OGK-6 GROUP

Consolidated Financial Statements
prepared in accordance with
International Financial Reporting Standards (IFRS)
for the year ended
31 December 2009

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Independent Auditors' Report

To the Board of Directors of Open Joint Stock Company "The Sixths Generating Company of the Wholesale Electric Power Market" (OJSC "OGK-6")

We have audited the accompanying consolidated financial statements of OJSC "OGK-6" (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

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

Opinion

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

ZAO KPMG

14 April 2010

	Notes	31 December 2009 '000 RUR	31 December 2008 '000 RUR
ASSETS			
Non-current assets			
Property, plant and equipment	5	61,867,198	53,751,322
Other non-current assets	6	805,098	1,253,464
Total non-current assets		**62,672,296**	**55,004,786**
Current assets			
Inventories	7	3,225,580	4,585,801
Short-term investments	8	417,120	3,901,413
Income tax receivable		7,373	413,818
Other current assets		51,201	92,490
Receivables and prepayments	9	4,852,229	3,799,135
Cash and cash equivalents	10	1,197,075	215,014
Total current assets		**9,750,578**	**13,007,671**
TOTAL ASSETS		**72,422,874**	**68,012,457**
EQUITY AND LIABILITIES			
Equity			
Share capital	11	15,497,760	15,497,760
Revaluation reserve		13,341,701	13,401,156
Share premium		18,339,193	18,339,193
Retained earnings		8,274,549	5,803,100
Total equity		**55,453,203**	**53,041,209**
Non-current liabilities			
Deferred income tax liabilities	13	5,648,016	5,755,707
Loans and borrowings	12	4,937,610	2,923,677
Employee benefits	14	824,703	722,118
Other non-current liabilities		776,593	34,972
Total non-current liabilities		**12,186,922**	**9,436,474**
Current liabilities			
Loans and borrowings	12	37,567	-
Accounts payable and accrued charges	15	4,203,947	5,298,648
Taxes payable		541,235	236,126
Total current liabilities		**4,782,749**	**5,534,774**
Total liabilities		**16,969,671**	**14,971,248**
TOTAL LIABILITIES AND EQUITY		**72,422,874**	**68,012,457**

These consolidated financial statements were approved by management on 14 April 2010 and were signed on its behalf by:

A.A. Mityushov
General Director

B.Z. Dolgoarshinnikh
Chief Accountant

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

	Notes	2009 '000 RUR	2008 '000 RUR
Revenues	16	41,870,322	42,275,050
Operating expenses	17	(38,470,645)	(44,687,693)
Other income/(expenses)		32,328	(155,796)
Operating profit /(loss)		**3,432,005**	**(2,568,439)**
Finance income	18	384,329	829,010
Finance expenses	18	(310,450)	(357,907)
Profit/(loss) before income tax		**3,505,884**	**(2,097,336)**
Income tax (expense)/benefit	13	(1,063,626)	1,267,933
Profit/(loss) for the year		**2,442,258**	**(829,403)**
Other comprehensive income			
Revaluation of property, plant and equipment		-	16,751,445
Change in fair value of available-for-sale financial assets		(37,830)	-
Income tax benefit/(expense) on other comprehensive income		7,566	(3,350,289)
Other comprehensive (expenses)/income for the year		**(30,264)**	**13,401,156**
Total comprehensive income for the year		**2,411,994**	**12,571,753**
Profit/(loss) attributable to the owners of the Group		**2,442,258**	**(829,403)**
Total comprehensive income attributable to the owners of the Group		**2,411,994**	**12,571,753**
Earnings/(loss) per Share – basic and diluted (in Russian Rubles per share)	19	**0.0757**	**(0.0257)**

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

	Notes	2009 '000 RUR	2008 '000 RUR
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit/(loss) before income tax		**3,505,884**	**(2,097,336)**
Adjustments for:			
Depreciation	5	1,866,892	2,812,159
Impairment loss of property, plant and equipment	5	-	1,970,698
Loss on disposal of property, plant and equipment		207,196	78,586
Finance income, net	18	(73,879)	(471,103)
Other		366,068	246,136
Cash from operating activities before changes in working capital		**5,872,161**	**2,539,140**
Working capital changes:			
Change in accounts receivable and prepayments		(1,262,930)	(1,945,930)
Change in inventories		1,360,221	(1,387,080)
Change in other assets		41,289	217,868
Change in other non-current assets		394,152	(821,830)
Change in accounts payable and accruals		(1,648,790)	2,741,370
Change in other non-current liabilities		631,656	(101,606)
Change in taxes payable other than income tax		(7,112)	(227,304)
Cash flows from operations before income taxes and interest paid		**5,380,647**	**1,014,628**
Interest paid		(266,165)	(326,191)
Income tax paid		(357,108)	(224,817)
Net cash generated from operating activities		**4,757,374**	**463,620**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of property, plant and equipment		(9,593,910)	(10,111,064)
Proceeds from short-term deposits		3,484,293	11,018,177
Interests received	18	349,169	829,010
Proceeds from disposal of property, plant and equipment		21,200	11,949
Net cash (used in)/from investing activities		**(5,739,248)**	**1,748,072**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from borrowings		2,000,000	2,282,041
Repayment of borrowings		(29,046)	(4,358,364)
Disposal of treasury shares		-	177
Dividends paid		(7,019)	(568,959)
Net cash generated from/(used in) financing activities		**1,963,935**	**(2,645,105)**
Change in cash and cash equivalents		982,061	(433,413)
Cash and cash equivalents at the beginning of the year		215,014	648,427
Cash and cash equivalents at the end of the year	10	**1,197,075**	**215,014**

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

'000 RUR	Share capital	Revaluation reserve	Retained earnings	Share premium	Total equity
As at 1 January 2008	**15,486,028**	-	**6,957,326**	**18,239,259**	**40,682,613**
Total comprehensive income for the year					
Loss for the year	-	-	(829,403)	-	**(829,403)**
Other comprehensive income					
Revaluation of property, plant and equipment, net of tax	-	13,401,156	-	-	**13,401,156**
Total other comprehensive income	-	13,401,156	-	-	**13,401,156**
Total comprehensive income for the year	-	**13,401,156**	**(829,403)**	-	**12,571,753**
Disposal of treasury shares	-	-	177	-	177
Acquisition under common control	11,732	-	-	99,934	111,666
Dividends	-	-	(325,000)	-	(325,000)
As at 31 December 2008	**15,497,760**	**13,401,156**	**5,803,100**	**18,339,193**	**53,041,209**
As at 1 January 2009	**15,497,760**	**13,401,156**	**5,803,100**	**18,339,193**	**53,041,209**
Total comprehensive income for the year					
Profit for the year	-	-	2,442,258	-	**2,442,258**
Other comprehensive income					
Change in fair value of available-for-sale investments, net of tax	-	(30,264)	-	-	**(30,264)**
Transfer of revaluation reserve to retained earnings, net of tax	-	(29,191)	29,191	-	-
Total other comprehensive income	-	(59,455)	29,191	-	**(30,264)**
Total comprehensive income for the year	-	**(59,455)**	**2,471,449**	-	**2,411,994**
As at 31 December 2009	**15,497,760**	**13,341,701**	**8,274,549**	**18,339,193**	**55,453,203**

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

1 Background

(a) Business environment

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

(b) Organisation and operations

Open Joint Stock Company "The Sixths Generating Company of the Wholesale Electric Power Market" ("JSC "OGK-6", or "the Company") was established on 17 March 2005 within the framework of the Russian electricity sector restructuring in accordance with the Resolution of the Chairman of the Management Board of OJSC RAO Russian Open Joint Stock Company for Energy and Electrification Unified Energy System of Russia ("RAO UES") dated 16 March 2005.

JSC "OGK-6" and its following subsidiaries form the OGK-6 Group ("the Group"):

	As at 31 December 2009	As at 31 December 2008
OJSC Agricultural entity Voskhod	100%	100%
OJSC Novomichurinskoe Vehicle Transportation Company	100%	100%

During the year the Group operated 5 state district power plants (SDPP's): Kirishskaya GRES, Ryazanskaya GRES, Novochercasskaya GRES, Krasnoyarskaya GRES-2, Cherepovetskaya GRES. The operations of GRES-24, which existed as a separate station in 2008, were merged with the operations of Ryazanskaya GRES.

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

The registered office of JSC "OGK-6"is located at 101/3 Vernadsky's prospectus, 119526, Moscow, Russia.

The head office of JSC "OGK-6" located at 101/3 Vernadsky's prospectus, 119526, Moscow, Russia.

(c) Current regulation

The Government of the Russian Federation directly affects the Group's operations through regulation by the Federal Tariff Service ("FTS"), with respect to its wholesale energy sales, and by the Regional Energy Commissions ("RECs") or by the Regional Tariff Services ("RTSs"), with respect to its heat sales. The operations of all generating facilities are coordinated by OJSC "System Operator – the Central Despatch Unit of Unified Energy System" ("SO-CDU") in order to meet system requirements in an efficient manner. SO-CDU is controlled by NP "Administrator of trade system".

2 Financial condition

As discussed above, the Group is affected by policy of the Government of the Russian Federation 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 FTS/the Ministry of Economic Development and Trade ("MEDT"), 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 recognised under the IFRS basis of accounting. As a result, tariffs may not consistently allow for an adequate return on investment.

3 Basis of preparation

(a) Statement of compliance

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

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.

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except:

- Financial investments classified as available-for-sale and property, plant and equipment are measured at fair value;
- Defined benefit plan asset is recognised as the net total of the plan assets, plus unrecognised past service cost and unrecognised actuarial losses, less unrecognised actuarial gains and the present value of the defined benefit obligation.

(c) Prior year reclassifications

Certain comparative figures for 2008 have been reclassified to conform to the 2009 financial statements presentation.

(d) Functional and presentation currency

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

(e) Use of judgments, estimates and assumptions

The preparation of consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

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

Critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements include:

Provision for impairment of accounts receivable

Provision for impairment of accounts receivable is based on the Group's assessment of whether the collectibility 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.

Revaluation of property, plant and equipment and other assets

Fair value of property, plant and equipment has been determined by an independent appraiser based on the depreciated replacement cost method. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation, and obsolescence. Further, management assesses the remaining useful life of property, plant and equipment in accordance with the current technical conditions of assets and estimated period when these assets will bring economic benefit to the Group. Carrying value and depreciation of property, plant and equipment are affected by the estimates of replacement cost, depreciated replacement cost, residual value and remaining useful lives, and actual results could differ from these estimates. See effect of these critical accounting estimates and assumptions in Note 5.

Useful lives of property, plant and equipment

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

Retirement benefit liabilities

The Group uses an actuarial valuation method for measurement of the present value of post-employment benefit obligations and related current service cost. This involves the use of demographic assumptions about the future characteristics of the current and former employees who are eligible for benefits (mortality, both during and after employment, rates of employee turnover, disability and early retirement, etc.) as well as financial assumptions (discount rate, future salary and benefit levels, etc.).

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 financial statements.

(f) Changes in accounting policy

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

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

(i) *Determination and presentation of operating segments*

Starting 1 January 2009 the Group determines and presents operating segments based on the information that is provided to the General Director, who is the Group's chief operating decision maker. This change in accounting policy is due to the adoption of IFRS 8 *Operating Segments*. Previously operating segments were determined and presented in accordance with IAS 14 *Segment Reporting*. Since the change in accounting policy only impacts presentation and disclosure aspects, there is no impact on earnings per share. The new accounting policy in respect of segment operating disclosures is presented in note 4(s).

(ii) *Presentation of financial statements*

The Group applies revised IAS 1 *Presentation of Financial Statements* (2007), which became effective as at 1 January 2009. As a result, the Group presents all owner changes in equity in the consolidated statement of changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

4 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities, except as explained in note 3(f) which addresses changes in accounting policies.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The

accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

(ii) ***Transactions eliminated on consolidation***

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

(iii) ***Transactions under common control***

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

(b) Foreign currency transactions

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

(c) Non-derivative financial instruments

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

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

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

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

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

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs.

Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Loans and receivables comprise trade and other receivables.

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

Available-for-sale financial assets

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

Investments in equity securities that are not quoted on a stock exchange are principally valued using valuation techniques such as discounted cash flow analysis, option pricing models and comparisons to other transactions and instruments that are substantially the same. Where fair value cannot be estimated on a reasonable basis by other means, investments are stated at cost less impairment losses.

(d) Non-derivative financial liabilities

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

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

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

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

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

(e) Share capital

Ordinary shares

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

(f) 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.

(g) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

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

(h) Property, plant and equipments

As at 31 December 2007 property, plant and equipment was stated at the carrying value determined in accordance with the IFRS as at the date of their transfer to the Group by the Predecessor, and adjusted taking into account further additions, disposals and depreciation charges.

Effective 1 January 2008, the Group changed its accounting policy to revaluing its property, plant and equipment at fair value from that date. Management believes that this resulted in a more meaningful presentation of the Group's financial position and financial performance.

Property, plant and equipment are subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair values of the assets being revalued. Increases in the carrying amount arising on revaluation of property, plant and equipment are credited to the asset revaluation reserve in equity. However, the increase shall be recognised in the profit and loss statement to the extent that it reverses a revaluation decrease of the same asset previously recognised in the profit and loss. Decreases that offset previous increases of the same asset are charged against the revaluation reserve directly in equity; all other decreases are charged to the profit and loss. The Group transfers revaluation surplus directly to retained earnings when the asset is derecognized or as the asset is used by the entity.

Any accumulated depreciation at the date of revaluation is eliminated against the gross amount of the asset, and the net amount is restated to the revalued amount of the asset.

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

Renewals and improvements are capitalized and the carrying amounts of assets replaced are retired, if it is probable that the future economic benefits embodied within the newly installed parts will flow to the Group and its cost can be measured reliably. The costs of repair and maintenance are expensed as incurred.

Gains and losses arising from the retirement of property, plant and equipment are included in the profit and loss statement as incurred.

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.

The estimated useful lives of assets by types of facility are as follows:

- Electricity and heat generation 22-54 years
- Electricity distribution 11-32 years
- Heating networks 10-30 years
- Other 7-37 years

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.

(i) Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both

financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) ***Property, plant and equipment***

The fair value of property, plant and equipment is based on market values, when possible. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of items of plant, equipment, fixtures and fittings is based on quoted market prices for similar items

When no quoted market prices are available, the fair value of property, plant and equipment is primarily determined using depreciated replacement cost. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation, and obsolescence. Information about significant assumptions used in determination of depreciation replacement cost is described in Note 5.

(ii) ***Investments in equity and debt securities***

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

(iii) ***Trade and other receivables***

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

(iv) ***Non-derivative financial liabilities***

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

(j) Impairment

(i) ***Financial assets***

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

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

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

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

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

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

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

(ii) Non-financial assets

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

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

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

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

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

(k) Borrowing costs

Borrowing costs related to the acquisition or construction of qualifying assets are capitalized as part of that assets.

(l) Pension and post-employment benefits

In the normal course of business the Group contributes to the Russian Federation state pension scheme on behalf of its employees. Mandatory contributions to the governmental pension scheme are expensed when incurred in employee benefit expenses and payroll taxes in the profit and loss statement.

The Group operates defined benefit plans that cover the majority of the Group's employees. Benefit plans define the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognized in the balance sheet in respect of the defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and unrecognized past service cost. The defined benefit obligations are calculated using the Projected Unit Credit Method. The present value of the defined benefit obligations are determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liabilities.

Actuarial gains and losses arising from changes in actuarial assumptions and exceeding the higher of 10% of the defined benefit obligations and fair value of plan assets are charged or credited to the profit and loss statement over the average remaining service lives of employees starting from the next reporting period.

Past service costs are amortized over vesting period of 10.5 years.

(m) Provisions

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

(n) Guarantees

Where the Group enters into financial guarantee contracts to guarantee the indebtedness of other companies under common control, the Group considers these to be insurance arrangements, and accounts for them as such. In this respect, the Group treats the guarantee contract as a contingent liability until such time as it becomes probable that the Group will be required to make a payment under the guarantee.

(o) Revenue recognition

Revenue is recognized on the delivery of electricity, heat and on the dispatch of non-utility goods and services during the period. Revenue amounts are presented exclusive of value added tax. Revenue is based on the application of authorized tariffs for electricity sales as approved by the Regional Tariffs Authorities.

(p) Finance income and expenses

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

Finance expenses comprise interest expense on borrowings, foreign currency losses and impairment losses recognised on financial assets, other than trade receivables. Borrowing costs, except borrowing costs related to the acquisition or construction of qualifying assets as described in Note 4 (k), are recognised in the profit and loss statement using the effective interest method.

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

(q) Income tax expense

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

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

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

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

(r) Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. The Group has no outstanding dilutive instruments.

(s) Operational segments

The Group has a single reportable segment - the generation of electric power and heat in the Russian Federation as the management does not review profit measures for SDPPs or any other components in order to make a decision about allocation of resources. 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.

(t) Seasonality of operations

Demand for electricity and heat is influenced by both the season of the year and the relative severity of the weather. Revenues from heating are concentrated within the months of October to March. A similar, though less severe, 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.

(u) New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2009, and have not been applied in preparing these consolidated financial statements. The Group plans to adopt these pronouncements when they become effective.

- Revised IAS 24 *Related Party Disclosures (2009)* introduces an exemption from the basic disclosure requirements in relation to related party disclosures and outstanding balances, including commitments, for government-related entities. Additionally, the standard has been revised to simplify some of the presentation guidance that was previously non-reciprocal. The revised standard is to be applied retrospectively for annual periods beginning on or after 1 January 2011. The Group has not yet determined the potential effect of the amendment.
- Revised IFRS 3 *Business Combinations* (2008) and amended IAS 27 (2008) *Consolidated and Separate Financial Statements*, which come into effect on 1 July 2009 (i.e. become mandatory for the Group's 2010 consolidated financial statements). The revisions address, among others, accounting for step acquisitions, require acquisition-related costs to be recognised as expenses and remove exception for

changes in contingent consideration to be accounted by adjusting goodwill. The revisions also address how non-controlling interests in subsidiaries should be measured upon acquisition and require to recognise the effects of transactions with non-controlling interest directly in equity. The Group has not yet analysed the likely impact of the new Standard on its financial position or performance.

- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in several phases and is intended to replace International Financial Reporting Standard IAS 39 Financial Instruments: Recognition and Measurement once the project is completed by the end of 2010. The first phase of IFRS 9 was issued in November 2009 and relates to the recognition and measurement of financial assets. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued.
- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2010. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

5 Property, plant and equipment

(a) Fair value or cost

'000 RUR.	Electricity and heat generation	Electricity transmission	Heating networks	Other	Construction in progress	Total
Cost / Revalued amount						
Balance at 31 December 2007	**36,947,264**	**2,429,907**	**192,263**	**9,587,588**	**5,227,781**	**54,384,803**
Revaluation at 1 January 2008	29,229,762	257,885	375,749	9,000,070	-	38,863,466
Net off - Accumulated depreciation at 1 January 2008	(15,337,760)	(1,334,347)	(85,204)	(6,059,582)	-	(22,816,893)
Balance at 1 January 2008 after revaluation	50,839,266	1,353,445	482,808	12,528,076	5,227,781	70,431,376
Additions	-	-	85,953	127,871	10,091,535	10,305,359
Transfers	398,731	105,671	-	704,746	(1,209,148)	-
Disposals	(48,767)	(11,406)	(555)	(32,736)	(5,356)	(98,820)
Revaluation at 31 December 2008	(17,948,341)	(257,885)	(189,905)	(3,715,890)	-	(22,112,021)
Net off - Accumulated depreciation at 31 December 2008	(1,836,511)	(149,423)	(30,879)	(787,061)	-	(2,803,874)
Balance at 31 December 2008	**31,404,378**	**1,040,402**	**347,422**	**8,825,006**	**14,104,812**	**55,722,020**
Additions	-	454	-	157,948	10,088,580	10,246,982
Transfers	1,556,036	264,998	-	826,082	(2,647,116)	-
Disposals	(19,683)	(26,890)	(2,804)	(102,032)	(211,006)	(362,415)
Balance at 31 December 2009	**32,940,731**	**1,278,964**	**344,618**	**9,707,004**	**21,335,270**	**65,606,587**
Depreciation and impairment losses						
Balance at 31 December 2007	**15,337,760**	**1,334,347**	**85,204**	**6,059,582**	-	**22,816,893**
Net off - Accumulated depreciation at 1 January 2008	(15,337,760)	(1,334,347)	(85,204)	(6,059,582)	-	(22,816,893)
Balance at 1 January 2008 after revaluation	-	-	-	-	-	-
Depreciation for the year	1,839,906	149,797	30,907	791,549	-	2,812,159
Disposals	(3,395)	(374)	(28)	(4,488)	-	(8,285)
Net off - Accumulated depreciation at 1 January 2008	(1,836,511)	(149,423)	(30,879)	(787,061)	-	(2,803,874)
Impairment loss	128,589	201,804	77,828	338,356	1,224,121	1,970,698
Balance at 31 December 2008	**128,589**	**201,804**	**77,828**	**338,356**	**1,224,121**	**1,970,698**
Depreciation for the year	1,168,385	98,211	17,826	582,470	-	1,866,892
Disposals	(431)	(1,719)	(236)	(5,292)	(90,523)	(98,201)
Transfers	285,068	59,655	-	233,093	(577,816)	-
Balance at 31 December 2009	**1,581,611**	**357,951**	**95,418**	**1,148,627**	**555,782**	**3,739,389**
Net book value						
Balance at 31 December 2007	**21,609,504**	**1,095,560**	**107,059**	**3,528,006**	**5,227,781**	**31,567,910**
Balance at 1 January 2008 after revaluation	**50,839,266**	**1,353,445**	**482,808**	**12,528,076**	**5,227,781**	**70,431,376**
Balance at 31 December 2008	**31,275,789**	**838,598**	**269,594**	**8,486,650**	**12,880,691**	**53,751,322**
Balance at 31 December 2009	**31,359,120**	**921,013**	**249,200**	**8,558,377**	**20,779,488**	**61,867,198**

Construction in progress as at 31 December 2009 and 31 December 2008 includes prepayments for property, plant and equipment in amount of RUR 5,629,522 thousand and RUR 8,635,763 thousand respectively.

None of the property, plant or equipment was pledged as collateral according to loan agreements.

(b) Revaluation

Effective 1 January 2008, the Group changed its accounting policy to revaluing its property, plant and equipment from that date. Management believes that this resulted in a more meaningful presentation of the Group's financial position and financial performance.

Revaluation as at 1 January 2008

The Group's management commissioned CJSC "Rossiyskaya otsenka" to independently appraise property, plant and equipment as at 1 January 2008. The fair value was determined to be RUR 66,835,148 thousand.

The majority of the Company's property, plants and equipment is specialised in nature and is rarely sold on the open market other than as a part of continuing business. The market for similar property, plant and equipment is not active and does not provide a sufficient number of sales of comparable property, plant and equipment for using a market-based approach for determining fair value.

Consequently the fair value of property, plant and equipment was primarily determined using depreciated replacement cost. The replacement cost of buildings, constructions and transmission equipment has been estimated based on technical characteristics, unit construction cost and construction estimates. The replacement cost of equipment was estimated based on data of aggregate replacement cost of heat-power station, current purchase contracts and price-list of producers and trading companies. The economic obsolescence was estimated based on cash flow projections for each cash-generating unit – Kirishskaya GRES, Novocherkasskaya GRES, Ryazanskaya GRES, Krasnoyarskaya GRES, Cherepovetskaya GRES, GRES-24.

The following key assumptions were used in performing the cash flow testing as at 1 January 2008:

- A discount rate of 12.97% was applied in determining the recoverable amount. The discount rate was estimated based on weighted average cost of capital, which was based on a possible range of debt leveraging of 56.82% at a market interest rate of 11.50%.
- Cash flows were projected based on actual operating results for 2008 and the twelve-year business plan.
- Cash flows were projected based on the anticipated average price which is based on Federal Tariff Service regulation and assumed to change in line with weighted average price of fuel. Fuel prices are projected based on official (Ministry of Economic Development and Trade) forecasts and trends.
- Dynamics of sales share attributable to non-regulated market are in line with Government resolutions' requirements: after 2011 electricity is anticipated to be sold on non-regulated market except of volumes of electricity intended for households, due to this 10% of electricity is assumed to continue to be sold at regulated prices.
- The anticipated annual production growth included in the cash flow projections was 0%.
- A terminal value was derived at the end of the 13-year interim period. A terminal rate of 12.97% was considered in estimating the terminal value of the plants.

As a result the Group's equity increased by RUR 31,090,773 thousand, comprising an increase in carrying value of property, plant and equipment of RUR 38,863,466 thousand (net of related deferred tax of RUR 7,772,693 thousand).

Revaluation as at 31 December 2008

Given the current economic downturn the management commissioned CJSC "Rossiyskaya otsenka" to conduct additional testing of economic obsolescence of property, plant and equipment based on cash flow projections as at 31 December 2008. The fair value was determined to be RUR 45,115,559 thousand.

The following key assumptions were used in performing the cash flow testing as at 31 December 2008:

- A discount rate of 16.51% was applied in determining the recoverable amount. The discount rate was estimated based on weighted average cost of capital, which was based on a possible range of debt leveraging of 62.65% at a market interest rate of 17.00%.
- Cash flows were projected based on actual operating results for 2008 and the twelve-year business plan.
- Cash flows were projected based on the anticipated average price which is based on Federal Tariff Service regulation and assumed to change in line with weighted average price of fuel. Fuel prices are projected based on official (Ministry of Economic Development and Trade) forecasts and trends.
- Dynamics of sales share attributable to non-regulated market are in line with Government resolutions' requirements: after 2011 electricity is anticipated to be sold on non-regulated market except of volumes of electricity intended for households, due to this 10% of electricity is assumed to continue to be sold at regulated prices.
- The anticipated annual production growth included in the cash flow projections was 0%.
- A terminal value was derived at the end of the 13-year interim period. A terminal rate of 16.51% was considered in estimating the terminal value of the plants.

As a result, the Group recognised a decrease of carrying amount of property, plant and equipment of RUR 24,082,719 thousand, which was charged against previously recognised valuation surplus in amount of RUR 17,689,617 thousand (net of related deferred tax of RUR 4,422,404 thousand) and to the profit and loss statement as impairment loss in amount of RUR 1,970,698 thousand.

Each revalued class of property, plant and equipment is stated at a revalued amount in these financial statements. The carrying amounts that would have been recognised had the assets been carried under the cost model are as follows:

'000 RUR	Electricity and heat generation	Electricity transmission	Heating networks	Other	Construction in progress	Total
At 31 December 2008	20,385,189	1,088,298	192,789	3,937,260	13,642,544	39,246,080
At 31 December 2009	20,432,071	1,262,423	182,969	4,078,045	15,292,976	41,248,484

Useful lives

As a part of the revaluation of property plant and equipment the Group management has reviewed the remaining useful lives of property, plant and equipment at 1 January 2008. As a result, the useful lives of certain items of property, plant and equipment were extended, which had an insignificant impact on depreciation charge. The useful lives are disclosed in Note 4(h).

(c) Operating leases

The Group leases a number of land areas owned by local government under operating lease. Land lease payments are determined by lease agreements. Operating land lease rentals are payable as follows:

	31 December 2009 '000 RUR	31 December 2008 '000 RUR
Less than one year	33,318	67,487
Between one and five years	103,529	189,393
More than five years	594,381	1,161,447
Total	**731,228**	**1,418,327**

Generally the leases run for an initial period of 5-49 years with an option to renew the lease after that date. Lease payments are reviewed regularly to reflect market rentals. As at 31 December 2009 the Group owns thirty nine plots entirely containing of 540 hectares.

Operating lease rentals for other fixed assets are payable as follows:

	31 December 2009 '000 RUR	31 December 2008 '000 RUR
Less than one year	140,047	111,013
Between one and five years	-	103,231
More than five years	-	220
Total	**140,047**	**214,464**

6 Other non-current assets

	31 December 2009 '000 RUR	31 December 2008 '000 RUR
Trade accounts receivable	515,703	387,269
Other non-current assets	400,774	400,830
VAT recoverable	193,317	639,295
Investments	51,333	89,164
Allowance for impairment of trade accounts receivable	(356,029)	(263,094)
Total	**805,098**	**1,253,464**

7 Inventories

	31 December 2009 '000 RUR	31 December 2008 '000 RUR
Fuel	2,542,251	3,679,364
Spare parts	397,611	539,353
Materials and supplies	351,229	438,979
Other inventories	3,428	1,907
Provision for slow-moving and obsolete inventory	(68,939)	(73,802)
Total	**3,225,580**	**4,585,801**

None of the inventories held were pledged as collateral according to loan agreements.

8 Short-term investments

As at 31 December 2009 cash in the amount of RUR 417,120 thousand was placed on term deposit maturing after 3 months with JS "Gazenergoprombank" and JS "Moscovskiy kreditniy bank" at the interest rates of 12,5% and 14% respectively. As at 31 December 2009 the deposits with JS "Gazenergoprombank", JS "Gazprombank", JS "Rosbank" and JS "Alpha bank" maturing in three months in the amount of RUR 1,118,090 thousand were reclassified to cash and cash equivalents (Note 10). As at 31 December 2008 cash in the amount of RUR 3,901,413 thousand was deposited with JS "Gazenergoprombank" at the interest rates of 10% - 12.5%.

9 Receivables and prepayments

	31 December 2009	31 December 2008
	'000 RUR	'000 RUR
Trade receivables	2,873,765	1,431,999
VAT recoverable	1,583,146	1,222,128
Advances to suppliers and prepayments	414,764	794,959
Other receivables	228,028	464,261
Allowance for impairment of prepayments and advances to suppliers	(480)	(956)
Allowance for impairment of other receivables	(30,885)	(69,036)
Allowance for impairment of trade receivables	(216,109)	(44,220)
Total	**4,852,229**	**3,799,135**

For comparability VAT on advances related to capital construction amounted to RUR 921,900 thousand was reclassified from Advances to suppliers and prepayments to VAT recoverable as at 31 December 2008.

10 Cash and cash equivalents

	31 December 2009	31 December 2008
	'000 RUR	'000 RUR
Cash	78,985	215,014
Cash equivalents	1,118,090	-
Total	**1,197,075**	**215,014**

11 Equity

(a) Share capital

	31 December 2009	31 December 2008
Number of shares issued and fully paid	32,287,001,231	32,287,001,231
Par value (RUR)	0.48	0.48
Total	**15,497,760**	**15,497,760**

As at 31 December 2007, the number of issued ordinary shares amounted to 32,262,558,936 with a par value of RUR 0.48 each.

In July 2008 the Group issued 24,442,295 ordinary shares. The shares were placed by conversion of shares of OJSC "OGK-6 Holding" to the shares of the Company in the spin-off process of OJSC "OGK-6 Holding" from RAO "UES of Russia".

This transaction under common control resulted in an increase in the share capital and in the share premium reserve of the Group by RUR 11,732 thousand and RUR 99,934 thousand, respectively.

As at 31 December 2009 the number of the securities issued equaled to 32,287,001,231 shares, a par value of 0,48 RUR each.

(b) Dividends

In accordance with Russian legislation the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with Russian Accounting Principles ("RAP"). As at 31 December 2009 profit under RAP amounted to RUR 2,813,099 thousand (2008: RUR 804,954 thousand).

On 8 June 2009 the General Shareholders meeting approved to pay no dividends to the shareholders in relation to 2008 financial year results.

12 Loans and borrowings

	Currency	Interest rate	Amount '000 EUR	31 December 2009 '000 RUR	31 December 2008 '000 RUR
Non-current liabilities					
Bonded loan	RUR	7.55%	-	2,874,136	2,874,136
CJSC Unicreditbank	EUR	Euribor + 3.75%	1,195	51,869	49,541
Moscovskiy kreditniy bank	RUR	14%	-	2,000,000	-
Finance lease liabilities	RUR	-	-	11,605	-
				4,937,610	**2,923,677**

In April 2007 the Group completed a public offering of interest bearing non-convertible bonds, with a mandatory centralised custody. The number of issued bonds was 5,000,000 with a nominal value of RUR 1,000 per each bond, with maturity of 5 years with 3-year buy-back option.

As at 31 December 2007 the Group recognised the bonds as current liabilities because of possible early redemption due to anticipated reorganisation in the form of the merger with OJSC "OGK-6 Holding" in accordance with article 15 of the Federal Law on joint stock companies. During the year 2008 bonds of RUR 2,125,864 thousand were redeemed.

As at 31 December 2008 bonds of RUR 2,874,136 thousand were not claimed for the early redemption and were reclassified to non-current liabilities.

On 24 April 2008 the Group fulfilled its obligations related to the payment of the second coupon yield on the bonds. Fixed interest rate coupon yield was 7.55% per annum. The amount of yield paid was RUR 296,461 thousand.

On 23 October 2008 the Group paid off third coupon yield on the bonds at fixed interest rate of 7.55% in the amount of RUR 108,211 thousand.

On 23 April 2009 the Group paid off the fourth coupon yield on the bonds. Fixed interest rate coupon yield was 7.55% per annum. The amount of yield paid was RUR 108,211 thousand.

On 23 October 2009 the Group paid off the fifth coupon yield on a bonds of RUR 108,211 thousand. The Fixed interest rate of the coupon yield was 7.55 %

13 Income tax

	2009 '000 RUR	2008 '000 RUR
Current tax expense		
Current year	1,021,810	589,786
Adjustment for prior years	141,941	(519,716)
Current tax charge	**1,163,751**	**70,070**
Deferred tax expense		
Origination and reversal of temporary differences	(100,125)	(856,920)
Change in tax rate	-	(481,083)
Total income tax expense / (benefit)	**1,063,626**	**(1,267,933)**

During 2009, the Group entities were subject to 20% income tax rate on taxable profits (2008: 24%).

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

For the reporting purposes net profit before tax is reconciled with the tax charge as follows:

	2009 '000 RUR	%	2008 '000 RUR	%
Profit /(loss) before tax	3,505,884	100	(2,097,336)	(100)
Theoretical tax expense/(benefit) at an average statutory tax rate of (2009 - 20%, 2008 - 24%)	701,176	20	(503,361)	(24)
Adjustment for prior years	141,941	4	(519,716)	(25)
Change in tax rate	-	-	(481,083)	(22)
Non-deductible expenses	220,509	6	236,227	11
Total income tax expense/(benefit)	**1,063,626**	**30**	**(1,267,933)**	**(60)**

'000 RUR	31 December 2008	Movement for the period recognized in profit and loss	Movement for the period recognized in other comprehensive income	31 December 2009
Property, plant and equipment	(6,048,922)	191,620	-	(5,857,302)
Accounts receivable	37,873	(59,605)	-	(21,732)
Tax loss	11,728	(11,728)	-	-
Other	243,614	(20,162)	7,566	231,018
Total	**(5,755,707)**	**100,125**	**7,566**	**(5,648,016)**

	31 December 2007	Movement for the period recognized in profit and loss	Movement for the period recognized in other comprehensive income	31 December 2008
Property, plant and equipment	(4,235,804)	1,537,171	(3,350,289)	(6,048,922)
Accounts receivable	222,284	(184,411)	-	37,873
Tax loss	66,245	(54,517)	-	11,728
Other	203,854	39,760	-	243,614
Total	**(3,743,421)**	**1,338,003**	**(3,350,289)**	**(5,755,707)**

14 Employee benefits

The tables below provide information about the benefit obligations and actuarial assumptions used for the years ended 31 December 2009 and 2008:

	31 December 2009 '000 RUR	31 December 2008 '000 RUR
Present value of defined benefit obligations (unfunded)	979,723	985,894
Unrecognized net actuarial loss	(114,704)	(184,340)
Unrecognised past service cost	(40,316)	(79,436)
Net liability in the statement of financial position	**824,703**	**722,118**

Amounts recognized in the consolidated statement of comprehensive income:

	31 December 2009 '000 RUR	31 December 2008 '000 RUR
Current service cost	40,150	36,633
Interest cost	87,820	64,195
Net actuarial (gains)/losses recognised during the year	(4,124)	30,638
Amortisation of past service cost	39,119	39,118
Settlement gain	-	-
Immediate recognition of vested prior service cost	-	-
Total	**162,965**	**170,584**

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

	31 December 2009 '000 RUR	31 December 2008 '000 RUR
Present value of defined benefit obligations at beginning of year	985,894	958,948
Service cost	40,150	36,633
Interest cost	87,820	64,195
Actuarial gain	(73,761)	(21,414)
Benefits paid	(60,380)	(52,468)
Settlement gain	-	-
Present value of defined benefit obligations at end of year	**979,723**	**985,894**

	31 December 2009 '000 RUR	31 December 2008 '000 RUR
Net liability at beginning of year	722,118	604,002
Net expense recognised in the profit and loss statement	162,965	170,584
Benefits paid	(60,380)	(52,468)
Net liability at end of year	**824,703**	**722,118**

Principal actuarial assumptions are as follows:

	31 December 2009	31 December 2008
Discount rate	9.5%	9.0%
Pension increase (excl. annuities via non-state pension fund)	8.0%	7.0%
Inflation	6.5%	7.0%
Salary increase	6.5%	8.0%

15 Accounts payable and accrued charges

	31 December 2009 '000 RUR	31 December 2008 '000 RUR
Trade payables	2,349,588	3,524,803
Advances received	1,320,973	1,274,161
Other payables	309,504	321,176
Payables to employees	216,771	164,378
Dividends payable	7,111	14,130
Total	**4,203,947**	**5,298,648**

16 Revenues

	2009 '000 RUR	2008 '000 RUR
Electricity	39,204,756	39,878,613
Heating	2,223,004	2,036,637
Other	442,562	359,800
	41,870,322	**42,275,050**

17 Operating expenses

	2009 '000 RUR	2008 '000 RUR
Fuel expenses	19,206,397	24,271,556
Purchased heat and electricity	4,717,510	4,619,039
Employee benefit expenses and payroll taxes	3,757,846	3,601,541
Depreciation	1,866,892	2,812,159
Impairment of property, plant and equipment	-	1,970,698
Repairs and maintenance	1,902,996	1,834,597
Other materials	1,876,547	1,572,695
Water usage expenses	851,563	1,085,434
Energy market infrastructure cost	752,424	639,936
Taxes	629,321	437,181
Rent and lease payments	379,935	372,299
Electricity transmission	446,495	317,448
Security and fire safety	221,685	193,234
Transport	408,535	150,291
Consulting, legal and information services	231,002	132,537
Insurance	86,418	122,549
Loss on disposal of property, plant and equipment	207,196	78,576
Charity expenditure	60,275	70,473
Impairment of inventories	(4,863)	56,483
Write off of inventories	147,213	2,560
(Reversal) / origination of allowance for accounts receivable	226,197	(31,880)
Other	499,061	378,287
Total	**38,470,645**	**44,687,693**

Employee benefits expenses comprise the following:

	2009 '000 RUR	2008 '000 RUR
Salaries and wages, payroll taxes	3,355,915	3,218,107
Financial aid to employees and pensioners	259,643	277,045
Non-governmental pension fund expenses	142,288	106,389
	3,757,846	**3,601,541**

18 Finance income/(expenses)

Finance income	2009 '000 RUR	2008 '000 RUR
Interest income	349,169	829,010
Amortization of discounting of accounts receivable	35,160	-
Total	**384,329**	**829,010**

Finance expenses	2009 '000 RUR	2008 '000 RUR
Interest expense	(310,450)	(306,438)
Discounting of accounts receivable	-	(51,469)
Total	**(310,450)**	**(357,907)**

19 Earnings per share

	2009 '000 RUR	2008 '000 RUR
Weighted average number of ordinary shares issued (thousand)	32,274,780	32,274,780
Profit/(loss) for the year	2,442,258	(829,403)
Earnings/(loss) per ordinary share – basic and diluted (in RUR)	**0.0757**	**(0.0257)**

20 Commitments

(a) Fuel commitments

The Group has signed a number of short-term agreements for the fuel purchases. These agreements do not cover all the needs of the Group. The remaining part of the fuel required by the Group will also be purchased on short-term agreements from a number of suppliers with immediate payment terms.

The quantity of supplies is determined annually on the basis of fuel stocks requirements.

(b) Capital commitments

Future capital expenditures for which contracts have been signed, amount to RUR 32,200,512 thousand.

21 Contingencies

(a) Political environment

The operations and earnings of the Group 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.

(b) Insurance

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

(c) Legal proceedings

The Group was not a party to any legal proceedings which, upon final disposition, will have a material adverse effect on the financial position of the Group.

(d) Taxation

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

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

(e) 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 regulations in the Russian Federation is evolving and the enforcement posture of the government authorities is continually being reconsidered. Group entities periodically evaluate their obligations under the environmental regulations.

Potential liabilities might arise as a result of changes in the legislation and regulations 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.

(f) Guarantees

As at 31 December 2009 the Group issued guarantees on behalf of OJSC "Mezhregionenergosbyt" to "Alteya Finance" LLC, "Sigma" LLC and OJSC "Joint stock bank "Rossiya" in the amount of RUR 2,725,000 thousand (2008: RUR 2,725,000 thousand).

OJSC "Mezhregionenergosbyt" is a wholly owned subsidiary of the Group's parent company, OJSC "Gazprom" and has a strong credit history. Management believes that possibility of default in relation to the above-mentioned obligations is remote.

22 Related party transactions

Before 1 July 2008 RAO UES of Russia, the state-controlled entity, owned 77.45% of the Group. The remaining 22.55% of ordinary shares were placed among a large number of shareholders.

Effective 1 July 2008 OJSC "Gazprom" owns 60% of the Group's shares. The Russian Government is the ultimate controlling party of the Group.

Related parties include the ultimate beneficiaries, affiliates and entities under common ownership and control within the Group.

The Group enters into transactions with related parties in the normal course of business. Prices for natural gas, electricity and heat are based on tariffs set by FTS and RTS. Taxes are charged and paid under the Russian tax legislation. Other sales and purchase transactions are based on normal market prices.

(a) Transactions with state-controlled entities

	2009 '000 RUR	2008 '000 RUR
Energy and heat sales	18,265,329	21,356,997
Other sales	134,332	116,210
Fuel purchases	11,229,365	15,137,201
Energy market infrastructure cost	752,424	639,936
Interest income	315,022	586,150

The outstanding balances were as follows:

	31 December 2009 '000 RUR	31 December 2008 '000 RUR
Short-term investments	24,670	3,901,413
Receivables and prepayments	2,153,943	1,160,677
Accounts payables and accrued charges	175,655	84,716
Allowance for impairment of receivables and prepayments	(383,762)	(196,949)

(b) Transactions with management and close family members

Compensation is paid to members of the Management Board of the Company (hereinafter – the "Management Board") for their services in full time management positions and is made up of a contractual salary, non-cash benefits, and a performance bonus depending on the results for the period according to Russian statutory financial statements. The compensation is approved by the Board of Directors of the Company. Optional bonuses, which are approved by the Chairman of the Management Board according to his perception of the value of their contribution, are also payable to members of the Management Board.

Key management received the following remuneration during the years ended 31 December 2009 and 2008:

	2009 '000 RUR	2008 '000 RUR
Salaries and bonuses	81,223	132,273
Termination cost	5,838	125,620
Payroll taxes	2,924	4,114
Other	892	13,762
Total	**90,877**	**275,769**

23 Financial instruments and financial risk factors

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

- credit risk
- liquidity risk
- market risk

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

(a) Risk management framework

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

The Group established a number of controls over compliance with Group's risk management policies and procedures. On a quarterly basis, the Group's Audit Committee reviews managements actions and estimates the adequacy of the measures taken in relation to the risks faced by the Group. The Group's Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures as well as day-to-day activities and reports to the Audit Committee on a monthly basis.

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 collectibility of receivables. The Group does not have a risk policy to hedge its financial exposures.

(b) Credit risk

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

(i) Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

The Group has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, when available, and in some cases bank references.

Majority of the Group's customers have been transacting with the Group for over several years, and losses have occurred infrequently. In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or legal entity, whether they are a wholesale, retail or end-user customer, geographic location, industry, aging profile, maturity and existence of previous financial difficulties.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments.

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

(ii) Investments

The Group limits its exposure to credit risk by only investing in liquid securities and only with counterparties that have a high credit rating. Given this management does not expect any counterparty to fail to meet its obligations.

Exposure to credit risk

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

	Note	Carrying amount 31 December 2009 '000 RUR	Carrying amount 31 December 2008 '000 RUR
Available-for-sale financial assets			
Investments	6	51,333	89,164
Loans and receivables			
Long-term accounts receivable	6	159,674	124,175
Short-term investments	8	417,120	3,901,413
Trade and other receivable	9	2,854,799	1,783,004
Cash and cash equivalents	10	1,197,075	215,014
Total		**4,680,001**	**6,112,770**

Cash is placed in financial institutions, which are considered at the time of the deposit to have minimal risk of default.

As disclosed in note 21(f), the Group has issued guarantees on behalf of an entity under common control in the amount of RUR 2,725,000 thousand.

The Group's most significant customer JS "CFR" accounts for RUR 1,183,053 thousand of the trade receivables carrying amount at 31 December 2009 (2008: RUR 600,409 thousand).

Impairment losses

The aging of trade receivables at the reporting date was:

	31 December 2009		31 December 2008	
	Gross '000 RUR	Impairment '000 RUR	Gross '000 RUR	Impairment '000 RUR
Not past due	2,525,545	-	896,592	-
Past due 3-6 months	171,637	(140,851)	555,455	-
More than 6 months	295,775	(34,776)	59,907	-
More than 1 year	396,511	(396,511)	307,314	(307,314)
	3,389,468	**(572,138)**	**1,819,268**	**(307,314)**

The management believes that Group entities will be able to realize the net receivable amount through direct collections and other non-cash settlements, and that therefore the recorded values approximate their fair values. The individually impaired receivables mainly relate to the counterparties which are in difficult economic situation.

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

	2009 '000 RUR	2008 '000 RUR
1 January	**307,314**	**322,358**
Increase during the period	296,814	159,083
Decrease due to recognized impairment loss	-	(1,968)
Decrease due to reversal	(31,990)	(172,159)
31 December	**572,138**	**307,314**

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements. Values presented in the table reflect non-discounted cash flows.

'000 RUR	Carrying amount	Contractual cash flows	0-6 mths	6-12 mths	1-2 years	2-5 years	More than 5 years
As at 31 December 2009							
Non-derivative financial liabilities:							
Bonded loan	2,874,136	3,415,142	108,201	108,201	216,403	2,982,337	-
Bank loan	2,051,869	2,554,126	141,556	141,556	2,213,315	57,699	-
Finance lease liabilities	49,172	53,613	25,356	15,875	12,382	-	-
Accounts payable	2,882,974	2,882,974	2,859,032	132	23,810	-	-
Other non-current liabilities	545,481	545,481	-	509,859	34,652	-	970
Financial guarantees	2,725,000	2,725,000	2,725,000	-	-	-	-
As at 31 December 2008:							
Non-derivative financial liabilities:							
Bonded loan	2,874,136	3,631,545	108,201	108,201	432,806	2,982,337	-
Bank loan	49,541	70,906	-	4,273	4,273	62,360	-
Accounts payable	4,024,487	4,024,487	3,963,965	33,415	26,601	3	503
Financial guarantees	2,725,000	2,725,000	2,725,000	-	-	-	-

(d) Market risk

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

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 is not subject to the foreign currency exchange risk. The financial condition of the Company, its liquidity, financing sources and the results of activities do not considerably depend on currency rates as the Group activities are planned to be performed in such a way that its assets and liabilities are denominated in the national currency. At the same time, some transactions connected with acquisition of the equipment, are denominated in foreign currency.

Although the Group may from time to time conclude contracts in foreign currency for implementation of investment program or other purposes, the Group's management considers the currency risk on financial performance and operations in case of unfavourable changes of foreign currency rates as minimal due to insignificance of underlying amounts. The Group sees market risk principally in the risk of a change in interest rates.

(e) Interest rate risk

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

The Group's income and operating cash flows are largely independent of changes in market interest rates. The Group is exposed to interest rate risk only through market value fluctuations of interest-bearing assets, loans and borrowings. The interest rates on most long- and short-term interest-bearing assets, loans and borrowings are fixed.

Since the power sector is regarded as a capital-intensive industry, reinforcement of the Group's market standing would require significant capital endowments. The Group is planning to raise additional debt capital in accordance with its financial policy. The increase in market interest rates would increase the cost of borrowed funds attracted by the Group for financing of its investment program and operations. But at the same time, the growth of market interest rates would decrease the real cost of capital of existing fixed-rate loans.

(f) Fair values versus carrying amounts

Management believes that the fair value of its financial assets and liabilities approximates their carrying amounts. The basis for determining fair values is disclosed in note 4 (i).

(g) Fair value hierarchy

The table below analyses financial instruments carried at fair value, except financial instruments stated in Note 23 (b) measured at amortised cost, by valuation method. The different levels have been defined as follows:

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

	Level 1	Level 2	Level 3	Total
31 December 2009				
Investments	51,333	-	-	51,333
	51,333	-	-	**51,333**

24 Capital risk management

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

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

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity, as shown in the consolidated balance sheet, plus net debt. The gearing ratios at 31 December 2009 and at 31 December 2008 were as follows:

	31 December 2009 '000 RUR	31 December 2008 '000 RUR
Total borrowings	4,975,177	2,923,677
Less: cash and cash equivalents (Note 10)	(1,197,075)	(215,014)
Net debt	3,778,102	2,708,663
Total equity	55,453,203	53,041,209
Total capital	**59,231,305**	**55,749,872**
Gearing ratio	6.4%	4.9%