WGC-3 GROUP
CONSOLIDATED FINANCIAL STATEMENTS
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)
FOR THE YEAR ENDED 31 DECEMBER 2008

CONTENTS

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Board of Directors of the Open Joint Stock Company "Third Generation Company of the Wholesale Electricity Market" (JSC "WGC-3"):

We have audited the accompanying consolidated financial statements of JSC "WGC-3" and its subsidiaries (the Group) which comprise the consolidated balance sheet as of 31 December 2008 and the consolidated income statement, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
17 April 2009

WGC-3 Group
Consolidated Balance Sheet as at 31 December 2008
(in thousands of Russian Roubles)

	Notes	31 December 2008	31 December 2007
ASSETS			
Non-current assets			
Property, plant and equipment	6	29 287 313	24 698 526
Intangible assets	7	52 024	-
Investments in associates	8	16 304 562	-
Other non-current assets	9	158 032	242 017
Total non-current assets		**45 801 931**	**24 940 543**
Current assets			
Inventories	10	2 855 914	2 328 176
Accounts receivable and prepayments	11	4 673 983	2 921 503
Deposits and other financial assets	12	37 352 940	74 750 000
Financial assets at fair value through profit or loss	13	1 237 095	
Loans issued		-	1 660
Current income tax prepayments		34 088	119 443
Cash and cash equivalents	14	13 438 834	2 182 360
Total current assets		**59 592 854**	**82 303 142**
TOTAL ASSETS		**105 394 785**	**107 243 685**
EQUITY AND LIABILITIES			
Equity			
Share capital	15	47 487 999	47 487 999
Share premium	15	63 228 766	63 228 766
Treasury shares	15	(8 046 714)	-
Other reserves		(8 357 873)	(8 357 873)
Fair value reserve		2 001	34 673
Retained earnings		6 098 800	(323 064)
Total equity		**100 412 979**	**102 070 501**
Non-current liabilities			
Deferred tax liabilities	16	1 920 885	2 784 528
Pension and post employment liabilities	17	207 934	150 098
Other non-current liabilities		15 749	22 204
Total non-current liabilities		**2 144 568**	**2 956 830**
Current liabilities			
Accounts payable and accruals	18	1 605 952	1 643 498
Provision for liabilities and charges	19	148 090	140 199
Taxes payable	20	1 083 196	432 657
Total current liabilities		**2 837 238**	**2 216 354**
Total liabilities		**4 981 806**	**5 173 184**
TOTAL EQUITY AND LIABILITIES		**105 394 785**	**107 243 685**

General Director — Vladimir Kolmogorov

Chief Financial Officer — Andrey Gainanov

17 April 2009

WGC-3 Group
Consolidated Income Statement for the year ended 31 December 2008
(in thousands of Russian Roubles)

	Notes	Year ended 31 December 2008	Year ended 31 December 2007
Revenues			
Electricity		37 496 029	32 357 243
Heat		669 655	598 151
Other		258 211	441 405
Total revenue		**38 423 895**	**33 396 799**
Operating expenses	21	(35 656 717)	(31 661 571)
Impairment (loss)/gain recognized during the year	6	(1 342 114)	3 930 682
Other operating income	22	356 769	35 687
Operating profit		**1 781 833**	**5 701 597**
Income from investing activities	23	5 907 662	3 753 821
Costs of investing activities	24	(980 932)	-
Finance income/(costs)	25	4 590	(239 842)
Foreign exchange gain	12,14,18	1 384 067	-
Earnings from investments in equity affiliates	8	355 446	-
Profit before income tax		**8 452 666**	**9 215 576**
Income tax expense	16	(1 731 861)	(2 487 838)
Profit for the year		**6 720 805**	**6 727 738**
Attributable to:			
Shareholders of JSC WGC-3		**6 720 805**	**6 727 738**
Earning per ordinary share for profit from continuing operations attributable to the shareholders of the Company, basic and diluted (in RR per share)	26	**0.147**	**0.157**

General Director — Vladimir Kolmogorov

Chief Financial Officer — Andrey Gainanov

17 April 2009

Consolidated Cash Flow Statement for the year ended 31 December 2008

(in thousands of Russian Roubles)

	Notes	Year ended 31 December 2008	Year ended 31 December 2007
CASH FLOW FROM OPERATING ACTIVITIES:			
Profit before income tax		**8 452 666**	**9 215 576**
Adjustments for:			
Depreciation and amortization	6, 7, 21	1 282 642	1 233 387
Bad debt allowance and write-off of accounts receivable	11, 21	132 245	275 984
Income from investing activities	23	(180 934)	-
Costs of investing activities	24	980 932	-
Finance (income)/costs	25	(4 590)	239 842
Interest income	23	(5 726 728)	(3 753 821)
Foreign exchange gain	12, 14, 18	(1 384 067)	-
Loss on disposal of fixed assets	21	80 649	133 264
Impairment loss recognized/(reversed) during the year	6	1 342 114	(3 930 682)
Earnings from investments in equity affiliates		(355 446)	-
Other non-cash items		183 745	(6 022)
Operating cash flows before working capital changes and income tax paid		**4 803 228**	**3 407 528**
Working capital changes:			
Increase in accounts receivable and prepayments		(848 185)	(1 138 238)
Increase in inventories		(594 842)	(16 773)
Decrease/(Increase) in other assets		16 478	(15 347)
Decrease in accounts payable and accruals		(388 676)	(142 720)
Increase in taxes payable, other than income tax		40 683	81 098
Increase/(Decrease) in other non-current liabilities		46 997	(107 473)
Income tax paid		(1 889 840)	(1 112 809)
Net cash from operating activities		**1 185 843**	**955 266**
CASH FLOW FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment and other non-current assets		(7 713 878)	(3 453 353)
Purchase of intangible assets	7	(58 265)	-
Deposited to banks	12	19 310 993	(55 750 000)
Short-term investments held to maturity	12	19 000 000	(19 000 000)
Proceeds from sale of property, plant and equipment and other non-current assets		26 745	26 342
WGC-3 Holding affiliation		278	-
Purchases of investments		(18 752 228)	-
Proceeds from sale of investments		874 366	-
Loans and borrowings issued		1 660	-
Interest received		5 167 400	2 890 775
Net cash from/(used) in investing activities		**17 857 071**	**(75 286 236)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from borrowings		5 006 529	4 736 198
Repayment of debt		(5 006 529)	(8 442 149)
Interest paid		(10 216)	(221 750)
Purchase of treasury shares		(8 122 944)	-
Dividends paid to the Company's shareholders		(228 180)	(418 011)
Dividend paid to minority interests		(17 867)	(273 798)
Proceeds from issue of share capital		-	80 777 948
Net cash generated from/(used in) financing activities		**(8 379 207)**	**76 158 438**
Effect of exchange rate changes on cash and cash equivalents		592 767	-
Net increase in cash		11 256 474	**1 827 468**
Cash at the beginning of the period		**2 182 360**	**354 892**
Cash at the end of the period		**13 438 834**	**2 182 360**

General Director — Vladimir Kolmogorov

Chief Financial Officer — Andrey Gainanov

17 April 2009

WGC-3 Group

Consolidated Statement of Changes in Equity for the year ended 31 December 2008

(in thousands of Russian Roubles)

	Attributable to the shareholders of the Company						
	Share capital	Treasury shares	Share Premium	Other reserves	Retained earnings/ (Accumulated deficit)	Fair value reserve	Total equity
Balance at 1 January 2007	**29 487 999**	-	**450 818**	**(8 357 873)**	**(6 350 801)**	**25 642**	**15 255 785**
Available-for-sale investments:							
Change in fair value of available-for-sale investments	-	-	-	-	-	11 882	11 882
Deferred tax on change in fair value of available-for-sale investments	-	-	-	-	-	(2 851)	(2 851)
Net income recognized directly in equity	-	-	-	-	-	9 031	9 031
Profit for the period	-	-	-	-	6 727 738	-	6 727 738
Total recognized income for the period	-	-	-	-	6 727 738	9 031	6 736 769
Payment of share capital (Note 15)	18 000 000	-	63 720 000	-	-	-	81 720 000
Transaction costs of share capital increase	-	-	(942 052)	-	-	-	(942 052)
Dividends declared	-	-	-	-	(700 001)	-	(700 001)
Balance at 31 December 2007	**47 487 999**	-	**63 228 766**	**(8 357 873)**	**(323 064)**	**34 673**	**102 070 501**
Balance at 1 January 2008	**47 487 999**	-	**63 228 766**	**(8 357 873)**	**(323 064)**	**34 673**	**102 070 501**
Available-for-sale investments:							
Change in fair value of available-for-sale investments	-	-	-	-	-	(43 120)	(43 120)
Deferred tax on change in fair value of available-for-sale investments	-	-	-	-	-	10 448	10 448
Net expense recognized directly in equity	-	-	-	-	-	(32 672)	(32 672)
Profit for the period	-	-	-	-	6 720 805	-	6 720 805
Total recognized income for the period	-	-	-	-	6 720 805	(32 672)	6 688 133
Purchase of treasury shares (Note 15)	-	(8 122 944)	-	-	-	-	(8 122 944)
Conversion of treasury shares (Note 15)	-	76 230	-	-	(76 230)	-	-
Merging (Note 15)	-	-	-	-	112 193	-	112 193
Dividends declared (Note 15)	-	-	-	-	(334 904)	-	(334 904)
Balance at 31 December 2008	**47 487 999**	**(8 046 714)**	**63 228 766**	**(8 357 873)**	**6 098 800**	**2 001**	**100 412 979**

General Director — Vladimir Kolmogorov

Chief Financial Officer — Andrey Gainanov

17 April 2009

1 The Group and its operations

Open Joint Stock Company "Third Generation Company of the Wholesale Electricity Market" (JSC "WGC-3", or the "Company") was established on 23 November 2004 within the framework of the Russian electricity sector restructuring in accordance with Resolution No. 1254-r adopted by the Russian Federation Government on 1 September 2003.

Branches. The WGC-3 Group (the "Group") operates 6 state district power plants (SDPP) and its principal activity is electricity and heat generation. These SDPPs are incorporated as production branches. The Group's principal branches as at 31 December 2008 are Kostromskaya SDPP, Cherepetskaya SDPP, Pechorskaya SDPP, Kharanorskaya SDPP, Yuzhnouralskaya SDPP, and Gusinooserskaya SDPP.

Subsidiaries. The Company has 16 subsidiaries which are service and heating retail companies and operate in the regions where power plants are situated. All subsidiaries are 100% controlled and their income is mainly generated by intra-group operations.

Principal shareholders. As at 31 December 2008 the Company's ultimate controlling party is the Group "MMC "Norilsk Nickel" (77.92% of shares). The rest of the shares are held by individual and nominee holders (22.08%) (see Note 15).

The Company is registered by the District Inspectorate of the RF Ministry of Taxation of Republic of Buryatiya. The Company's office is located at bld. 165, bld. 1, Mozhayskoye Highway, Moscow, 121596, Russia.

Operating environment. The Russian Federation, the country continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the Russian Federation and relatively high inflation. The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and changes, which can occur frequently.

Relations with the state and current regulation. The Group's customer base includes a large number of entities controlled by or related to the state. Moreover, the state controls a number of the Group's fuel and other suppliers.

The government of the Russian Federation directly affects the Group's operations through regulation by the Federal Service on Tariffs ("FST"), with respect to its wholesale energy sales. Tariffs which the Group may charge for sales of electricity and heat are governed by regulations specific to the electricity and heat industry and by regulations applicable to natural monopolies.

As described in Notes 2, 26 and 27, the government's economic, social and other policies could have material effects on the operations of the Group.

Regulatory issues and sector restructuring. The reform process in the Russian electric utilities industry creates conditions for competitive electricity market development. WGC-3 is one of the participants involved in activity on competitive market. Prices in this market will not be regulated by the government, but will be formed on a demand and supply basis. As at 1 September 2006, a new liberalized model of the wholesale and retail electricity (power) markets was launched according to the Russian Government's Resolution No. 529 "On Improvement of the Procedure for Functioning of Wholesale Electricity (Power) Market" and No. 530 "On Rules for the Functioning of Retail Electricity Markets". Under the new wholesale market model, the existing electricity and power purchase-and-sale relations in the regulated market sector are to be replaced by a regulated bilateral contract system. From January 2007 the volumes of electricity (power) traded on the wholesale energy market under regulated contracts should be not less than 95% of the basic forecasted volume of electricity (power) , and from 1 July 2007 - not less than 90%. The pace of reduction is set annually by the Russian Federation Government according to the Rules for the Functioning of Retail Electricity Markets. For the period ended 31 December 2008 and 31 December 2009 the volumes of electricity (power) traded under regulated contracts were set to be not less than 75% and 70% respectively. From 1 January 2011 all electricity will be traded at free prices. The new market model implies two ways of electricity trading at free prices, being free bilateral contracts and a day-ahead market. Under free bilateral contracts market participants have the right to choose contracting parties, prices and supply volumes. The day-ahead market is based on competitive selection of bids submitted by suppliers and buyers a day before the electricity is actually supplied. The competitive selection is performed by the non-commercial partnership "Trade System Administrator of the Wholesale Electricity Market". As a whole, the day-ahead market replaces the free trade sector that was previously operating.

There have also been created conditions for competitive capacity market development. According to the Russian Government's Resolution No. 476 dated 28 June 2008, a liberalized model for capacity market has been launched from July 2008. In 2008 the Government ratified the decree on the launch of the capacity in Russia, whose main goal is to ensure in short, middle and long terms the availability of the working generating facilities in the RAO UES so that it will be enough to cover all electric energy consumption in the system at any time with relative reliability and quality parameters (including reserves). The draft decree on the capacity market stipulates the availability of two models: transition model – till 2011 and target model.

At present under the transition model the following mechanisms of capacity trade are applied:

1. At regulated prices:
    - purchase/sale of capacity under regulated contracts, at prices set by Federal Tariff Service; volumes sold under regulated contracts shall decrease year by year according to liberalization schedule.
2. At free prices:
    - purchase/sale of capacity through free bilateral contracts (this is possible only between counterparties of regulated contracts);
    - purchase/sale of capacity as a result of the competitive capacity auction.

On January 2009 the new exchange for purchase and sale of capacity in the free market started in operation.

2 Financial condition

At 31 December 2008, the Group's current assets exceeded its current liabilities by RR 56 755 616 thousand (at 31 December 2007: current assets exceeded its current liabilities by RR 80 086 788 thousand).

As discussed above the Group is affected by government policy through the control of tariffs and other factors. The regulated electricity tariffs are indexed mainly on fuel cost increases based on average national indicators set by FST/MER, regardless of specific plant costs. Capacity Tariffs are driven by the inflation rate. Moreover, these tariffs consider costs only on a Russian statutory basis and, accordingly, exclude additional costs recognized under the IFRS basis of accounting. As a result, tariffs may not consistently allow for an adequate return on investment and currently do not provide sufficient funds for the full replacement of property, plant and equipment. However, during 2007-2008, the growing demand for electricity and capacity together with an increasing free trading sector of the wholesale electricity market have resulted in a higher rate of revenue growth (see Industry restructuring in Note 1).

Impact of the ongoing global financial and economic crisis. The ongoing global financial and economic crisis that emerged out of the severe reduction in global liquidity which commenced in the middle of 2007 (often referred to as the "Credit Crunch") has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector and wider economy, and, at times, higher interbank lending rates and very high volatility in stock and currency markets. The uncertainties in the global financial markets have also led to failures of banks and other corporations, 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. Customers and suppliers of the Group may be adversely affected by the financial and economic environment which could in turn impact their ability to repay the amounts owed or provide goods and services according to contracts with the Group. The volume of wholesale financing has significantly reduced since August 2007. Such circumstances may affect the ability of the Group to obtain borrowings at terms and conditions that applied to similar transactions in recent periods, delaying fulfillment by the Group of its capital investment commitments. The uncertainties about the growth of demand for energy and heat in Russia and related needs of capital investments are discussed by the Government of Russia and by the market participants. As a result of such discussions the regulatory environment in relation to the development and liberisation of the industry may change.

(in thousands of Russian Roubles)

Deteriorating economic conditions 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. However, 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.

3 Basis of preparation

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

Each enterprise 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. The accompanying Financial Statements are based on the statutory records and adjusted and reclassified for the purpose of fair presentation in accordance with IFRS.

Reclassifications. Certain reclassifications have been made to prior year data to conform to the current year presentation. In prior periods the Group netted revenues from electricity with costs of purchased electricity for Group own usage. In prior period Group also presented income from investing activities in the finance income line. The effects from reclassification mentioned above are disclosed below:

	Year ended 31 December 2007 (adjusted)	Year ended 31 December 2007
Electricity revenues	32 357 243	32 346 124
Operating expenses	(31 661 571)	(31 650 452)
Income from investing activities	3 753 821	-
Finance income/(costs)	(239 842)	-
Finance income	-	3 753 821
Finance costs	-	(239 842)

The management of the Group believes that the revised presentation provides more relevant and meaningful information about the changes in the financial position of the Group.

***Functional and presentation currency*.** The national currency of the Russian Federation is the Russian rouble ("RR"), which is the functional currency of each of the Group's entities and the currency in which these financial statements are presented. All financial information presented in RR has been rounded to the nearest thousand.

Inflation accounting. Prior to 1 January 2003 non-monetary assets acquired and non-monetary liabilities incurred or assumed have been adjusted for the changes in the general purchasing power of the RR in accordance with International Accounting Standards 29 ("IAS") ("Financial Reporting in Hyperinflationary Economies"). 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. As the characteristics of the economic environment of the Russian Federation indicate that hyperinflation has ceased, the amounts expressed in the measuring unit current at 31 December 2002 are treated as the basis for the carrying amounts in these Financial Statements.

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

These new or amended standards and interpretations that are in force for the periods beginning on 1 January 2008 and their impact on the current period or any prior period is described below:

- IFRIC 12, "Service concession agreements", effective for annual periods beginning on or after 1 January 2008. This amendment did not have a material effect on the Group's financial statements;

- 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. This amendment did not have a material effect on the Group's financial statements.

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

IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). The standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organization for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments, with segment information presented on a similar basis to that used for internal reporting purposes. Company continues to assess the impact of IFRS 8 to the Group’s financial statements.

IAS 32 and IAS 1 Amendment—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 financial liabilities. The Group does not expect the amendment to affect its financial statements.

IAS 23, Borrowing Costs (revised March 2007; effective for annual periods beginning on or after 1 January 2009). The main change to IAS 23 is the removal of the option of immediately recognizing 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 capitalize 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 capitalization is on or after 1 January 2009. The Group does not expect the amendment to the standard to have a material effect on its financial statements.

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

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

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

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer will have to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. IFRS 3 will be relevant to the Group in case it has a business combination in future.

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

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

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

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

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

Improvements to International Financial Reporting Standards (issued in May 2008). In 2007, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. The Group does not expect the amendments to have any material effect on its financial statements.

IFRIC 17, Distribution of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009). The amendment clarifies when and how distribution of non-cash assets as dividends to the owners should be recognized. 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 recognized in profit or loss when the entity settles the dividend payable. IFRIC 17 is not relevant to the Group’s operations because it does not distribute non-cash assets to owners.

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

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

IFRS 7 Amendment, Financial Instruments: Disclosures—Improving Disclosures about Financial Instruments (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.

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 financial statements.

Going concern. The financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The accompanying Financial Statements do not include any adjustments should the Group be unable to continue as a going concern.

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

Bad debt allowance and write-off of accounts receivable. Bad debt allowance and write-off of accounts receivable is based on the Group's assessment of whether the collectability of specific customer accounts worsened compared to prior estimates. If there is deterioration in a major customer's creditworthiness or actual defaults are higher than the estimates, the actual results could differ from these estimates.

Impairment of tangible and intangible assets, excluding goodwill. At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less cost to sell and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset, for which the estimates of the future cash flows have not been adjusted. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized in the consolidated income statement immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the original carrying amount that would have been determined had no impairment loss been recognized in prior periods. A reversal of an impairment loss is recognized in the consolidated income statement immediately.

Critical assumptions that were made for the purposes of impairment test of property, plant and equipment are described in the Note 6.

Critical assumptions that were made for the Investment in associates are described in the Note 8.

Tax contingencies. Russian tax legislation is subject to varying interpretations and changes, which can occur frequently. Where the Group management believes it is probable that their interpretation of the relevant legislation and the Group's tax positions cannot be sustained, an appropriate amount is accrued for in these consolidated financial statements.

4 Summary of significant accounting policies

Principles of consolidation. The consolidated financial statements comprise the financial statements of JSC WGC-3 and the financial statements of those entities whose operations are controlled by JSC WGC-3. Control is presumed to exist when JSC WGC-3 controls, directly or indirectly through subsidiaries, more than 50% of voting rights.

A) Subsidiaries

The consolidated financial statements incorporate financial statements of the Company and its subsidiaries, from the date that control effectively commenced until the date that control effectively ceased. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

All intra-group balances, transactions and any unrealized profits or losses arising from intra-group transactions are eliminated in full on consolidation.

B) Associates

An associate is an entity over which the Group exercises significant influence, but not control, through participation in financing and operating policy decisions, in which it normally owns between 20% and 50% of the voting equity. Associates are equity accounted for from the date significant influence commenced until the date that significant influence effectively ceased.

Investments in associates are carried at cost, including goodwill, as adjusted for the Group's the share of post-acquisition changes in associate's retained earnings and other movements in reserves. The carrying value of investments in associates is reviewed on a regular basis and if any impairment in value has occurred, it is written down in the period in which these circumstances are identified.

The results of associates are equity accounted for based on their most recent financial statements. Losses of associates are recorded in the consolidated interim financial statements until the investment in such associates is written down to nil value. Thereafter losses are only accounted for to the extent that the Group is committed to provide financial support to such associates.

Profits and losses resulting from transactions with associates are eliminated to the extent of the Group's interest in the relevant associates.

Accounting for acquisitions. Where an investment in a subsidiary or an associate is made, any excess of the purchase consideration over the fair value of the identifiable assets, including mineral rights, liabilities and contingent liabilities at the date of acquisition is recognized as goodwill. Goodwill relating to associates is included in the carrying value of the investment in associates. Goodwill related to subsidiaries is reviewed for impairment at least annually. If impairment has occurred, it is recognized in the consolidated income statement during the period in which the circumstances are identified and is not subsequently reversed.

Where an investment in a subsidiary or an associate is made, any excess of the Group's share in the fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost is recognized in the consolidated income statement immediately.

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 recognized 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 the RR and the US Dollar ("USD") was RR 29.3804: USD 1.00 (31 December 2007: RR 24.5462: USD 1.00), between the RR and EURO RR 41.4411: EURO 1.00 (31 December 2007: RR 35.9332 : EURO 1.00).

Property, plant and equipment. In 2004 property, plant and equipment were recognized at the carrying value determined in accordance with the IFRS at the date of their transfer to the Group by the Predecessor.

Renewals and improvements are capitalized 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 Roubles)

Depreciation of property, plant and equipment is calculated on a straight-line basis over the estimated useful life of the asset when it is available for use. For the property, plant and equipment which were subject to an independent valuation as at 31 December 1997, the depreciation rate applied is based on the estimated remaining useful lives.

The useful lives, in years, of assets by type of facility are as follows:

Type of facility	**Acquired prior to 31 December 1997**	**Acquired subsequent to 31 December 1997**
Electricity and heat generation	4-63	25 -50
Electricity distribution	19-30	30
Heating networks	4-22	25
Other	8	10

Social assets are not capitalized 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.

Oil and gas assets.

Oil and gas assets are recorded at cost less accumulated amortization and impairment losses. Oil and gas assets include the cost of acquiring and developing oil and gas properties, pre-production expenditure, infrastructure, mining and exploration licenses and the present discounted value of future asset retirement obligation.

Amortization of oil and gas assets is charged from the date on which a new asset reaches commercial production quantities and is included in the cost of production. Oil and gas assets are depleted by a unit of production method calculated based on officially proven reserves and current extraction.

Wells development costs.

Wells development costs are capitalized and transferred to property, plant and equipment when a new well reaches commercial production quantities.

Research and exploration expenditure.

Research and exploration expenditure, including geophysical, topographical, geological and similar types of expenditure, is expensed in the period in which it is incurred, unless it is deemed that such expenditure will lead to an economically viable capital project. In this case the expenditure is capitalized and amortized over the life of field, when a mine reaches commercial production quantities.

Research and exploration expenditure written-off before development and construction starts is not subsequently capitalized, even if a commercial discovery subsequently occurs.

Inventories. Inventories are valued at the lower of net realizable value and weighted average acquisition cost. Provision is made for potential losses on obsolete or slow-moving inventories, taking into account their expected use and future realizable value.

Financial assets. The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and accounts receivable, held-to-maturity and available-for-sale. The classification depends on the purpose for which the financial assets are required. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss. Financial assets are classified as at fair value through profit or loss where the financial asset is either held for trading or it is designated as at fair value through profit or loss.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling or repurchasing in the near future; or
- it is a part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Financial assets at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in the consolidated income statement. The net gain or loss recognised in the consolidated income statement incorporates any dividend or interest earned on the financial asset.

(b) Loans and accounts receivable. Loans and accounts receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets.

(c) Held-to-maturity financial assets. Held to maturity financial assets are financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity other than loans and accounts receivable originated by the Group.

(d) *Available-for-sale financial assets.* Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. Available-for-sale financial assets mainly include investments in listed and unlisted shares. Listed shares held by the Group that are traded in an active market are stated at their market value. Gains and losses arising from changes in fair value are recognized directly in equity in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognized directly in the consolidated income statement. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in the investment revaluation reserve is included in the consolidated income statement for the period. Dividends on available-for-sale equity instruments are recognized in the consolidated income statement when the Group’s right to receive the dividends is established. Investments in unlisted shares that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recorded at management’s estimate of fair value.

Leases. Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets subject to finance leases are capitalised as property, plant and equipment at the lower of fair value or present value of future minimum lease payments at the date of acquisition, with the related lease obligation recognised at the same value. Assets held under finance leases are depreciated over their estimated economic useful lives or over the term of the lease, if shorter. If there is reasonable certainty that the lessee will obtain ownership at the end of the lease term, the period of expected use is useful life of the asset.

Finance lease payments are allocated using the effective interest rate method, between the lease finance cost, which is included in finance costs, and the capital repayment, which reduces the related lease obligation to the lessor.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the consolidated income statement on a straight-line basis over the lease term.

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

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

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

Type of intangible assets	Useful lives (in years)
Computer software	1-13
Licenses	1-5

Cash and cash equivalents. Cash and cash equivalents comprise cash balances, cash deposits and highly liquid investments with maturities of three months or less, which are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Accounts receivable and prepayments. Accounts receivable are recorded inclusive of value added taxes. Trade accounts receivable are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method less provision for impairment. Such a bad debt allowance and write-off of accounts receivable is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the accounts receivable. The amount of the provision 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 the accounts receivable. The primary factors that the Group considers whether a receivable is impaired is its overdue status and reliability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any portion of the receivable is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains;
- the counterparty considers bankruptcy or a financial reorganisation;
- there is adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty.

Value added tax on purchases and sales. Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of the accounts receivable 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. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognized in the balance sheet on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of accounts receivable, the impairment loss is recorded for the gross amount of the debtor, including VAT.

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

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

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

Deferred tax is not provided for the undistributed earnings of subsidiaries, as the Group requires profits to be reinvested, and only insignificant dividends are expected to be declared from future profits of the subsidiaries. Neither these future profits nor the related taxes are recognized in these financial statements.

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

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

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

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.

The Group has also operated a combination of defined benefit and defined contribution plans untill December 2007, in respect of which it had contracts with a non-governmental pension fund. The Board of Directors at their meeting of December 28, 2007 has taken the decision to curtail the defined benefit part of the plan which affected the liability recognized in the balance sheet. The defined benefit pension plans are no longer included in calculation of the liability, but the Group offers various post-employment, long-term and jubilee benefits to its employees which are of a defined benefit nature. The defined benefit obligations and costs are assessed using the projected unit credit method. The present value of the 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 associated with the operations of the plan will be paid, and that have terms to maturity approximating the terms of the related liabilities.

Actuarial gains and losses arising from changes in actuarial estimations and exceeding 10.00% of the obligations are charged or credited to the statement of operations over the average remaining service lives of employees starting from the next reporting period.

Provisions. Provisions are recorded where there is a present obligation, the payment is probable and reliable estimates can be made.

Revenue recognition. Revenue is recognized on the delivery of electricity and heat during the period. Revenue amounts are represented exclusive of value added tax.

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

Segment reporting. The Group operates predominantly in a single geographical area and industry, the generation of electric power and heat in the Russian Federation. The generation of electricity and heat are related activities and are subject to similar risks and returns, therefore they are reported as one business segment.

(in thousands of Russian Roubles)

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

Interest. Interest income and expense are recognized in the income statement for all debt instruments on an accrual basis using the effective rate of interest method. Interest income includes nominal interest and amortized discount and premium. When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognized based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

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

Seasonality. Demand for electricity and heat is influenced by both the seasons of the year and the relative severity of the weather. Revenues from heating are concentrated within the months of October to March. A similar, although less intense, concentration of electricity sales occurs within the same period. The seasonality of electricity and heat production has a corresponding impact on the usage of fuel and the purchase of power. Furthermore, during the periods of lower production from April to September, there is an increase in the expenditures on repairs and maintenance. This seasonality does not impact the revenue or cost recognition policies of the Group.

5 Related Parties

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions during the period ended 31 December 2008 and during the period ended 31 December 2007 or had significant balances outstanding at 31 December 2008 and at 31 December 2007 are detailed below.

Parent and parent’s subsidiaries

The Group had following significant transactions with the Group “MMC “Norilsk Nickel”:

	Period ended 31 December 2008	**Period ended 31 December 2007**
Sales	-	148 628
Purchases	888 674	
Loans and borrowings issued	1 500	-
Loans and borrowings repaid	(1 500)	-

The Group had no balances with the parent or its subsidiaries as at 31 December 2008 and 31 December 2007.

(in thousands of Russian Roubles)

Rosbank

	31 December 2008	31 December 2007
Cash	11 681	4 130
Deposits	12 352 940	1 950 000
Promissory notes	-	19 000 000

For the year ended 31 December 2008 interest income on these deposits and promissory notes amounted RR 477 072 thousand and RR 1 598 089 thousand respectively.

Group RAO UES of Russia

	Period ended 31 July 2007
Sales of electricity	11 720 877
Other	1 608

From 1 August 2007 the subsidiaries of RAO UES are no longer related parties of the Group.

Transactions with key management and close family members

Total remuneration in the form of salary and bonuses paid to the members of the Board of Directors and Management Board for the period ended 31 December 2008 was RR 109 186 thousand (for the period ended 31 December 2007 – RR 223 785 thousand).

In the reporting period Group also gave interest-bearing loan to the chairman of the Management Board in the amount of RR 17 168 thousand which had a book value of RR 12 298 thousand at 31 December 2008.

6 Property, plant and equipment

Cost	Electricity and heat generation	Electricity transmission	Heating networks	Construction in progress	Other	Total
Opening balance as at 31 December 2007	**29 924 692**	**3 913 271**	**936 803**	**4 612 152**	**6 986 418**	**46 373 336**
Additions	46 349	163	-	7 199 007	141 166	7 386 685
Transfer	498 406	97 198	14 492	(1 057 928)	447 832	-
Disposals	(8 429)	(4 767)	-	(169 727)	(33 663)	(216 586)
Closing balance as at 31 December 2008	**30 461 018**	**4 005 865**	**951 295**	**10 583 504**	**7 541 753**	**53 543 435**
Accumulated depreciation (including impairment)						
Opening balance as at 31 December 2007	**(12 915 607)**	**(2 567 037)**	**(522 213)**	**(123 469)**	**(5 546 484)**	**(21 674 810)**
Charge for the period	(926 419)	(69 265)	(11 722)	-	(268 475)	(1 275 881)
Impairment transferred from CIP	(8 010)	-	-	14 688	(6 678)	-
Disposals	3 042	4 024	-	4 743	24 874	36 683
Impairment charge	(1 699 046)	(163 948)	(35 974)	-	(62 497)	(1 961 465)
Reversal of impairment	573 509	-	45 842	-	-	619 351
Closing balance as at 31 December 2008	**(14 972 531)**	**(2 796 226)**	**(524 067)**	**(104 038)**	**(5 859 260)**	**(24 256 122)**
Net book value as at 31 December 2008	**15 488 487**	**1 209 639**	**427 228**	**10 479 466**	**1 682 493**	**29 287 313**
Net book value as at 31 December 2007	**17 009 085**	**1 346 234**	**414 590**	**4 488 683**	**1 439 934**	**24 698 526**

(in thousands of Russian Roubles)

Cost	Electricity and heat generation	Electricity transmission	Heating networks	Construction in progress	Other	Total
Opening balance as at 31 December 2006	**29 472 943**	**3 845 767**	**923 522**	**2 311 434**	**6 585 373**	**43 139 039**
Additions	8 382	263	-	3 304 863	125 021	3 438 529
Transfer	448 131	69 429	13 281	(858 556)	327 715	-
Disposals	(4 764)	(2 188)	-	(145 589)	(51 691)	(204 232)
Closing balance as at 31 December 2007	**29 924 692**	**3 913 271**	**936 803**	**4 612 152**	**6 986 418**	**46 373 336**
Accumulated depreciation (including impairment)						
Opening balance as at 31 December 2006	**(15 355 385)**	**(2 798 203)**	**(663 402)**	**(130 928)**	**(5 466 363)**	**(24 414 281)**
Charge for the period	(826 960)	(72 710)	(22 233)	-	(311 484)	(1 233 387)
Impairment transferred from CIP	(6 053)	(552)	-	7 379	(774)	-
Disposals	1 740	961	-	80	39 395	42 176
Reversal of impairment	3 271 051	303 467	163 422	-	192 742	3 930 682
Closing balance as at 31 December 2007	**(12 915 607)**	**(2 567 037)**	**(522 213)**	**(123 469)**	**(5 546 484)**	**(21 674 810)**
Net book value as at 31 December 2007	**17 009 085**	**1 346 234**	**414 590**	**4 488 683**	**1 439 934**	**24 698 526**
Net book value as at 31 December 2006	**14 117 558**	**1 047 564**	**260 120**	**2 180 506**	**1 119 010**	**18 724 758**

The assets transferred to the Group upon privatization did not include the land on which the Group's buildings and facilities are situated. The Group has the right to purchase this land (except for the land at Moscow) upon application to the state registration body or to formalize the right for rent after the right expiry date, which is 1 January 2010.

Impairment

The provision included in accumulated depreciation balance as at 31 December 2008, 31 December 2007 and 31 December 2006 is RR 2 069 339 thousand, RR 849 806 thousand and RR 4 836 185 thousand, accordingly. The carrying amount of provision for Impairment as at 31 December 2008 consists of RR 1 961 465 thousand at the Gusinooserskaya SDPP and the remaining impairment loss of RR 107 874 thousand attributable to Pechorskaya SDPP.

As described in Note 2, the financial condition of the Group was influenced by the ongoing global financial and economic crisis. Management considered the following indicators affecting the recoverable amount of property, plant and equipment as at 31 December 2008:

- the ongoing global financial crisis has resulted in capital markets instability, significant deterioration of liquidity in the Russian economy and tighter credit conditions within Russia;
- medium-term forecast for main economic indicators such as CPI and GDP were significantly changed;
- the decline in commodity prices, particularly, crude oil, stable gas condensate, liquefied petroleum gas, and oil products evidenced the lower need in energy consumption by customers;
- deterioration of liquidity caused decrease of output for part of Russian companies and also electricity demand decrease;
- WGC-3 market capitalization decreased significantly in the fourth quarter of 2008.

These developments have resulted in a change to the assumptions that were used to determine the value in use of the assets included in each cash generating unit (GCU). An impairment review has been carried out in accordance with IAS 36 by comparing the recoverable amount of the each cash generating unit to its net book value. Management considered that power stations (SDPP), being the company's branches represent cash generating units. The recoverable amount was determined based on value in use, calculated by discounting the estimated future cash flows using various assumptions including the following significant assumptions which changed compared to 2007:

- *Regulated electricity tariffs* annual increase was estimated by the management as set by Federal Tariff Service (FTS) and Regional Energy Committees (REC) for each power plant for 2008. Management assumed that the electricity tariffs will increase at the growth rate calculated based on established by FTS method using forecasted and actual figures.

For the 2007 impairment test management assumed that the electricity tariffs would increase at *the* growth rate equal to the growth rate of fuel costs for the period from 2008 to 2011, applying cost plus method, assuming no change in the level of profitability in the regulated tariffs for the period of 2008 to 2011.

- *The regulated capacity payments* set for 2009 were assumed to increase at the rate equal to the inflation level as measured by the consumer price index (CPI) for the whole forecasted period, which is consistent with 2007 approach except of different forecasts for CPI dynamics were used.
- *Unregulated Electricity Wholesale Price.* Management estimated two scenarios of free-market electricity prices changes: before and after the financial crisis. In DCF model the free-market electricity price is established in years 2009-2011 in accordance with financial crisis scenario, from year 2012 to 2014 it equals to combination of both scenarios with increasing share of normal economic conditions scenario. From year 2015 free-market electricity price is set in accordance with normal economic conditions scenario. Management assumed that unregulated wholesale prices would increase in line with the growth in fuel costs for a marginal plant in the region or in line with inflation.
  For the 2007 impairment test management assumed that unregulated wholesale prices would grow in the line with the price of gas. The management assumed to limit the average wholesale price forecast to the expected price dynamics of natural gas for the period in question;
- *Free-market capacity price* for the year 2009 are set at market Administrator's forecast corrected for the coefficients which assume deviations between actual and forecasted values. The growth in free-market capacity price was assumed in line with the general inflation as measured by CPI.
  For the 2007 impairment test free-market capacity price was assumed equal to the regulated capacity payment for the period from 2008 to 2011. The growth in free-market capacity price was assumed in line with the general inflation as measured by CPI.
- *Gas prices* assumed to grow in line with the rates forecasted by analysts till year 2015, after that with inflation rate. For the 2007 impairment test previously they were assumed to grow in line with rates forecasted by analysts till year 2020, after that with inflation rate;
- *Coal and fuel oil prices* assumed to grow in line with rates forecasted by analysts till year 2015, after that with inflation rate. For the 2007 impairment test prices were assumed to grow in line with inflation during the whole period;
- *Electricity volumes on unregulated market* changes were assumed based on electricity demand change in the particular region. For the 2007 impairment test it was fixed during the forecast period (except for Yuzhnouralskaya SDPP, for which the volumes decreased), electricity demand change was not considered;
- *Weighted average cost of capital* of 15.4% was applied for discounting future operating cash flows generated by the Group for all cash generating units. For the 2007 impairment test previously WACC of 13% was used;
- *The forecasted period* was set till the year 2028 and growth rate of 3.5% for terminal value calculation. For the 2007 impairment test the forecasted period varied among the stations from year 2020 to year 2052

As a result of impairment test management recognized net impairment loss of RR 1 342 114 thousand for the year ended 31 December 2008 including recognition of impairment loss at Gusinooserskaya SDPP in the amount of RR 1 961 466 thousand, which was partially offset by reversal of previously recognized impairment loss at Pechorskaya SDPP in the amount of RR 619 351 thousand.

The impairment charge for Gusinooserskaya SDPP was mainly related to the change of the management estimation in relation to the marginal station of the region, for the purpose of calculating Unregulated Electricity Wholesale Price. In 2008 management assessed that coal power stations, which are less profitable, will become the marginal plants for the regions, thereby setting the free price level. In 2007 impairment assessment the management was considering that gas stations would be marginal in the region and would determine the price levels.

The reversal of impairment for Pechorskaya SDPP as at 31 December 2008 was mainly related to the increase of the regulated tariffs for the region, effective in 2008, which revised management estimations for the approve regulated tariffs in future periods.

(in thousands of Russian Roubles)

Management estimated the sensitivity of CGUs recoverable amounts to the 1% change in the WACC as a key assumption on which management has based its determination of CGU value-in-use and summarized the results below:

CGU	WACC - 1 percent point	WACC +1 percent point
	Value in use deviation, %	
Gusinoozerskaya SDPP	12%	-10%
Kostromskaya SDPP	12%	-10%
Pechorskaya SDPP	11%	-9%
Kharanorskaya SDPP	11%	-9%
Cherepetskaya SDPP	11%	-9%
Yuzhnouralskaya SDPP	13%	-11%

Therefore, if WACC was 1 percent point higher with all other variables held constant, impairment loss for the year would have been RR 334 698 thousand higher, if WACC was 1 percent point lower than impairment loss for the year would have been RR 404 776 thousand lower.

At 31 December 2007, management concluded that there were indications for reversing previously recorded impairment. In particular, following the acquisition of the Group by "MMC "Norilsk Nickel", management has assessed the fair value of the assets, engaging independent appraisers Ernst and Young Valuation LLC that reported increased marked value of the Property, Plant and Equipment. An impairment review has been carried out by management comparing the recoverable amount of the individual cash generating units with their net book values. The recoverable amount was generally based on value in use, which was calculated based on estimated future cash flows. As a result, in 2007 the Group recorded further reversal of the previously recognized impairment loss in the amount of RR 3 930 682 thousand. A respective gain together with a corresponding deferred tax expense of RR 943 364 thousand were recognized in the statement of operations for the period ended 31 December 2007.

Operating leases

The Group leases a number of land areas owned by local governments under operating lease. Land lease payments are determined by lease agreements.

Non-cancelable operating lease rentals are payable as follows:

	31 December 2008	31 December 2007
not later than one year	34 609	27 255
later than one year and not later than five years	37 065	58 740
later than five years	132 369	138 755
Total	**204 043**	**224 750**

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

(in thousands of Russian Roubles)

7 Intangible assets

Cost	**Computer software**	**Licenses**	**Total**
Balance at 1 January 2008	-	-	-
Additions	39 298	18 967	58 265
Disposals	-	-	-
Balance at 31 December 2008	39 298	18 967	58 265
Amortisation			
Balance at 1 January 2008	-	-	-
Amortisation for the period	(5 882)	(359)	(6 241)
Amortisation disposal in the period	-	-	-
Balance at 31 December 2008	(5 882)	(359)	(6 241)
Carrying amounts			
At 1 January 2008	-	-	-
At 31 December 2008	**33 416**	**18 608**	**52 024**

8 Investments in associates

Equity investments in associated company accounted for using the equity method are presented by investments in RUSIA Petroleum and Plug Power and are as follows:

	RUSIA Petroleum	**Plug Power**	**Total**
Balance at beginning of the period	-	-	-
Acquired during the period	15 060 290	888 826	15 949 116
Disposed off during the period	-	-	-
Reclassifications	-	-	-
Share of post-acquisition losses	(45 071)	-	(45 071)
Excess of the investor's share of fair value of net assets acquired over the cost of the investment	-	400 517	400 517
Dividends received	-	-	-
Impairment	-	-	-
Balance at end of the period	**15 015 219**	**1 289 343**	**16 304 562**

The main income statement and balance sheet data for the equity investments in associates are reported in the following table:

Name of associate	**Market value**	**Carrying value of investment**	**Total assets**	**Total liabilities**	**Sales**	**Loss**
Year ended 31 December 2008						
RUSIA Petroleum (i)	n/a	15 015 232	35 498 756	14 603 101	2 186	(180 284)
Plug Power (ii)	1 337 380	1 289 343	145 616	20 124	-	-
Total		**16 304 576**	**35 644 372**	**14 623 225**	**2 186**	**(180 284)**

(i) RUSIA Petroleum. On 20 October 2008 the Group acquired 25% (minus one share) of OJSC RUSIA Petroleum Company (RUSIA Petroleum) from Jarford Enterprises Inc for RR 15 060 290 thousand paid in cash. RUSIA Petroleum holds license for Kovyktinskoe gas condensate field, one of the most strategically important fields in Russia.

The difference between the cost of acquisition and the share of the fair value of RUSIA Petroleum identifiable net assets at the date of acquisition, as determined by the independent appraiser Neo Center, for the purchase price allocation, representing notional goodwill was included in the carrying value of investment in RUSIA Petroleum. The notional goodwill arising on acquisition of RUSIA Petroleum is attributable to expected business synergies and future benefits for gas supply for production needs.

(in thousands of Russian Roubles)

Details of net assets acquired and goodwill at the date of acquisition are as follows:

Purchase consideration	15 060 290
Share in fair value of net assets acquired	5 270 713
Notional goodwill	9 789 577

As of December 31 2008, management considered the global economic and liquidity crisis and the decline in commodity prices, particularly, crude oil, stable gas condensate, liquefied petroleum gas, and oil products, and deteriorating macroeconomic factors, as indicators of possible impairment which arose for the period from acquisition of investment till the year end in accordance with IAS 39 management has performed an impairment analysis in respect of carrying amount of investment in RUSIA Petroleum in accordance with IAS 36. The recoverable amount of investment in associate is represented by value in use. Value in use has been estimated through a review of estimated future discounted cash flows.
Management has used various assumptions in the calculation of the value in use. Variations in these assumptions may give rise to significantly different amounts of value in use. As the Khandinskoe and Kovyktinskoe fields are in the exploration and early development phase, the discounted cash flows projections for the long-term period are sensitive to the model input data, in particular cost of capital and future gas prices. In order to account for the effect of the various uncertainties related to the licenses, exploration and development, management applied the probability weighted average approach to review the modeling scenarios and to determine the expected value in use. In management's opinion this provides the best estimate for the recoverable amount.

The main assumptions used:

- the period for estimation is 2009-2040 years;
- prolongation of existing licenses for 2040 year in two scenarios and no prolongation in the most negative but least probable scenario;
- gas prices assumed to grow in line with rates forecasted by analysts; depending on the scenario gas prices are expected at the average level of 110 and 118 USD per thousand cubic meter for the first 6 years;
- weighted average cost of capital of 21.7% and 17.4% for different scenarios were applied for discounting future operating cash flows.

The impairment assessment performed did not result in impairment of the Group's investment in RUSIA Petroleum as of and for the year ended 31 December 2008. Since discounting cash flows estimations are sensitive to the changes in the macro-economic indicators, management will further monitor the situation and possible impairment indicators, and, if necessary, will reassess the recoverability of investment in RUSIA Petroleum.

(ii) Plug Power. On 20 December the Group acquired 34.97% of Plug Power, which is listed on NASDAQ, from Smart Hydrogen Inc for RR 888 826 thousand paid in cash. Plug Power is operating in the field of development, production and exploitation of energetic assembly on the basis of hydrogen fuel elements. Purchase price was based on 9th October 2008 market quotations which has included significant discount to the investor's share of fair value of net assets acquired according to the results of independent assessment. The amount of excess of the investor's share of fair value of net assets acquired over the cost of the investment of RR 400 517 thousand before tax was recognized as income during the reporting period.

(in thousands of Russian Roubles)

9 Other non-current assets

	31 December 2008	31 December 2007
Long-term available-for-sale investments	93 448	154 578
Long-term accounts receivable	60 211	85 521
Long-term Value added tax	1 218	1 475
Other non-current assets	3 155	443
Total	**158 032**	**242 017**

The carrying amount of Group's other non-current assets approximates their fair value.

The available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of other categories of financial assets. The available-for-sale financial assets mainly comprise marketable and non-marketable securities.

Losses arising from changes in fair value during the year ended 31 December 2008 comprising RR 150 294 thousand were recognized directly in equity to the extent of investments revaluation reserve (RR 43 122 thousand) and RR 107 172 thousand were charged directly to the Income statement.

As at 1 July 2008 as result of reorganization of RAO UES of Russia the following conversion of shares was performed:

-ordinary shares of OJSC "Ivanovskie magistralnie seti" with the book value of RR 93 thousand were converted into ordinary shares of OJSC "FSK UES";

- ordinary and privileged shares of OJSC "Yaroslavskie magistralnie seti" with the book value of RR 2 450 thousand and RR 3 094 thousand respectively were converted into ordinary shares of OJSC "FSK UES".

10 Inventories

	31 December 2008	31 December 2007
Fuel supplies	2 196 938	1 563 975
Materials and supplies	258 134	298 184
Other inventories	400 842	466 017
Total	**2 855 914**	**2 328 176**

The above inventory balances are recorded net of an obsolescence provision of RR 184 592 thousand and RR 117 488 thousand as at 31 December 2008 and 31 December 2007 respectively.

11 Accounts receivable and prepayments

	31 December 2008	31 December 2007
Trade accounts receivable (net of bad debt allowance and write-off of accounts receivable of RR 537 639 thousand as at 31 December 2008 and RR 399 455 thousand as at 31 December 2007)	1 566 451	803 720
Advances to suppliers (net of provision for impairment of advances to suppliers of RR 66 111 thousand as at 31 December 2008 and RR 70 875 thousand as at 31 December 2007)	824 327	694 219
Value added tax recoverable	260 900	173 262
Interest and other accounts receivable (net of provision for impairment of other accounts receivable of RR 365 102 thousand as at 31 December 2008 and RR 377 786 thousand as at 31 December 2007)	2 022 305	1 250 302
Total	**4 673 983**	**2 921 503**

(in thousands of Russian Roubles)

The bad debt allowance and write-off of accounts receivable was calculated based on analysis of collectability.
Movement of the provision is shown in the table below:

	Period ended 31 December 2008	Period ended 31 December 2007
As at 1 January	848 116	1 044 136
Usage of provision	(11 509)	-
Reversal of provision	(42 688)	(367 674)
Accrued provision	174 933	171 654
As at 31 December	**968 852**	**848 116**

Management has determined the bad debt allowance and write-off of accounts receivable based on specific customer identification, customer payment trends, subsequent receipts and settlements and analyses of expected future cash flows.
The Group has the following overdue balances of accounts receivable which are not considered impaired as at 31 December 2008:

Overdue period	**Period ended 31 December 2008**
Less than 180 days	107 362
More than 180 days but less than 365 days	42 755
Over 365 days	-
As at 31 December	**150 117**

Management of the Group believes that Group entities will be able to realize the net receivable amount through direct collections and other non-cash settlements, and therefore the recorded value of accounts receivable approximates their fair value.

12 Deposits and other financial assets

Name of bank	Currency	Type	Interest rate, %	31 December 2008 (foreign currency)	31 December 2008	31 December 2007
VTB Bank	RR	Deposit	8.00-9.35	-	25 000 000	36 500 000
Rosbank	RR	PN's	8.50	-	-	19 000 000
Gazprombank	RR	Deposit	6.70-8.50	-	-	3 000 000
Alfabank	RR	Deposit	6.00	-	-	13 300 000
Rosbank	USD	Deposit	9.00-9.25	283 897	8 341 004	-
Rosbank	EUR	Deposit	9.25	60 614	2 511 936	-
Rosbank	RR	Deposit	8.50-10.50	-	1 500 000	1 950 000
Sberbank	RR	Deposit	8.50-8.60	-	-	1 000 000
Total					**37 352 940**	**74 750 000**

As at 31 December 2008 cash held in deposits amounted to RR 37 353 million. According to CJSC "Gazprombank", OJSC "Sberbank" contracts the deposit repayment can be exercised at any time at two and three days notice respectively. In accordance with the OJSC "VTB Bank" contract the Group is required not to demand a refund of all or part of deposits prior to maturity date. According to OJSC "Rosbank" contract the Group can demand return of the deposit both completely and partially 6 working days prior to prospective date of return. Deposit periods are from three to nine months and interest rates are fixed for a certain period.
For the period ended 31 December 2008 interest income on deposits and promissory notes amounted to RR 3 962 411 thousand and RR 1 598 089 thousand respectively.
The Group's deposits in banks and other financial assets are short-term and their carrying amount approximates fair value.
The foreign exchange gain from deposits and other financial assets comprised RR 913 933 thousand during the year ended 31 December 2008.

(in thousands of Russian Roubles)

13 Financial assets at fair value through profit or loss

Name of the Company	Type of security	Amount	Historical cost	Market price at 31 December 2008	Impairment loss for the period	Carrying value at 31 December 2008
OJSC "MMC "Norilsk Nickel"	Ordinary shares	628 302	2 102 781	1 969	865 421	1 237 095
Total					**865 421**	**1 237 095**

Financial assets at fair value through profit or loss comprise marketable securities held for trading that are a part of an identified portfolio of financial instruments that are under the trust management and has a recent actual pattern of short-term profit-taking.
During the third quarter 2008 Group entered into the Trust Asset Management agreement with CJSC "Troika Dialog". Under this service, the trust manager operates securities in Group interests. The securities portfolio is managed using modern technologies of risk evaluation and diversification, fundamental and technical analysis. It allows forecasting results, secures the maximum profitability of Clients' assets and minimizes risks. According to the terms of investment declaration the trust manager is allowed to use aggressive strategy seeking the maximum increase of assets and tending to form the investment portfolio mainly by the assets expected to rise above the median market level, and he is ready to assume the risks that are normal for share market investors. The portfolio therefore could be formed by shares up to 100% of portfolio's cost.
In the third quarter 2008 Group transferred into the trusted management the net amount of RR 2 228 913 thousand. As at 31 December 2008 RR 1 237 095 thousand was invested in the ordinary shares of OJSC "MMC "Norilsk Nickel" on which the Group has recorded unrealized loss of 865 421 thousand due to the fair value decrease. The realized net profit from selling investments in OJSC "MMC "Norilsk Nickel" shares by trust manager amounted to RR 178 213 (see Note 23).

14 Cash and cash equivalents

	31 December 2008 RUR	31 December 2008 Foreign currency' 000	31 December 2007 RUR	31 December 2007 Foreign currency' 000
Cash nominated in:				
RUR	2 764 189		2 181 724	
USD	10 477	357	38	2
EUR	223	5	194	5
GBR	222	5	404	8
Term deposits with original maturity of less than three months:				
USD	10 654 723	362 147	-	-
RUR	9 000	-	-	-
Total	**13 438 834**		**2 182 360**	

The foreign exchange gain from cash equivalents and transactions with cash and comprised RR 592 767 thousand during the year ended 31 December 2008.

(in thousands of Russian Roubles)

15 Equity

Share capital *(Number of shares unless otherwise stated)*	**Ordinary shares 31 December 2008**	**Ordinary shares 31 December 2007**
Issued shares	47 487 999 252	47 487 999 252
Par value (in RR)	1.00	1.00

During the year 2007 the Group made additional emission of 18 000 000 000 ordinary shares, with nominal value and offering price of RR 1.00 and RR 4.54 respectively, thus resulting in the RR 63 720 000 thousand share premium. During this public offering and subsequent compulsory offer for acquisition of Company's shares the Group "MMC "Norilsk Nickel" has step-by-step acquired 65.15% of JSC WGC-3 ordinary shares. Within the framework of these transactions the stake of RAO UES has decreased to 26.02%.

As at 31 December 2008 after reorganization disclosed below and taking into account the amount of purchased treasury shares, the effective ownership of Group "MMC "Norilsk Nickel" changed to 77.92%. This percentage included 14.70% of ownership held by an intermediary holding OJSC "Intergeneration", a 99.33% subsidiary of the Group "MMC "Norilsk Nickel".

Reorganization. On 26 October 2007 the Extraordinary General Meeting of Shareholders of RAO UES of Russia took a decision to spin-off the remaining interest in OJSC "WGC-3" from RAO UES of Russia. As at 30 November 2007 within Extraordinary General Shareholders Meeting a decision on WGC-3 reorganization was approved. Reorganization occurred on 1 July 2008 according to the following scheme:

- OJSC "WGC-3 Holding" was formed by means of spin-off from RAO UES of Russia, of a newly created legal entity, which received as assets a contribution of the ordinary shares of OJSC "WGC-3" owned by RAO UES of Russia (26.02%), ordinary shares of OJSC "Irganayskaya SDPP" and other assets in amount of 22 590 thousand;
- on the same day OJSC "WGC-3 Holding" was merged with OJSC "WGC-3", the surviving entity. All of the assets of OJSC "WGC-3 Holding" were transferred to OJSC "WGC-3". Upon the merger, OJSC "WGC-3 Holding" ceased to exist and its shares were cancelled.
- all shares of OJSC "WGC-3 Holding" were exchanged into the shares of OJSC "WGC-3" based on the conversion rates stated by the Extraordinary General Meeting of Shareholders of RAO UES of Russia on 26 October 2007 as follows: 2.43067 (rounded) of ordinary shares of OJSC "WGC-3 Holding" were converted to 1 ordinary share of OJSC "WGC-3" with nominal price RR 1 per share and 2.65415 (rounded) of privileged shares of OJSC "WGC-3 Holding" were converted to 1 ordinary share of OJSC "WGC-3" with nominal price RR 1 per share;
- the contribution of the remaining assets of OJSC "WGC-3 Holding", representing the ordinary shares of OJSC "Irganayskaya SDPP" and other assets was credited to equity in amount of 112 193 thousand;

Treasury shares. In February 2008 the Group acquired 2 009 634 858 ordinary treasury shares, representing 4.23% of its share capital from the shareholders, who voted against the reorganization or did not vote. The acquisition of treasury shares was made at RR 4.042 per share for the total amount of RR 8 122 944 thousand. Consideration paid for the purchase of treasury shares is accounted for as a deduction from equity.
Treasury stock in the amount of 18 859 580 ordinary shares and RR 76 230 thousand were used in the process of WGC-3 reorganization for the purpose of securities conversion.

(in thousands of Russian Roubles)

Dividends. According to the Regulations to the Group dividend policy, the amount of dividends planned for distribution is calculated as 25% of Group consolidated net profit in accordance with IFRS less profit from financing activities, however the source for annual profit distribution and other appropriations is Company's annual statutory net profits which is in compliance with Russian statutory legislation. The specific Russian legislation identifies the basis of distribution as the net profit. However, this legislation and other statutory laws and regulations dealing with the distribution rights are open to legal interpretation and, accordingly, management believes at present it would not be appropriate to disclose an amount for the distributable reserves in these financial statements.

On 26 June 2008 the Annual General Meeting approved the proposal to pay dividends in respect of the year ended 31 December 2007 in the amount of RR 0.007364 per ordinary share totaling RR 334 904 thousand. These dividends are deducted from equity at 31 December 2008. The unpaid amount of RR 100 885 thousand is recognized as a liability at 31 December 2008.

16 Income tax

Income tax expense	**Period ended 31 December 2008**	**Period ended 31 December 2007**
Current income tax expense	**(2 585 056)**	**(1 251 920)**
Deferred income tax benefit /(expense)	**853 195**	**(1 235 918)**
Deferred income tax benefit (expense) before rate recalculation	469 118	(1 235 918)
Effect of tax recalculation due to the rate change to 20%	384 077	-
Total income tax expense	**(1 731 861)**	**(2 487 838)**

During the period ended 31 December 2008 the Group entities were subject to the 24.00% income tax rate on taxable profits. 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 accrue even where there is a net consolidated tax loss.
On the 20 November 2008, the Russian Federation government enacted legislation reducing the statutory income tax rate from 24 percent to 20 percent. Since this reduction in the statutory income tax rate was enacted prior to 31 December 2008, the effect of the change reduced net deferred liability by RR 384 177 thousand, which has been recognized in these consolidated financial statements.

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

	Period ended 31 December 2008	**Period ended 31 December 2007**
Profit before tax	8 452 666	9 215 576
Theoretical income tax expense at the statutory tax rate of 24%	(2 028 640)	(2 211 738)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Effect of change in Russian statutory income tax rate to 20%	384 077	-
Effect of changes in provisions for impairment of accounts receivable	38 611	(132 240)
Investments in associates	10 817	-
Effect of changes in provisions for liabilities and charges	(1 894)	22 355
Effect of changes in pensions liabilities	(13 881)	21 707
Effect of changes in provisions for inventories	(16 104)	(28 197)
Other non-deductible and non-taxable items, net	(104 847)	(159 725)
Total income tax expense	**(1 731 861)**	**(2 487 838)**

Deferred income tax. Differences between IFRS and Russian statutory taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and their tax bases. At 31 December 2008 deferred tax assets and liabilities are measured at 20.00%, the rate applicable when the temporary differences will reverse.

(in thousands of Russian Roubles)

Deferred tax liabilities

	31 December 2007	Movement for the period recognized in the income statement	Movement for the period recognized in the Statement of Changes in Equity	Effect of change in Russian statutory income tax rate to 20%	31 December 2008
Property, plant and equipment	(2 824 670)	311 310	-	418 893	(2 094 467)
Accounts payable	(254)	(1 192)	-	241	(1 205)
Investments in associates	-	(96 124)	-	16 021	(80 103)
Other	(10 948)	-	10 348	100	(500)
Total	**(2 835 872)**	**213 994**	**10 348**	**435 255**	**(2 176 275)**

Deferred tax assets

	31 December 2007	Movement for the period recognized in the income statement	Movement for the period recognized in the Statement of Changes in Equity	Effect of change in Russian statutory income tax rate to 20%	31 December 2008
Accounts receivable including provision for impairment	12 318	(5 443)	-	(1 146)	5 729
Accounts payable	21 602	34 397	-	(9 333)	46 666
Inventories	17 223	(7 052)	-	(1 695)	8 476
Financial assets at fair value through profit or loss	-	207 701		(34 617)	173 084
Long-term available-for-sale investments	-	25 692	-	(4 287)	21 405
Other	201	(201)	-	-	-
Total	**51 344**	**255 124**	**-**	**(51 078)**	**255 390**
Net deferred tax liabilities	**(2 784 528)**	**469 118**	**10 348**	**384 177**	**(1 920 885)**

Deferred tax liabilities

	31 December 2006	Movement for the period recognized in the income statement	Movement for the period recognized in the Statement of Changes in Equity	31 December 2007
Property, plant and equipment	(1 913 793)	(910 877)	-	(2 824 670)
Accounts payable	(9 423)	9 169	-	(254)
Other	(12 912)	4 815	(2 851)	(10 948)
Total	**(1 936 128)**	**(896 893)**	**(2 851)**	**(2 835 872)**

(in thousands of Russian Roubles)

Deferred tax assets

	31 December 2006	Movement for the period recognized in the income statement	Movement for the period recognized in the Statement of Changes in Equity	31 December 2007
Accounts receivable including provision for impairment	181 760	(169 442)	-	12 318
Accounts payable	147 667	(126 065)	-	21 602
Inventories	60 948	(43 725)	-	17 223
Other	-	201	-	201
Total	**390 375**	**(339 031)**	**-**	**51 344**
Net deferred tax liabilities	**(1 545 753)**	**(1 235 924)**	**(2 851)**	**(2 784 528)**

17 Pension and post employment liabilities

The Group provides various long-term and post employment benefits including lump sum payments upon retirement and jubilee benefits to active employees and others. Additionally the Group provides quarterly financial support payments of a defined benefit nature to its former employees, who have reached the age of the State old age pension.

Until December 2007 there was a Defined Benefit pension plan, which was curtailed according to the decision taken on BOD Meeting of December, 28 2007 (see Note 4).

The tables below provide information about the benefit obligation, plan assets and actuarial estimations used for the period ended 31 December 2008 and for the period ended 31 December 2007.

Amounts recognized in the Consolidated Balance Sheet:

	31 December 2008	31 December 2007
Defined benefit obligations	**368 244**	**278 729**
Fair value of plan assets	-	-
Funded status	368 244	278 729
Unrecognized net actuarial loss	(47 565)	(87 649)
Unrecognized past service cost	(112 745)	(40 983)
Net liability in balance sheet	**207 934**	**150 098**

Amounts recognized in the Consolidated Statement of Operations:

	Period ended 31 December 2008	Period ended 31 December 2007
Immediate recognition of vested prior service cost	42 176	(12 851)
Interest cost	18 871	24 294
Current service cost	18 483	29 141
Amortization of past service cost	5 256	6 451
Settlement gain	(3 763)	(121 133)
Recognized actuarial (gain)/loss	(7 280)	7 601
Total	**73 743**	**(66 497)**

(in thousands of Russian Roubles)

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

	Period ended 31 December 2008	Period ended 31 December 2007
Benefit obligations at the beginning of the period	278 729	416 721
Past service cost	121 236	18 086
Interest cost	18 871	24 294
Current service cost	18 483	29 141
Actuarial (gain)/ loss	(46 502)	39 382
Benefits paid	(15 907)	(23 951)
Curtailment	(6 666)	(224 944)
Other	-	-
Benefit obligations at the end of the period	**368 244**	**278 729**

Principal actuarial estimations are as follows:

	31 December 2008	31 December 2007
Discount rate	9.00	6.60
Salary increase	10.24	9.20
Pension increase (for “qualified pension”)	n/a	n/a
Financial support benefits increase	6.00	5.00
Inflation	5.00	5.00

Reconciliation of the balance sheet:

	31 December 2008	31 December 2007
Net liability at start of period	150 098	240 545
Net expense recognised in the income statement	73 743	(66 497)
Employer contributions	(15 907)	(23 950)
Net liability at the end of the period	**207 934**	**150 098**

Experience adjustments:

	Period ended 31 December 2008	Period ended 31 December 2007
Present value of defined benefit obligations (DBO)	368 244	278 729
Fair value of plan assets	-	-
Deficit in plan	368 244	278 729
Losses arising of experience adjustments on plan liabilities	(5 255)	(39 382)
Gains/(losses) arising of experience adjustments on plan assets	-	-

Sensitivity of Defined Benefit Obligation to changes in assumptions:

	Increase	effect on DBO 2008
Discount	+1.00%	-8.00%
Salary growth	+1.00%	+ 5.00%

(in thousands of Russian Roubles)

18 Accounts payable and accruals

	31 December 2008	31 December 2007
Trade accounts payable	1 068 828	1 230 995
Accrued liabilities and other accounts payable	419 874	386 744
Dividends payable	100 885	9 800
Advances from customers	16 365	15 959
Total	**1 605 952**	**1 643 498**

The foreign exchange loss from accounts payable and accruals comprised RR 122 633 thousand during the year ended 31 December 2008.

19 Provision for liabilities and charges

Movements in provision for liability and charges are as follows:

	Note	Tax Risks	Legal claims	Total
Carrying amount at 31 December 2007		**119 563**	**20 636**	**140 199**
Additions charged to profit or loss	21	-	108 543	108 543
Provision usage		-	(7 777)	(7 777)
Reversal of provision	21	(79 520)	(13 355)	(92 875)
Carrying amount at 31 December 2008		**40 043**	**108 047**	**148 090**

All of the above provisions were classified as current liabilities because the Group does not have any rights to defer settlements beyond one year. Expected timing of the cash outflows is indicated below.

Tax risks. Management assessed, based on their interpretation of the relevant tax legislation that it is probable that certain tax positions taken by the Group would not be sustained, if challenged by the tax authorities. Accordingly, Group created provisions for the associated not assessed taxes and the related penalties and interest. The balance at 31 December 2008 is expected to be either fully utilised or released within one year. The reversal of provision is related to won cases.

Legal claims. Provision for legal claims relates to the claims brought against the Group referred to repayment of cash for joint liability with other counterparty for foregone expenses. The balance at 31 December 2008 is expected to be utilised within a year. In the directors' opinion, after taking appropriate legal advice, the outcome of these legal claims will not give rise to any significant loss beyond the accrued amounts.

20 Taxes payable

	31 December 2008	31 December 2007
Income tax	481 179	28 982
Value added tax	304 728	65 703
Water usage tax	169 474	218 506
Property tax	71 305	67 919
Unified social tax	22 852	23 329
Land tax	8 268	8 013
Fines and interest	-	52
Other taxes	25 390	20 153
Total	**1 083 196**	**432 657**

(in thousands of Russian Roubles)

21 Operating expenses

	Notes	Period ended 31 December 2008	Period ended 31 December 2007
Fuel		(16 801 252)	(13 874 029)
Purchased electricity		(8 753 191)	(8 121 478)
Employee benefits		(3 423 459)	(3 324 614)
Depreciation and amortization	6, 7	(1 282 642)	(1 233 387)
Taxes other than income tax		(1 072 141)	(1 073 870)
Transportation of gas		(984 323)	(485 113)
Raw materials and supplies		(731 068)	(640 062)
Repairs and maintenance		(657 285)	(793 252)
Transmission fees		(575 794)	(450 980)
Security services		(171 567)	(117 080)
Bad debt allowance and write-off of accounts receivable		(132 245)	(275 984)
Consulting, legal and audit services		(96 392)	(301 059)
Loss on disposal of fixed assets		(80 649)	(133 264)
Write-down of inventories		(67 104)	18 621
Rent		(64 873)	(108 828)
Transportation services		(60 842)	(43 039)
Insurance cost		(52 843)	(187 709)
Social overhead costs		(52 748)	(26 419)
Water usage expenses		(43 011)	(33 176)
Safety arrangement costs		(40 993)	(67 212)
Loss on disposal of inventories		(39 778)	-
Telecommunication services		(35 158)	(27 610)
Business trip expenses		(27 891)	(27 546)
Charity expenses		(20 672)	(24 496)
Change in provision for liabilities and charges	19	(15 668)	93 144
Bank services		(11 298)	(12 243)
Other expenses		(361 830)	(390 886)
Total operating expenses		**(35 656 717)**	**(31 661 571)**

Employee benefits expenses comprise the following:

	Period ended 31 December 2008	Period ended 31 December 2007
Salaries and wages, payroll taxes	(3 261 065)	(3 258 931)
Financial aid to employees and pensioners	(103 269)	(100 563)
Non-governmental pension fund and DB plan expenses	(59 125)	34 880
Employee benefits	**(3 423 459)**	**(3 324 614)**

22 Other operating income

	Period ended 31 December 2008	Period ended 31 December 2007
VAT refund	246 680	-
Capacity supply agreement losses reimbursement	47 031	-
Accounts payable write off	18 993	-
Fines, penalties and legal proceedings	18 590	-
Other operating income	25 475	35 687
Total	**356 769**	**35 687**

(in thousands of Russian Roubles)

23 Income from investing activities

	Notes	Period ended 31 December 2008	Period ended 31 December 2007
Interest income on bank deposits		3 962 411	3 203 204
Interest income on promissory notes		1 598 089	238 932
Net Income from disposal of financial assets at fair value through profit or loss	13	178 213	-
Interest income on bank account contracts		165 613	300 730
Interest income on loans		615	-
Other		2 721	10 955
Total finance income		**5 907 662**	**3 753 821**

24 Costs of investing activities

	Notes	Period ended 31 December 2008	Period ended 31 December 2007
Impairment of financial assets at fair value through profit or loss	13	(865 421)	-
Impairment of available-for-sale investments	9	(107 172)	-
Net loss from disposal of promissory notes		(8 339)	-
Total		**(980 932)**	**-**

25 Finance income / (costs)

	Period ended 31 December 2008	Period ended 31 December 2007
Discount effect	19 190	-
Interest expense	(14 600)	(211 310)
Other	-	(28 532)
Total	**4 590**	**(239 842)**

26 Earning per ordinary share for profit from continuing operations attributable to the shareholders of the Company, basic and diluted

	Period ended 31 December 2008	Period ended 31 December 2007
Profit attributable to the shareholders of JSC WGC-3 (thousands of RR)	6 720 805	6 727 738
Weighed average number of ordinary shares issued (thousands of shares)	45 734 880	42 987 999
Earning per ordinary share for profit from continuing operations attributable to the shareholders of the Company, basic and diluted (in RR per share)	**0.147**	**0.157**

27 Commitments

Sales commitments. The Group sells electricity on the two wholesale market sectors: unregulated market and regulated trading sector. The tariffs for the electricity sold/purchased in the regulated trading sector (including the sector of deviations) are set by the Federal Service on Tariffs.

The Group has entered into a number of annual electricity sales agreements with CJSC Center for Financial Settlements, CJSC INTER RAO UES, retail companies and large industrial customers.

Fuel commitments. The Group has a number of outstanding contracts to purchase natural gas and coal. The volume of gas supplied by Gazprom at regulated tariffs is subject to pre-agreed limits. Such limits are typically less than SDPPs require for their generating operations, and any gas required in excess of those limits may only be obtained at non-regulated prices, either from Gazprom or an independent producer. The gas industry is highly regulated by the Russian government, which regularly increases prices for natural gas supplied by Gazprom. In contrast to gas, coal prices are not regulated.

The following long-term contracts on delivery of gas for the needs of production were concluded by the Group:

- for Kostromskaya SDPP – for delivery of the gas within pre-agreed limits for the term of 5 years (2008-2012) with the regional gas company of OJSC “Gazprom” – LLC “Kostromaregiongas”; for delivery of the gas within pre-agreed limits for the term of 4 years (2008-2011) with OJSC “Novatek”
- for Pechorskaya SDPP – for delivery of the gas within pre-agreed limits for the term of 5 years (2008-2012) with the regional gas company of OJSC “Gazprom” – LLC “Komiregiongas”
- for Yuzhnouralskaya SDPP – for delivery of the gas within pre-agreed limits for the term of 5 years (2008-2012) with the regional gas company of OJSC “Gazprom” – LLC “Chelyabinskregiongas”

Capital commitments. Future capital expenditure for which contracts have been signed amounted to RR 6 849 582 thousand at 31 December 2008 (at 31 December 2007: RR 3 570 488 thousand).

28 Contingencies

Political environment. The operations and earnings of the 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 Russia.

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

Legal proceedings. The 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 and not provided for which, upon final disposition, will have a material adverse effect on the financial position of the Group.

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 tariff imbalance, water tax, deductibility of certain expenses and property received in the course of reorganisation. 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 proceeding the year of review. Under certain circumstances review may cover longer periods.

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

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

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.

29 Financial instruments and financial risks

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

Credit risk. Credit risk – is the risk of financial loss for the Group in the case of non-fulfilment by the contractor the obligations on the financial instrument under the particular contract. Financial assets, which potentially subject the Group to concentrations of credit risk, consist principally of trade accounts receivable. Although collection of accounts receivable 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 accounts receivable already recorded.

The cash has been deposited in the financial institutions with no more than minimal exposure to the default risk at the time of account opening.

Credit risk is managed on a Group basis. For wholesale customers there is no independent rating and therefore Group assesses the credit quality of the customer, taking into account its financial position, past experience and other factors.

(in thousands of Russian Roubles)

The table below shows the balance of the ten major counterparties at the balance sheet date:

Narrative	Rating	Rating agency	Currency	31 December 2008	31 December 2007
Accounts receivable					
CJSC Center of financial settlements	unrated	-	-	610 963	485 502
OJSC Komienergo energy distribution company	unrated	-	-	315 878	51 801
OJSC Dagestanskaya energy distribution company	unrated	-	-	153 694	-
OJSC Vologodskaya energy distribution company	unrated	-	-	96 128	-
OJSC Chelyabinskaya energy distribution company	unrated	-	-	48 567	-
OJSC Kolskaya energy distribution company	unrated	-	-	24 841	-
LLC Transneftservice-S	unrated	-	-	13 105	-
OJSC Chitinskaya energy distribution company	unrated	-	-	10 976	-
OJSC Altai energy distribution company	unrated	-	-	9 790	-
OJSC Vladimirskie communal systems	unrated	-	-	6 124	-
Total accounts receivable				**1 290 066**	**537 303**
Loans issued					
OJSC Torgovo-stroitelniy bank	unrated	-	-	-	1 660
Total				**-**	**1 660**
Deposits and promissory notes					
VTB	BBB/negative/A-3	S&P	local	25 000 000	36 500 000
Rosbank	BB+/negative/B	S&P	USD	8 341 004	-
Rosbank	BB+/negative/B	S&P	EUR	2 511 936	-
Rosbank	BB+/negative/B	S&P	local	1 500 000	20 950 000
Alfabank	BB+/negative/B	S&P	local	-	13 300 000
Gazprombank	BB+/negative/B	S&P	local	-	3 000 000
Sberbank	BBB/negative	Fitch	local	-	1 000 000
Total deposits and promissory notes				**37 352 940**	**74 750 000**
Cash and cash equivalents					
VTB	BBB/negative/A-3	S&P	USD	10 654 723	**-**
Gazprombank	BB+/negative/B	S&P	local	2 039 032	755 623
Sberbank	BBB/negative	Fitch	local	673 539	8 245
Rosbank	BB+/negative/B	S&P	local	11 681	4 130
Gazprombank	BB+/negative/B	S&P	USD	10 477	38
Gazprombank	BB+/negative/B	S&P	EUR	223	194
Gazprombank	BB+/negative/B	S&P	GBP	222	404
Alfabank	BB-/stable/B	S&P	local	-	1 234 893
Other	n/a	n/a	local	48 937	178 833
Total cash and cash equivalents				**13 438 834**	**2 182 360**

(in thousands of Russian Roubles)

Guarantees received

Guaranties received as at 31 December 2008 for projecting, supply and construction agreements relate to energy unit construction of 3 225 MW at Kharanorskaya SDPP and 2 225 MW at Chrepetskaya SDPP:

Guarantor	Creditor	№/Date of credit contract	Maturity Date	№/Date of guarantee contract	Currency	Amount
OJSC VTB	OJSC "Technopromexport"	5304782500/01-НСЧГРЭС-1141-08 dtd. 14.11.08	03.08.2012	IGR08/MSHD/5275 dtd. 25.11.08	RUR	3 725 008
OJSC Rosbank	OJSC "Energoproject"	01-НСХГРЭС-0360-08 dtd. 31.03.08	01.05.2011	БГ-544/08 dtd.07.05.08	RUR	1 553 664
OJSC Rosbank	OJSC "Technopromexport"	5304782500/01-НСЧГРЭС-1141-08 dtd. 14.11.08	31.03.2009	БГ-1573/08 dtd.25.12.08	RUR	1 241 670
OJSC VTB	OJSC "Technopromexport"	5304782500/01-НСЧГРЭС-1141-08 dtd. 14.11.08	03.11.2012	IGR08/MSHD/5302 dtd. 16.12.08	RUR	1 241 669
OJSC Rosbank	OJSC "Energoproject"	01-НСХГРЭС-0360-08 o dtd. 31.03.08	31.05.2011	БГ-712/08 dtd.19.05.08	RUR	304 350
Total						**8 066 361**

Collateral received

Collateral received as at 31 December 2008 for projecting, supply and construction agreements relate to energy unit construction № 3 225 MW at Kharanorskaya SDPP

Pledger	Pledgee	№/Date of credit contract	Maturity Date	№ /Dateof pledge agreement	Currency	Amount
OJSC "Energoproject"	OJSC "WGC-3"	01-НСХГРЭС-0360-08 от 31.03.08	16.05.2011	01-НСХГРЭС-0511-08 от 23.05.08	RUR	819 631
OJSC "Energoproject"	OJSC "WGC-3"	01-НСХГРЭС-0360-08 от 31.03.08	16.05.2011	01-НСХГРЭС-0517-08 от 30.04.08	RUR	239 010
OJSC "Energoproject"	OJSC "WGC-3"	01-НСХГРЭС-0360-08 от 31.03.08	16.05.2011	01-НСХГРЭС-0637-08 от 27.06.08	RUR	174 417
OJSC "Energoproject"	OJSC "WGC-3"	01-НСХГРЭС-0360-08 от 31.03.08	16.05.2011	01-НСХГРЭС-0559-08 от 07.06.08	RUR	95 329
Total						**1 328 387**

Interest rate risk. The Group's operating profits and cash flows from operating activities are largely not dependent on the changes in market interest rates. At 31 December 2008 the Group has significant short-term interest-bearing assets. The interest rates on these assets are fixed; these are disclosed in Note 12. They are not exposed to significant interest rate risk through market value fluctuations as the interest-bearing assets are short-term.

The Group has no interest-bearing short-term borrowings exposed to interest rate risk through market value fluctuations.

Interest rate risk is monitored by the Board of Directors who approve the maximum acceptable level of weighted average borrowing cost for a certain period (usually a quarter).

Currency risk. Power and Heat produced by the Group is sold on the internal market of Russian Federation with prices fixed in the currency of Russian Federation. Hence, the Group's net exposure to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities is kept at minimum level. The financial condition of the Group, 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. Moreover, the Group does not plan to perform activities on the outer market. That is why the influence of foreign currency rates fluctuations on the financial position of the Group is estimated as insignificant.

However the Group is exposed to foreign exchange risk arising from deposit balances (see note 12) and liabilities denominated in US dollars, Euro and GBP. Foreign currency contracts are presented below:

Contractual foreign currency obligations	31 December 2008
EUR	316
USD	562
GBR	1

The following table presents sensitivities of profit and loss and equity to reasonably possible changes in exchange rates applied at the balance sheet date relative to the functional currency of the respective Group entities, with all other variables held constant:

	At 31 December 2008	
In thousands of Russian Roubles	**Impact on profit or loss**	**Impact on equity**
US Dollar strengthening by 33%	6 268 588	-
US Dollar weakening by 33%	(6 268 588)	-
Euro strengthening by 27%	678 227	-
Euro weakening by 27%	(678 227)	-

The exposure was calculated only for deposits and cash equivalent balances denominated in currencies other than the functional currency of the respective entity of the Group.

Other price risk. The Group has limited exposure to equity price risk. Transactions in equity products are monitored and authorized by the Board of Directors. At 31 December 2008, if equity prices at that date were 60% lower with all other variables kept unchanged, profit for the year would have been RR 765 128 thousand lower. If equity prices were 60% higher with all other variables kept unchanged, profit for the year would have been RR 765 128 thousand lower and higher.

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

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the particular maturity date. The amounts disclosed in the table are the contractual and legal undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

Narrative	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
<u>At 31 December 2008</u>				
Debt and borrowings	-	-	-	-
Trade and other accounts payable	1 240 846	21 468	308	-
<u>At 31 December 2007</u>				
Debt and borrowings	-	-	-	-
Trade and other accounts payable	1 348 180	37 637	678	356

Capital risk management. 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 to shareholders and benefits for other stakeholders and to maintain the optimal 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.

(in thousands of Russian Roubles)

The Group monitors capital on the basis of gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings shown in the consolidated balance sheet less cash and cash equivalents. Total capital is calculated as equity, shown in the consolidated balance sheet, plus net debt.

Taking into consideration the absence of borrowings as at 31 December 2008 and the significant amount of short-term bank deposits the Group is not exposed to the capital risk at 31 December 2008.

Financial instruments by category. For the purposes of measurement, IAS 39, Financial Instruments: Recognition and Measurement, classifies financial assets into the following categories: (a) loans and accounts receivable; (b) available-for-sale financial assets; (c) held-to-maturity financial assets; (d) financial assets at fair value through profit or loss ("FVTPL"). The following table provides a reconciliation of classes of financial assets with these measurement categories as at 31 December 2008 and 31 December 2007:

	Loans and accounts receivable	Held- to-maturity financial assets	Financial assets at fair value through profit or loss	Available-for-sale financial assets
31 December 2008				
Assets as per balance sheet				
Deposits and promissory notes	37 352 940	-	-	-
Accounts receivable	3 588 756	-	-	-
Financial assets at fair value through profit or loss	-	-	1 237 095	-
Other non-current assets	60 211	-	-	93 448
Total	**41 001 907**	**-**	**1 237 095**	**93 448**

	Loans and accounts receivable	Held- to-maturity financial assets	Financial assets at fair value through profit or loss	Available-for-sale financial assets
31 December 2007				
Assets as per balance sheet				
Deposits and promissory notes	55 750 000	19 000 000	-	-
Loans issued	1 660	-	-	-
Accounts receivable	2 054 022	-	-	-
Other non-current assets	85 521	-	-	154 578
Total	**57 891 203**	**19 000 000**	**-**	**154 578**

Fair Value of Financial Instruments. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Financial assets at fair value through profit or loss and available-for-sale investments are carried on the balance sheet at their fair value.

Fair values were determined based on quoted market prices except for certain investment securities available-for-sale for which there were no available external independent market price quotations. These securities have been fair valued by the Group on the basis of results of recent sales of equity interests in the investees between unrelated third parties, consideration of other relevant information such as discounted cash flows and financial data of the investees and application of other valuation methodologies. Valuation techniques required certain assumptions that were not supported by observable market data.

The carrying value less impairment provision for trade receivables and payables are assumed to approximate their fair values due to their short-term nature.

The Group's deposits in banks are short-term and their carrying amount approximates fair value.

The maximum exposure for each risk is limited to the fair value of each class of financial instrument.

30 Post balance sheet events

Board of Directors structure changes.

Starting 06.02.2009 and till present time Board of Directors consists of:
Parinov Kirill– Deputy General Director – leader of corporate, property and legal practice of MMC Norilsk Nickel
Sourikov Oleg– Director of Corporate department of MMC Norilsk Nickel
Kostoev Dmitry– Deputy General Director – Leader of economic and investment policy unit of MMC Norilsk Nickel
Pivovarchuk Oleg– First Deputy General Director of MMC Norilsk Nickel
Orelkin Alexander– Chief specialist of MMC Norilsk Nickel– property management – realization of proprietory right section
Batekhin Sergey– Deputy General Director – INTERROS Holding Company
Davydov Vladislav– Deputy Head of International projects group of legal department of INTERROS Holding Company
Cherny Anton– Deputy General Director, Investments – INTERROS Holding Company
Soloviev Vladislav– General Director EN+ Management
Sokov Maxim– Director, Investments, MMC Norilsk Nickel, Rusal Global Management B.V.
Emdin Sergey– General Director, EvroSibEnergo

Starting 09.02.2009 and till present time Executive Board consists of:
Panina Alexandra– member of Executive Board, electricity and heat realization
Isaev Alexander– member of Executive Board
Katiev Dmitry– member of Executive Board
Vorobiev Andrey– member of Executive Board, Corporate Director
Kolmogorov Vladimir– chairman of Executive Board, General Director