	971,269	1,471,269
Other long-term debt	RR	-	-	323,448	184,504	-
Long-term derivative financial instruments – interest rate swaps	RR	-	2010	240,340	-	-
Finance lease liabilities	RR	11.10%-20.00%	-	3,082,568	3,605,888	729,611
Total				**22,130,937**	**22,698,976**	**17,193,605**
Less current portion of finance lease liabilities				(2,064,077)	(1,315,921)	(257,370)
Less current portion of non-current debt				(51,375)	(542,922)	(539,465)
Total non-current debt				**20,015,485**	**20,839,133**	**16,396,769**

European Bank for Reconstruction and Development (hereinafter referred to as "**EBRD**"). In September 2006 the Group received a loan, in three tranches, of RR 6,300,000 thousand from European Bank for Reconstruction and Development. Tranche 1 is stated net of transaction costs incurred in the amount of 276,222 thousand as at 31 December 2008 (31 December 2007: 299,985 thousand). The funds will be used to finance a program to upgrade and re-equip HPPs of the Volzhskaya-Kamskaya Cascade. The loan is co-arranged by Standard Bank PLC, CJSC Bank Austria Creditanstalt AG and CJSC ING Bank (Eurasia). The lead arrangers are Calyon, Fortis SA/NV and CJSC Raiffeisenbank Austria and the arrangers are CJSC Citibank, Credit Suisse and Banque Societe Generale Vostok. Interest is payable quarterly. The Group is subject to certain financial and other covenants under the facility. As at 31 December 2008 the Group was in compliance with all its covenants under the facility.

Bonds issue. In July 2006 OJSC HydroWGC Management Company issued bonds in a public offering on the MICEX Stock Exchange. The total value of bonds issue was RR 5,000,000 thousand. The bonds were sold at a par value of RR 1,000 rubles, with a yield of 8.1 percent per annum. The yield is payable every six months. The bonds are repayable in July 2011. The bonds issue was sponsored by the KIT Finance Investment Bank. The bond issue proceeds will be used to finance the completion of Boguchanskaya HPP and the needs of Group's subsidiaries.

Morgan Stanley Bank International Ltd. (hereinafter referred to as "Morgan Stanley"). In April 2007 the Group obtained a loan of RR 1,500,000 thousand from Morgan Stanley. The funds are intended to be used for financing capital expenditure projects in accordance with the Group's investment programme. The loan bears interest at 1.5%+MOSPRIME per annum and is scheduled for repayment in April 2014. The interest is payable each half a year. The Group is subject to certain financial and other covenants under the facility. As at 31 December 2008, the Group was in compliance with all its covenants under the facility.

In December 2006 the Group obtained a loan of RR 3,000,000 thousand from Morgan Stanley. The funds are intended to be used for financing of the Company's investment programme. The loan bears interest at 8.75 percent per annum and is scheduled for repayment in December 2013. The interest is payable on a monthly basis. The Group is subject to certain financial and other covenants under the facility. As at 31 December 2008, the Group was in compliance with all its covenants under the facility.

(in thousands of Russian Rubles)

Municipal authority of Kamchatka region. The loan was received for the purpose of Mutnovskaya GeoES construction. The loan is scheduled for repayment by 1 January 2035 through annual payments. An interest of 1 percent is charged on the outstanding amount of the loan. The debt is stated at present value, using a discount rate of 8.57 percent.

CF Structured Products B.V. In February 2007 the Group obtained a loan from CF Structured Products B.V. in amount of USD 60,000 thousand. The funds were obtained to finance construction of Cascade of Nizhne-Cherekskih HHPs. The loan bears interest at 10.5 percent per annum and is scheduled for repayment in February 2013.

Ministry of Railways of Russia The loan from Ministry of railways was obtained in 2003 for construction of Bureiskaya HPP. The loan bears interest at 12 percent per annum and is scheduled for repayment in 2009.

Current debt

	Currency	Effective interest rate	31 December 2008	31 December 2007	31 December 2006
Ministry of Railways of Russia	RR	9.80%	471,269	-	-
OJSC Alfa-Bank	RR	8.50%-9.50%	5,000	550,000	117,733
OJSC Mezhtopenergobank	RR	11.00%-14.30%	-	157,840	2,643,313
OJSC AB Otkritie	RR	11.00%	-	138,000	-
Aluminium Group Ltd	RR	12.00%	-	-	966,562
Settimel Holding Ins	RR	12.00%	-	-	182,000
Other current debt	RR	-	241	4,071	81,391
Finance lease liabilities	RR	11.10%-20.00%	2,064,077	1,315,921	257,370
Current portion of non-current debt	RR	-	51,375	542,922	539,465
Interest payable	RR	-	573,640	469,281	398,342
Short-term derivative financial instruments – interest rate swaps	RR	-	211,299	-	-
Total current debt and current portion of non-current debt			**3,376,901**	**3,178,035**	**5,186,176**

During 2006 the Group obtained debt from Aluminium Group Ltd and Settimel Holding Ins, both RUSAL Group affiliates, to help to finance the construction of Boguchanskaya HPP, which was transferred to BoGES Group upon BEMA establishment in year 2007 (Note 2).

Debt maturity

Due for repayment	31 December 2008	31 December 2007	31 December 2006
Between one and two years	240,340	479,849	500,000
Between two years and three years	5,000,000	-	471,269
Between three years and four years	323,448	5,000,000	-
Between four years and five years	4,762,825	174,923	5,000,000
After five years	8,670,381	12,894,393	9,953,260
Total	**18,996,994**	**18,549,165**	**15,924,529**

Effective interest rate. The effective interest rate is the market interest rate applicable to the loans at the date of origination for fixed rate loans and the current market rate for floating rate loans. The Group has not entered into any hedging arrangements in respect of interest rate exposures.

Finance lease liabilities. Minimum lease payments under finance leases and their present values are as follows:

(in thousands of Russian Rubles)

	Due in 1 year	Due between 2 and 5 years	Due after 5 years	Total
Minimum lease payments at 31 December 2008	**2,257,339**	**1,164,960**	**77,480**	**3,499,779**
Less future finance charges	(193,262)	(182,863)	(41,086)	(417,211)
Present value of minimum lease payments at 31 December 2008	**2,064,077**	**982,097**	**36,394**	**3,082,568**
Minimum lease payments at 31 December 2007	**1,589,754**	**2,479,170**	**65,673**	**4,134,597**
Less future finance charges	(273,833)	(226,523)	(28,353)	(528,709)
Present value of minimum lease payments at 31 December 2007	**1,315,921**	**2,252,647**	**37,320**	**3,605,888**
Minimum lease payments at 31 December 2006	**293,683**	**500,867**	**8,011**	**802,561**
Less future finance charges	(36,313)	(36,005)	(632)	(72,950)
Present value of minimum lease payments at 31 December 2006	**257,370**	**464,862**	**7,379**	**729,611**

Note 19. Other non-current liabilities

	31 December 2008	31 December 2007	31 December 2006
Pension obligations (Note 17)	1,485,936	1,007,456	812,651
Other non-current liabilities	1,249,758	1,105,240	1,329,824
Total other non-current liabilities	**2,735,694**	**2,112,696**	**2,142,475**

Note 20. Accounts payable and accruals

	31 December 2008	31 December 2007	31 December 2006
Trade payables	4,670,872	3,230,448	2,023,152
Advances received	1,432,390	1,461,980	913,090
Advances received from RAO UES of Russia	-	1,120,866	4,995,936
Accounts payable to RAO UES of Russia	-	6,650,594	300,000
Dividends payable (Note 15)	20,972	28,073	1,057,781
Settlements with personnel	863,151	752,071	556,131
Accounts payable in respect of shares issued (Note 31)	6,000,000	-	-
Derivative financial instruments	49,557	-	-
Other accounts payable	3,202,964	1,944,473	1,433,147
Total accounts payable and accruals	**16,239,906**	**15,188,505**	**11,279,237**

Advances received from RAO UES of Russia. As at 31 December 2007 the Group had investment agreements with RAO UES of Russia to finance the construction of various HPP assets located in OJSC Zaramagskie HPPs, OJSC Zelenchukskie HPPs and OJSC Kabbalk HPP. These obligations were settled in 2008.

All accounts payable and accruals are denominated in Russian Rubles.

Trade payables are classified as financial liabilities. Total amount of financial liabilities as at 31 December 2008 comprises RR 28,063,258 thousand (31 December 2007: RR 27,247,616 thousand, 31 December 2006: RR 23,606,097 thousand) and includes, beside trade payables, non-current borrowings and current borrowings and current portion of non-current borrowings (Note 18).

Management believes that the majority of suppliers, balances of which are included into trade payables, comprise a single class, as they have the same characteristics. Those suppliers are mainly providers of repair and maintenance services.

(in thousands of Russian Rubles)

Note 21. Other taxes payable

Other taxes payable represent the following:

	31 December 2008	31 December 2007	31 December 2006
Value added tax	3,168,708	451,443	359,456
Property tax	1,503,216	500,354	598,518
Unified social tax	235,378	183,968	127,586
Other taxes	302,442	243,954	296,264
Total other taxes payable	**5,209,744**	**1,379,719**	**1,381,824**

Note 22. Revenue

	Year ended 31 December 2008	Year ended 31 December 2007	Year ended 31 December 2006
Sales of electricity (capacity)	102,673,904	76,494,284	48,405,245
Other revenue	4,995,877	4,262,187	5,031,090
Total revenue	**107,669,781**	**80,756,471**	**53,436,335**

Note 23. Operating expenses

	Year ended 31 December 2008	Year ended 31 December 2007	Year ended 31 December 2006
Purchased electricity (capacity)	34,661,041	26,574,491	16,120,068
Electricity distribution expenses	12,415,371	10,993,124	10,426,262
Depreciation of property, plant and equipment	9,332,702	8,457,485	4,292,271
Employee benefit expenses (including payroll taxes, share option plan expenses and pension expenses)	8,132,100	6,181,839	4,708,856
Third parties services, including:			
Services of SO-CDU, NP ATS, CFR, RAO UES	2,416,695	2,494,939	2,951,860
Repairs and Maintenance	2,089,410	1,939,228	1,914,227
Services of subcontracting companies	1,369,382	1,134,817	557,877
Consulting, legal and information expenses	697,718	1,006,957	389,671
Insurance cost	601,284	515,442	323,770
Security expenses	552,455	475,268	200,172
Rent	526,132	510,519	534,323
Transportation expenses	330,396	278,239	191,157
Other third parties services	1,068,263	1,615,592	1,253,682
Taxes other than income tax	5,145,288	3,176,873	2,478,946
Other materials	1,366,978	1,323,953	1,250,193
Write-off and charge of impairment of accounts receivable	1,087,764	505,311	521,462
Water usage expenses	854,683	854,979	1,005,714
Social charges	327,690	584,180	297,232
Loss on disposals of property, plant and equipment, net	303,336	164,417	2,587,178
Other expenses	1,379,526	1,604,305	1,313,319
Total operating expenses	**84,658,214**	**70,391,958**	**53,318,240**

Loss on disposals of property, plant and equipment. Included within loss on disposals of property, plant and equipment in 2006 is a RR 2,335,351 thousand net loss which resulted from a disposal of construction in progress to OJSC Dagautodor. The disposed assets comprised of roads, bridges and other infrastructure under construction in the Republic of Dagestan.

(in thousands of Russian Rubles)

Note 24. Finance cost, net

	Year ended 31 December 2008	Year ended 31 December 2007	Year ended 31 December 2006
Interest income	1,911,063	439,050	175,462
Interest expense	(1,825,088)	(1,727,106)	(864,002)
Finance lease expense	(533,716)	(410,195)	(43,225)
Loss on derivative financial instruments	(394,037)	-	-
Other expense	(653,038)	(126,568)	(84,444)
Finance cost, net	**(1,494,816)**	**(1,824,819)**	**(816,209)**

Note 25. Earnings per share

	Year ended 31 December 2008	Year ended 31 December 2007	Year ended 31 December 2006
Weighted average number of ordinary shares issued (thousand of shares)	215,648,425	148,502,176	124,027,549
(Loss) / profit attributable to the shareholders of the Company (in thousand RR)	(19,955,433)	5,663,018	6,034,402
Weighted average earnings per share – basic and diluted* (in RR)	**(0.0925)**	**0.0381**	**0.0487**

* Share option programme of the Group (Note 6) has no dilutive effect for the periods presented.

Note 26. Derivative financial instruments

To reduce the Group's foreign exchange risk and interest rate risk exposure, in 2008 the Group entered into derivative financial instrument transactions with two foreign banks having an investment grade rating within the range Aa1-Aa3 as assessed by the S&P rating agency on standardised contractual terms and conditions. Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The table below sets out fair values, at the balance sheet date, of foreign exchange forward contracts and interest rate swap contracts entered into by the Group:

	31 December 2008	
	Assets	**Liabilties**
Foreign exchange forwards: fair values, at the balance sheet date, of:		
- USD forwards	-	34,085
- Euros forwards	52,496	7,142
- CHF forwards	-	8,330
Interest rate swaps	54,664	451,639
Total	**107,160**	**501,196**
less non-current portion		
Interest rate swaps	-	240,340
Current portion	**107,160**	**260,856**

The full fair value of interest rate swaps is classified as other current assets (Note 14), current and non-current debt (Note 18). The full fair value of foreign exchange forwards is classified as other current assets (Note 14) and accounts payable and accruals (Note 20).

Note 27. Financial risks management

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

Currency risk. Electric power produced by the Group is sold on the internal market of the Russian Federation with prices fixed in the currency of the Russian Federation. Hence, the Group does not have significant foreign currency exchange risk. The financial condition of the Company, its liquidity, financing sources and the results of activities do not considerably depend on currency rates as the Group activities are planned to be performed in such a way that its assets and liabilities be denominated in the national currency.

Also the Company acts as a surety on currency obligations of CJSC BoAZ at the rate of 50 percent (the remaining 50 percent are guaranteed by UC RUSAL) and plans to provide funds to make necessary payments by means of financing through the company HydroOGK Aluminium Company Ltd. As foreign currency revenues on the project BEMA are expected not earlier than 2010, the Company's management took a decision to reduce foreign currency risk on the project BEMA (Note 26).

Except for these transactions, the influence of changes in the domestic currency rate as related to foreign currency rates on the financial condition of the Group is estimated as insignificant.

Interest rate risk. The Group's operating profits and cash flows from operating activity are largely not dependent on the changes in market interest rates. The Company obtains borrowings both with fixed and with floating rate and is subject to the risk of interest rate changes. The Group's significant interest bearing liabilities are disclosed in Note 18. The Company obtains loans in the national currency with floating rate, which are established on the basis of the MosPrime rate.

Sensitivity analyses of rates fluctuations for 2008, 2007 and 2006 years based on expected forecasts of rates changes at the date of redemption of exchange commitments indicate if the MosPrime rate increased by 0.5 percent the profit after tax would decrease by RR 29.6 million for the year ended 31 December 2008, 28.5 million for the year ended 31 December 2007 and by RR 8.0 million for the year ended 31 December 2006.

For the purpose of interest risk reduction the Group makes the following arrangements:

- credit market monitoring to identify favourable credit conditions;
- attraction of credit resources at rates lower than the refinancing rate of the Central Bank of the Russian Federation;
- diversification of credit portfolio by attracting of borrowings with fixed rates and floating rates;
- to avoid an uncontrolled increase of interest costs on the borrowings, the Group signed agreements to fix interest rates for interest payments in 2009 - interest rate swaps (Note 26).

Credit risk. Credit risk is the risk of financial loss for the Group in the case of non-fulfillment by the Contractor of the obligations on the financial instrument under the proper contract.

Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provision for impairment of receivables already recorded.

For Group customers there is no independent rating and therefore the Group assesses the credit quality of the customer at the contract execution stage. The Group takes into account the customer's financial position and its credit history. The Group monitors the existing receivables on the ongoing basis in the profile departments and takes actions regularly for their collection.

Cash has been deposited in the financial institutions with no more than minimal exposure to the default risk at the time of account opening. The Board of Directors approved the list of banks for deposits, as well as rules for the placement of deposits. Moreover, the Company constantly evaluates the financial condition, ratings assigned by independent agencies, background and other factors.

The tables in Notes 10, 11 show deposits with banks and other financial institutions and their ratings at the balance sheet date.

Liquidity risk. Prudent liquidity risk management includes maintaining sufficient cash and marketable securities and the availability of funding from an adequate amount of committed credit facilities. The

(in thousands of Russian Rubles)

Company adheres to the balanced model of financing of working capital – both at the expense of short-term sources and long-term sources. Temporarily free funds are placed into short-term financial instruments, mainly bank deposits and bills of exchange. Current liabilities are represented mainly by the accounts payable to suppliers and contractors.

The Company has implemented a control system under its contract conclusion process by introduction and application of typical financial arrangements which include standardised payment structure, payment deadlines, percentage ratio between advance and final settlement, etc. In such a manner Company controls capital maturity.

The table below analyses the Group's financial liabilities (including interest accrued) into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their discounted balances.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
At 31 December 2008				
Loans and borrowings (Note 18)	1,312, 824	240,340	10,086,273	8,670,381
Accounts payable (Note 20)	4,670,872	-	-	-
At 31 December 2007				
Loans and borrowings (Note 18)	1,566,274	479,849	5,174,923	12,894,393
Promissory notes (Note 18)	295,840	-	-	-
Accounts payable (Note 20)	3,230,448	-	-	-
At 31 December 2006				
Loans and borrowings (Note 18)	2,285,493	500,000	5,471,269	9,953,260
Promissory notes (Note 18)	2,643,313	-	-	-
Accounts payable (Note 20)	2,023,152	-	-	-

Reconciliation of classes of financial instruments with measurement categories

For the purposes of measurement, IAS 39, Financial Instruments: Recognition and Measurement, classifies financial assets into the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss (hereinafter referred to as "FVTPL").

The following table provides a reconciliation of classes of financial assets with these measurement categories as at 31 December 2008:

	Loans and receivables	Available-for-sale investments	Assets at fair value through the profit and loss	Total
ASSETS				
Other non-current assets (Note 10)				
Promissory notes and deposits	11,942,734	-	-	11,942,734
Long-term loans receivable	213,243	-	-	213,243
Available-for sale investments (Note 9)		2,011,215	-	2,011,215
Trade and other receivables (Note 12)				
Trade receivables	6,363,168	-	-	6,363,168
Promissory notes receivable	8,647,698	-	-	8,647,698
Other current assets (Note 14)				
Promissory notes and deposits	4,727,041		-	4,727,041
Derivative financial instruments	-	-	107,160	107,160
Cash and cash equivalents (Note 11)				
Cash and cash equivalents	24,837,862	-	-	24,837,862
TOTAL FINANCIAL ASSETS	**56,731,746**	**2,011,215**	**107,160**	**58,850, 121**
NON-FINANCIAL ASSETS	**-**	**-**	**-**	**367,520,978**
TOTAL ASSETS	**56,731,746**	**2,011,215**	**107,160**	**426,371,099**

(in thousands of Russian Rubles)

The following table provides a reconciliation of classes of financial assets with these measurement categories as at 31 December 2007:

	Loans and receivables	Available-for-sale investments	Total
ASSETS			
Other non-current assets (Note 10)			
Long-term loans receivable	600,994	-	600,994
Available-for sale investments (Note 9)	-	102,504	102,504
Trade and other receivables (Note 12)			
Trade receivables	3,419,220	-	3,419,220
Promissory notes receivable	7,576,764	-	7,576,764
Other current assets (Note 14)			
Promissory notes	3,152,753	-	3,152,753
Cash and cash equivalents (Note 11)			
Cash and cash equivalents	8,266,748	-	8,266,748
TOTAL FINANCIAL ASSETS	**23,016,479**	**102,504**	**23,118,983**
NON-FINANCIAL ASSETS			**290,427,378**
TOTAL ASSETS	**23,016,479**	**102,504**	**313,546,361**

The following table provides a reconciliation of classes of financial assets with these measurement categories as at 31 December 2006:

	Loans and receivables	Available-for-sale investments	Total
ASSETS			
Other non-current assets (Note 10)			
Long-term loans receivable	531,250	-	531,250
Available-for sale investments (Note 9)	-	20,499	20,499
Trade and other receivables (Note 12)			
Trade receivables	1,618,638	-	1,618,638
Promissory notes receivable	7,974,284	-	7,974,284
Other current assets (Note 14)			
Promissory notes	424,329	-	424,329
Cash and cash equivalents (Note 11)			
Cash and cash equivalents	6,604,333	-	6,604,333
TOTAL FINANCIAL ASSETS	**17,152,834**	**20,499**	**17,173,333**
NON-FINANCIAL ASSETS			**151,832,955**
TOTAL ASSETS	**17,152,834**	**20,499**	**169,006,288**

Note 28. Capital risk management

Capital risk management relates to the compliance with the Russian legislation and credit policy implementation to maintain an optimal capital structure and reduce the cost of capital.

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

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

As at 31 December 2008 the Group was in compliance with the above share capital requirements.

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

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

Consistent with other in the industry, the Group monitors capital on the basis of the gearing ratio, and ensures that the ratio is not more than 1.0. This ratio is calculated as debt divided by total capital. Debt is calculated as total borrowings, as shown in the consolidated balance sheet. Total capital is calculated as equity, as shown in the consolidated balance sheet. Gearing ratios were 0.07 as at 31 December 2008, 0.10 and 0.17 as at 31 December 2007 and 2006, respectively.

The Group's policy of capital risk management is based on the following financial ratios: debt to EBITDA ratio, interest payments coverage by EBITDA, and debt coverage by revenue. EBITDA equal to earnings before the deduction of interest expense and financing items, non-cash impairment and disposal charges, income taxes and depreciation.

The debt to EBITDA ratios were 0.73 as at 31 December 2008, 1.26 and 2.87 as at 31 December 2007 and 2006, respectively.

Interest payments coverage by EBITDA were 13.65 for year ended 31 December 2008, 8.94 and 8.29 for years ended 31 December 2007 and 2006, respectively.

Debt coverage by revenue were 0.22 as at 31 December 2008, 0.30 and 0.40 as at 31 December 2007 and 2006, respectively.

Note 29. Commitments

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

Capital commitments. In May 2006 RAO UES of Russia, the Company and RUSAL Group concluded an agreement on the mutual financing, construction and exploitation of Boguchanskaya HPP and the Boguchansky Aluminium Plant (Note 2). Both RusHydro Group and RUSAL Group have committed to finance the construction on the basis of mutual parity. The total investment to be contributed by the RusHydro and RUSAL Groups amounts to RR 132,123 million from 2008 to 2012 in accordance with the Company's investment programme. The Group contributed RR 15,071 million in 2008. The first line of Boguchanskaya HPP is planned to be put into operation in 2010.

Other future capital expenditures in accordance with contractual obligations amounted to RR 31,597,614 thousand at 31 December 2008, RR 7,595,548 thousand at 31 December 2007 and RR 8,375,467 thousand at 31 December 2006. The major part of future capital expenditures under contractual obligations as at 31 December 2008 are related to the following hydro power stations: Zagorskaya HAEPP-2 in the amount of RR 13,972,187 thousand, mainly due to the construction of the station, SShHPP in the amount of RR 5,575,516 thousand, mainly due to the construction of the coast spillway, Saratovskaya HPP in the amount of RR 3,647,691 thousand, mainly due to the supply of hydroturbines.

Note 30. Contingencies

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

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

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

(in thousands of Russian Rubles)

Tax contingencies. Russian tax, currency and customs legislation is subject to varying interpretation, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities, in particular the way of accounting for tax purposes of some income and expenses of the Group as well as deductibility of input VAT from suppliers and contractors. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances review may cover longer periods.

Due to the fact, that the tax and other legislation do not fully cover all the aspects of the Group reorganisation, there might be respective legal and tax risks.

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

Due to completion of the Company's reorganisation in the form of the legal merger, the Company is a legal successor for litigations of the merged entities including those with tax authorities.

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

Guarantees. The Company provided certain counterparties with guarantees in respect to the following amounts of borrowings taken by the Group's related parties:

Name of counterparty	Debtor	Nature of relationship	31 December 2008	31 December 2007	31 December 2006
Barclays Bank PLC	CSJC Boguchansky Aluminium Plant	Joint venture	7,638,904	6,712,212	-
OJSC Bank of Moscow	LLC IR Leasing	None	1,423,191	1,423,191	1,423,191
OJSC Bank of Moscow	OJSC Hanti-Mansiiskaya leasing company Otkritie	None	491,370	491,370	491,370
AREVA T&D S.A.	CSJC Boguchansky Aluminium Plant	Joint venture	1,374,122	-	-
SOLIOS Environment SA	CSJC Boguchansky Aluminium Plant	Joint venture	774,352	-	-
CJSC Commerzbank (Euroasia)	CSJC Boguchansky Aluminium Plant	Joint venture	166,648	-	-
BROCHOT SA	CSJC Boguchansky Aluminium Plant	Joint venture	40,859	-	-
Societe des Technologies de l'Aluminium du Saguenay Inc	CSJC Boguchansky Aluminium Plant	Joint venture	18,569	-	
Total			**11,928,015**	**8,626,773**	**1,914,561**

In March 2007 the Company issued a guarantee for a loan of USD 520 million raised by OJSC Boguchansky Aluminium Plant to finance BEMA (Note 2). The loan period is 3 years and the average interest rate is LIBOR + 0.825%. The managers and underwriters of the loan are ABN Amro, Barclays, Calyon and Sberbank of Russia. The raised borrowings are used for construction of Boguchansky Aluminium Plant and completion of Boguchanskaya HPP. The Company's guarantee provides for 50 percent of the borrower's liabilities under the loan agreement; the remaining 50 percent of liabilities are secured by the guarantee and surety provided by the RUSAL Group entities. The fair value of the guarantees was assessed as at 31 December 2008 and a liability in the amount of RR 103 million was recognised.

The Group issued guarantees for two loans raised by OJSC Hanti-Mansiiskaya leasing company Otkritie and LLC IR Leasing to finance equipment purchases for the Group. The interest rate on the loans is 11%. The loans will be repaid in 2010 and 2009, respectively. Fair value of the guarantees was assessed as at 31 December 2008 and a liability in the amount of RR 58 million was recognised.

Remaining guarantees were issued to suppliers for future equipment's deliveries.

Note 31. Subsequent events

Additional share issues

At an extraordinary general meeting of shareholders on 17 November 2008 (the minutes №2 dated 20 November 2008) the shareholders took a decision to increase the share capital of the Company by means of the placement of 10,000,000,000 additional personal ordinary shares with a par value of RR 1.00 each totaling RR 10,000,000 thousand through open subscription with a cash consideration. On 18 November 2008 (the minutes №67 dated 20 November 2008) the Board of directors approved the decision of the additional issuance of shares and determined a placement price of additional shares.

On 2 December 2008 the Federal Service for Financial Markets of Russia registered the additional issuance of 10,000,000,000 additional personal ordinary shares with №1-01-55038-E-036D. The placement deadline was 20 February 2009 or a date of the placement of the last share, depending on which date was earlier.

In December 2008 under the placement of shares the Russian Federation represented by Federal Agency for the Administration of State Property obtained 6,000,000,000 Company's shares using the preemptive right (Note 1).

On 23 January 2009 the Board of directors approved the possibility to acquire 3,998,000,000 shares by the Russian Federation represented by Federal Agency for the Administration of State Property under this issuance of additional shares.

In February 2009 under the placement of shares the Russian Federation represented by Federal Agency for the Administration of State Property obtained 3,998,000,000 Company's shares.

The report on results of the additional issuance of shares of the Company was registered by Federal Service for Financial Markets of Russia on 19 March 2009, prior to the statutory registration the shares issued were recorded within accounts payable and accruals (Note 20). As a result of the placement of additional shares the total number of placed shares of the Company was 255,014,018,667 ordinary shares with a par value of RR 1.00 each.

The extraordinary general meeting of shareholders on 17 November 2008 (the minutes №2 dated 20 November 2008) also took a decision to increase the share capital by means of the placement of 16,000,000,000 additional personal ordinary shares with a par value of RR 1.00 each totaling RR 16,000,000 thousand through open subscription with a cash consideration. At the meeting of the Board of directors on 11 March 2009 (the minutes №73 dated 12 March 2009) the placement price of the additional shares with a par value of 1.00 each was determined and the decision to issue additional shares and the prospectus of shares of the Company. The state registration of the decision to issue additional shares and the prospectus of shares is planned in the second quarter of 2009.

Other

Federal Anti-Monopoly Service (the decision №AG/1562 dated 21 January 2009) satisfied a request of OJSC INTER RAO UES concerning the acquisition of shares of OJSC WGC-1 in trust management including those owned by the Company. In February 2009 the Company's Board of directors (the minutes №72 dated 2 March 2009) approved an agreement of trust management of the rights on the shares of WGC-1 with OJSC INTER RAO UES. This agreement was signed on 12 March 2009.

On 23 January 2009 the Board of Directors of the Company approved an Investment Programme for 2009 in the total amount of RR 79,343 million. The Programme presumed 145 MW of generating capacity to be installed. On 9 April 2009 the Government of the Russian Federation revised the Investment Programme to 64,856 million and 74 MW of generating capacity to be installed.