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

Contents

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Independent Auditors' Report

To the management of OJSC Interregional Distributive Grid Company of Volga

We have audited the accompanying consolidated financial statements of OJSC Interregional Distribution Grid Company of Volga (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 Financial Statements

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

Auditors' Responsibility

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

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

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

Basis for qualified opinion

We did not observe the counting of inventories stated at RUR 879,326 thousand as at 01 January 2008, because we were engaged as auditors of the Group only after that date. It was impracticable to satisfy ourselves as to those inventory quantities by other audit procedures. Accordingly, we were unable to determine whether any adjustments might be necessary to operating expenses, taxation expense and net profit for the year ended 31 December 2008.

Qualified Opinion

In our opinion, except for the effects on the corresponding figures of such adjustments, if any, that might have been determined to be necessary had it been practicable to obtain sufficient appropriate audit evidence as described in the Basis for Qualified Opinion paragraph, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2009, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO KPMG

ZAO KPMG
14 May 2010

(in thousands of Russian Roubles, unless otherwise stated)

	Note	31 December 2009	31 December 2008
ASSETS			
Non-current assets			
Property, plant and equipment	8	25,269,115	25,598,041
Intangible assets	9	151,721	324,519
Other non-current assets	10	879,049	782,954
Total non-current assets		**26,299,885**	**26,705,514**
Current assets			
Inventories	11	785,816	849,119
Income tax receivable		84,926	23,893
Trade and other receivables	12	3,046,090	2,532,532
Prepayments for current assets	13	410,472	617,100
Cash and cash equivalents	14	425,060	483,944
Other current assets	15	552,620	26,175
Total current assets		**5,304,984**	**4,532,763**
TOTAL ASSETS		**31,604,869**	**31,238,277**
EQUITY AND LIABILITIES			
Share capital	16	17,857,780	17,857,780
Retained earnings		3,275,433	1,970,596
Total equity		**21,133,213**	**19,828,376**
Non-current liabilities			
Deferred income tax liabilities	26	1,062,448	1,051,436
Employee benefits	17	682,441	687,661
Loans and borrowings	18	5,831,527	3,500,884
Trade and other payables	19	65,582	36,818
Total non-current liabilities		**7,641,998**	**5,276,799**
Current liabilities			
Loans and borrowings	18	194,528	3,012,402
Trade and other payables	19	1,906,564	2,677,119
Income tax payable		3	207,464
Other taxes payable	20	728,563	236,117
Total current liabilities		**2,829,658**	**6,133,102**
Total liabilities		**10,471,656**	**11,409,901**
TOTAL EQUITY AND LIABILITIES		**31,604,869**	**31,238,277**

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

General Director — Ryabikin V.A.
Chief Accountant — Tamlenova I.A.

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 44.

(in thousands of Russian Roubles, unless otherwise stated)

	Note	Year ended 31 December 2009	Year ended 31 December 2008
Revenue	21	29,484,257	30,725,018
Operating expenses	22	(27,483,468)	(27,400,824)
Other income and (expenses), net	24	22,576	(32,722)
Operating profit		**2,023,365**	**3,291,472**
Finance income	25	2,239	17,694
Finance costs	25	(504,229)	(538,127)
Profit before income tax		**1,521,375**	**2,771,039**
Income tax expense	26	(216,538)	(736,261)
Profit for the year		**1,304,837**	**2,034,778**
Total comprehensive income		**1,304,837**	**2,034,778**
Earnings per share - basic and diluted (in RUR)	16	0.0073	0.0114

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 44.

(in thousands of Russian Roubles, unless otherwise stated)

	Note	Year ended 31 December 2009	Year ended 31 December 2008
OPERATING ACTIVITIES:			
Profit before income tax for the year		**1,521,375**	**2,771,039**
Adjustments for:			
Depreciation and amortisation	8,9	2,837,759	2,391,075
Write-off and charge of impairment of accounts receivable		603,781	98,288
Provision for obsolescence		(1,848)	(3,552)
Finance costs		504,229	538,127
Finance income		(2,239)	(17,694)
Loss on disposal of property, plant and equipment		14,180	19,131
Impairment of construction in progress	22	38,257	-
Accounts payable written-off		(61,787)	(7,287)
Other non-cash transactions		(612,419)	(23,085)
Operating profit before working capital changes and income tax paid		**4,841,288**	**5,766,042**
Working capital changes:			
Increase in trade and other receivables		(814,506)	(396,164)
Decrease /(increase) in prepayments		58,922	(58,489)
Decrease /(increase) in inventories		45,759	(2,845)
Decrease in other current assets		10,035	171,641
Increase in other non-current assets		(118,994)	(228,935)
Decrease in trade and other payables		(331,860)	(49,812)
Increase/(decrease) in long-term liabilities		23,544	(179,527)
Increase/(decrease) in taxes payable other than income		129,274	(55,396)
Cash flows from operations before income taxes and interest paid		**3,843,462**	**4,966,515**
Income tax paid		(363,329)	(525,966)
Interest paid		(681,982)	(424,584)
Net cash flows from operating activities		**2,798,151**	**4,015,965**
INVESTING ACTIVITIES:			
Acquisition of property, plant and equipment		(2,191,385)	(6,363,686)
Proceeds from disposal of property, plant and equipment		1,095	24,501
Proceeds from sale of investments		63,520	-
Disposal of subsidiaries, net of cash disposed of		-	18,474
Interest received		2,239	3,049
Net cash flows used in investing activities		**(2,124,531)**	**(6,317,662)**
FINANCING ACTIVITIES:			
Proceeds from loans and borrowings		14,103,561	7,422,393
Repayment of loans and borrowings		(14,508,164)	(4,709,456)
Repayment of finance lease liabilities		(327,901)	(457,711)
Net cash flows (used in)/from financing activities		**(732,504)**	**2,255,226**
Net decrease in cash and cash equivalents		**(58,884)**	**(46,471)**
Cash and cash equivalents at beginning of year		**483,944**	**530,415**
Cash and cash equivalents at end of year		**425,060**	**483,944**

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 44.

(in thousands of Russian Roubles, unless otherwise stated)

	Share capital	Accumulated Prof (Accumulated los:	Total equit
As at 1 January 2008	**17,857,780**	**(64,182)**	**17,793,598**
Total comprehensive income	-	2,034,778	2,034,778
As at 31 December 2008	**17,857,780**	**1,970,596**	**19,828,376**
As at 1 January 2009	**17,857,780**	**1,970,596**	**19,828,376**
Total comprehensive income	-	1,304,837	1,304,837
As at 31 December 2009	**17,857,780**	**3,275,433**	**21,133,213**

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 44.

(in thousands of Russian Roubles, unless otherwise stated)

Note 1. Background

(a) The Group and its operations

Open Joint-Stock Company "Interregional Distribution Grid Company of Volga" (hereafter, the "Company" or OJSC "IDGC of Volga") and its subsidiaries (together referred to as the "Group") comprise Russian open joint stock companies as defined in the Civil Code of the Russian Federation. The Company was set up on 29 June 2007 based on Resolution no. 191p of 22 June 2007 and pursuant to the Board of Directors' decision (board of directors' meeting minutes no. 250 of 27 April 2007) of the Russian Open Joint-Stock Company RAO "United Energy Systems of Russia" (hereafter, "RAO UES").

The Company's registered office is 42/44 Pervomayskaya street, Saratov, Russian Federation, 410031.

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

The Group consists of the Company and its subsidiaries:

	% owned	
Name	31 December 2009	31 December 2008
OJSC Chuvashskaya avtotransportnaya kompaniya	100% - 1 share	100% - 1 share
OJSC Sanatoriy Solnechny	99.99	99.99
Private Educational Institution Learning centre Energetik-Orenburg	100	100
OJSC Sotsialnaya Sfera-M	100	100
OJSC Plemsovhoz Magistralny	-	53

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

As part of the reform process, a merger of the Company with the entities listed below was effected on 31 March 2008 in accordance with the Resolution no. 250 of the Board of Directors of RAO UES of 27 April 2007:

- OJSC Volzhskaya Interregional Distribution Company, established on the basis of a distribution of assets of OJSC Saratovenergo, OJSC Samaraenergo, OJSC Uliyanovskenergo
- OJSC Penzaenergo;
- OJSC Orenburgenergo;
- OJSC Chuvashenergo;
- OJSC Mordovenergo.

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

On 1 July 2008 RAO UES ceased to exist as a separate legal entity. It transferred its shares in the Company to Open Joint-Stock Company "Interregional Distribution Grid Companies Holding" (hereafter, "IDGC Holding"), a newly formed state-controlled entity. As at 31 December 2008, the Government of the Russian Federation owned 52.7% of the shares of JSC IDGC Holding, which in turn owned 67.63% of the Company.

As at 31 December 2009, the Government of the Russian Federation owned 52.7% of the shares of JSC IDGC Holding, which in turn owned 67.63% of the Company.

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

(b) Russian business environment

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

Note 2. Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

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

- Financial investments classified as available-for-sale are stated at fair value;
- Property, plant and equipment was revalued to determine deemed cost as part of the adoption of IFRSs as at 1 January 2006.

(c) Functional and presentation currency

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

(d) Use of judgments, estimates and assumptions

Management has made a number of judgments, estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these Financial Statements in conformity with IFRSs. Actual results may differ from those estimates.

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

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the Financial Statements is included in the following notes:

Note 8 – Property, plant and equipment;

Note 12 – Trade and other receivables;

Note 17 – Employee benefits.

(e) Changes in accounting policies and presentation

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

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

***(i)* Determination and presentation of operating segments**

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

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

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

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

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

***(ii)* Presentation of financial statements**

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

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

Note 3. Significant accounting policies

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

(a) Basis of consolidation

(i) Business combination including entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are revised. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Group'he assets and liabiholdersets and liabil financial statements. The components of equity of the acquired entities are added to the same components within Group equity except that any share capital of the acquired entities is recognised as part of share premium. Any cash paid for the acquisition is recognised directly in equity.

***(ii)* Subsidiaries**

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

(iii) Transactions eliminated on consolidation

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

(b) Foreign currency

Transactions 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 is 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 at of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(c) Financial instruments

(i) Non-derivative financial instruments

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

The Group initially recognises loans and receivables 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: financial assets at fair value through profit or loss, 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 (see note 3(h)) and foreign currency differences on available-for-sale equity instruments (see note 3(b)), are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised or impaired, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

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

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

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

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

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

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

(d) Property, plant and equipment

***(i)* Recognition and measurement**

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

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing of assets and restoring the site on which they are located, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within "other income" in profit or loss.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

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

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Depreciation commences in the month following the acquisition or, in respect of internally constructed assets, in the month following the month an asset is completed and ready for use. Land is not depreciated.

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

Type of property, plant and equipment	Useful lives (in years)
Buildings	15-50
Transmission networks	5-20
Equipment for electricity transformation	5-20
Other	1-30

(e) Intangible assets

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

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

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The estimated useful lives for the current and comparative periods are 3 to 10 years.

(f) Leased assets

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

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

(g) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventory is determined on the weighted average cost method and includes expenditures incurred in acquiring the inventories and bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less selling expenses.

(h) Impairment

***(i)* Financial assets**

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

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.

An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

***(ii)* Non-financial assets**

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

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

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. 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. 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.

(i) Employee benefits

***(i)* Defined contribution plans**

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans, including Russia's State pension fund, are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

***(ii)* Defined benefit plans**

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and any unrecognised past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the net total of any unrecognised past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realisable during the life of the plan, or on settlement of the plan liabilities.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in profit or loss.

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

***(iii)* Other long-term employee benefits**

The Group's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed using the projected unit credit method. Any actuarial gains or losses are recognised in profit or loss in the period in which they arise.

***(iv)* Short-term benefits**

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

(j) Share capital

***(i)* Ordinary shares**

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

***(ii)* Repurchase of share capital**

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to / from retained earnings.

(k) Revenue

***(i)* Electricity transmission**

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

***(ii)* Connection services**

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

***(iii)* Other services**

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

(l) Lease payments

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between finance costs and the reduction of the outstanding liability. Finance costs are allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(m) Finance income and costs

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

Finance costs comprise interest expense on borrowings, employee benefits and finance lease and foreign currency losses. All borrowing costs are recognised in profit or loss using the effective interest method, except for borrowing costs related to qualifying assets which are recognised as part of the cost of such assets.

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

(n) Income tax expense

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

Current tax is the expected tax payable 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 they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets 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.

(o) Dividends

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

(p) Earnings per share

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

(q) 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.

(r) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Management Board to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. Segment financial information is presented in the Financial Statements in a manner similar to those provided to the Management Board. The amount of each segment item reported is the measure reported to the Management Board. Total amounts of segment information are reconciled to those in the Financial Statements (see note 7).

(s) New Standards and Interpretations not yet adopted

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

- Revised IAS 24 *Related Party Disclosures* (2009) introduces an exemption from the basic disclosure requirements in relation to related party disclosures and outstanding balances, including commitments, for government-related entities. Additionally, the standard has been revised to simplify some of the presentation guidance that was previously non-reciprocal. The revised standard is to be applied retrospectively for annual periods beginning on or after 1 January 2011. The Group has not yet determined the potential effect of the amendment.

- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in several phases and is intended to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement* once the project is completed by the end of 2010. The first phase of IFRS 9 was issued in November 2009 and relates to the recognition and measurement of financial assets. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued.

- IFRIC 18 *Transfers of Assets from Customers* applies to accounting for transfers of items of property, plant and equipment by entities that receive such transfers from their customers. The interpretation clarifies the recognition and measurement of items received, how the resulting credit, as well as the transfer of cash from customers should be accounted for. IFRIC 18 applies prospectively to transfers of assets from customers received on or after 1 July 2009.

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

Note 4. Determination of fair value

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

(a) Investments in equity and debt securities

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

(b) Trade and other receivables

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

(c) Non-derivative financial liabilities

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

Note 5. Financial risk management

(a) Overview

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

- credit risk
- liquidity risk
- market risk.

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

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

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

(b) Credit risk

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

(i) Trade and other receivables

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

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

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

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

The Group establishes an allowance for impairment that represents its estimate of anticipated losses in respect of trade and other receivables. The main component of this allowance is a specific provision that relates to individually significant exposures.

***(ii)* Cash and cash equivalents**

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

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due.

(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.

(e) Currency risk

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

(f) Interest rate risk

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

(g) Capital management

Management's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Management monitors the level of dividends to ordinary shareholders. Management seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

Note 6. Disposal of subsidiaries

In September 2009 the subsidiary OJSC Plemsovhoz Magistralny was liquidated. Net liabilities at that date and the loss in the year of liquidation of OJSC Plemsovhoz Magistralny amounted to RUR 39,605 thousand and RUR 7,634 thousand respectively.

Note 7. Operating segments

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

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

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

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

- Transmission Segments – Mordovia region, Chuvashia region, Orenburg region, Penza region, Samara region, Saratov region, Ulianovsk region – branches of IDGC Volga;
- Other Segments – other Group companies.

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

Segment items are based on financial information reported in statutory accounts and can differ significantly from those for financial statements prepared under IFRS. The reconciliation of items measured as reported to the Management Board with similar items in these Consolidated Financial Statements includes those reclassifications and adjustments that are necessary for financial statements to be presented in accordance with IFRS.

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

(in thousands of Russian Roubles, unless otherwise stated)

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

	Transmission								
	Saratov region	**Orenburg region**	**Samara region**	**Penza region**	**Ulianovsk region**	**Chuvashia region**	**Mordovia region**	**Other**	**Total**
Revenue:									
Electricity transmission	6,417,986	6,227,868	5,990,485	3,657,921	2,630,065	2,100,703	1,466,820	–	**28,491,848**
Connection to the electricity network	53,877	61,962	38,458	109,482	41,040	20,310	68,339	–	**393,468**
Other revenue	17,942	226,366	49,476	88,370	14,123	33,189	3,433	257,524	**690,423**
Total segment revenues	**6,489,805**	**6,516,196**	**6,078,419**	**3,855,773**	**2,685,228**	**2,154,202**	**1,538,592**	**257,524**	**29,575,739**
Segment operating profit/(loss)	**382,123**	**693,032**	**(95,653)**	**119,641**	**393,361**	**(233,993)**	**30,335**	**53,778**	**1,342,624**
Segment finance income	416	357	357	218	161	447	110	173	**2,239**
Segment finance costs	(203,687)	(142,175)	(150,376)	(6,392)	(45,694)	(52,440)	(52,690)	–	**(653,454)**
Segment profit/(loss) before income tax	**178,852**	**551,214**	**(245,672)**	**113,467**	**347,828**	**(285,986)**	**(22,245)**	**53,951**	**691,409**
Segment depreciation	809,967	916,466	778,901	331,572	154,120	209,468	216,440	17,504	**3,434,438**
Segment assets	**14,787,890**	**7,905,874**	**14,050,340**	**3,143,422**	**3,140,093**	**3,544,540**	**2,175,324**	**184,665**	**48,932,148**
Including property, plant and equipment	13,816,733	7,130,609	12,392,419	2,899,269	2,773,197	2,797,713	1,927,408	99,693	43,837,041
Segment liabilities	**2,756,988**	**1,156,039**	**2,165,695**	**405,900**	**416,460**	**958,552**	**618,914**	**16,545**	**8,495,093**
Capital expenditures	**504,113**	**499,305**	**497,132**	**303,163**	**104,472**	**159,397**	**126,371**	–	**2,193,953**

(in thousands of Russian Roubles, unless otherwise stated)

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

	Transmission								
	Saratov region	Orenburg region	Samara region	Penza region	Ulianovsk region	Chuvashia region	Mordovia region	Other	Total
Revenue:									
Electricity transmission	6,252,100	5,579,918	6,985,055	3,062,326	2,153,722	1,817,103	1,419,899	–	**27,270,123**
Connection to the electricity network	1,251,682	206,679	59,636	–	8,345	42,247	38,114	–	**1,606,703**
Other revenue	86,911	331,990	908,875	274,773	48,303	109,827	15,256	338,303	**2,114,238**
Total segmet revenues	**7,590,693**	**6,118,587**	**7,953,566**	**3,337,099**	**2,210,370**	**1,969,177**	**1,473,269**	**338,303**	**30,991,064**
Segment operating profit/(loss)	**1,132,584**	**241,433**	**658,124**	**(50,953)**	**(111,875)**	**262,238**	**(97,239)**	**(3,528)**	**2,030,784**
Segment finance income	573	464	656	292	171	602	209	75	**3,042**
Segment finance costs	(103,113)	(104,009)	(93,289)	(15,360)	(24,496)	(36,310)	(35,743)	–	**(412,320)**
Segment profit/(loss) before income tax	**1,030,044**	**137,888**	**565,491**	**(66,021)**	**(136,200)**	**226,530**	**(132,773)**	**(3,453)**	**1,621,506**
Segment depreciation	685,715	713,680	580,869	275,935	143,981	178,687	176,676	21,147	**2,776,690**
Segment assets	**15,644,031**	**8,377,269**	**13,233,150**	**3,316,757**	**3,066,367**	**3,375,853**	**2,261,070**	**179,707**	**49,454,204**
Including property, plant and equipment	14,140,443	7,528,090	12,717,220	2,925,184	2,805,472	2,845,417	2,016,065	113,802	**45,091,693**
Segment liabilities	**3,381,061**	**2,246,569**	**1,762,098**	**645,916**	**431,078**	**503,721**	**658,441**	**61,889**	**9,690,773**
Capital expenditures	**2,389,170**	**1,490,051**	**1,018,901**	**534,862**	**298,451**	**574,757**	**321,409**	**12,293**	**6,639,894**

(in thousands of Russian Roubles, unless otherwise stated)

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

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

Reconciliation of revenues :

	Year ended 31 December 2009	Year ended 31 December 2008
Total revenue for reportable segments	**29,575,739**	**30,991,064**
Inter-segment revenue elimination	(91,482)	(279,643)
Other	-	13,597
Revenue per Statement of Comprehensive Income	**29,484,257**	**30,725,018**

Reconciliation of profit before income tax:

	Year ended 31 December 2009	Year ended 31 December 2008
Total profit before income tax for reportable segments	**691,409**	**1,621,505**
Adjustment for property, plant and equipment	930,741	509,408
Adjustment for finance lease	54,921	55,041
Bad debt allowance adjustment	(103,374)	384,244
Retirement benefit obligations recognition	58,642	220,301
Adjustment on intangible assets	(82,101)	(1,083)
Other adjustments	(28,863)	(18,377)
Profit before tax per Statement of Comprehensive Income	**1,521,375**	**2,771,039**

Reconciliation of depreciation and amortisation:

	Year ended 31 December 2009	Year ended 31 December 2008
Total depreciation for reportable segments	**3,434,438**	**2,776,690**
Adjustment for depreciation of property, plant and equipment	(687,936)	(419,894)
Adjustment for depreciation of leased property, plant and equipment	(60,263)	(39,903)
Adjustment for depreciation of intangible assets	154,647	79,946
Other adjustments	(3,127)	(5,764)
Depreciation and amortisation per Statement of Comprehensive Income	**2,837,759**	**2,391,075**

Reconciliation of total assets:

	31 December 2009	31 December 2008
Total assets for reportable segments	**48,932,148**	**49,454,204**
Inter-segment balances	(9,339)	(18,604)
Elimination of investments in subsidiaries	(100,529)	(100,529)
Adjustments due to different accounting principles:		
Adjustment for net book value of property, plant and equipment	(19,277,418)	(20,217,546)
Adjustment for assets related finance lease	324,001	50,847
Recognition of assets related to employee benefits	535,544	482,122
Bad debt allowance adjustment	331,522	449,911
Provision for obsolescence of inventory	(35,751)	(42,246)
Discounting of financial assets	(26,563)	(14,866)
Unallocated assets	932,089	1,194,544
Other adjustments	(835)	442
Total assets per Statement of Financial Position	**31,604,869**	**31,238,278**

(in thousands of Russian Roubles, unless otherwise stated)

Reconciliation of property, plant and equipment:

	31 December 2009	31 December 2008
Total property, plant and equipment for reportable segments	**43,837,041**	**45,091,693**
Unallocated property, plant and equipment	196,327	179,744
Adjustment for net book value of property, plant and equipment	(19,277,418)	(20,217,546)
Adjustment for finance lease	324,143	49,058
Advances for acquisition of property, plant and equipment	188,979	458,916
Other adjustments	43	36,176
Property, plant and equipment per Statement of Financial Position	**25,269,115**	**25,598,041**

Reconciliation of total liabilities:

	31 December 2009	31 December 2008
Total liabilities of reportable segments	**8,495,093**	**9,690,773**
Intersegment balances	(9,339)	(18,604)
Unallocated deferred income tax due to differed accounting principles for deferred tax calculation	1,062,448	1,051,435
Retirement benefit obligations	682,441	687,661
Finance lease liabilities	143,564	(74,686)
Provisions for salary and wages	83,920	50,057
Other categories	13,529	23,265
Total liabilities per Statement of Financial Position	**10,471,656**	**11,409,901**

Reconciliation of capital expenditures:

	31 December 2009	31 December 2008
Total capital expenditures of reportable segments	**2,193,953**	**6,639,894**
Unallocated capital expenditures	56,919	76,407
Borrowing cost adjustment	290,175	30,246
Finance lease adjustment	226,792	(72,934)
Advances for acquisition of property, plant and equipment	(308,920)	(263,863)
Other adjustments	(36,619)	(17,703)
Total capital expenditures per Statement of Financial Position	**2,422,300**	**6,392,047**

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

For the years ended 31 December 2009 and 2008 the group had four major customers - distribution companies in three regions of the Russian Federation - with individual turnovers over 10% of total Group revenues. Revenues from these customers is reported by the transmission segments operating in Samara, Saratov and Orenburg regions. Total amounts of revenues for these major customers for the year ended 31 December 2009 were RUR 5,462,009 thousand in Samara (2008: 6,620,062 thousand); RUR 4,349,546 thousand in Saratov (2008: 4,590,132 thousand) and RUR 3,462,101 thousand in Orenburg (2008: 3,081,846 thousand).

(in thousands of Russian Roubles, unless otherwise stated)

Note 8. Property, plant and equipment

	Land and buildings	Transmission networks	Equipment for electricity transformation	Construction in progress	Other	Total
Deemed cost/cost						
Balance as 1 January 2008	4,262,032	12,666,422	3,396,520	2,079,332	2,131,115	24,535,421
Additions	74,061	187,405	389,879	5,992,812	275,630	6,919,787
Transfers	1,193,135	1,218,699	1,718,065	(4,336,382)	206,483	-
Disposals	(8,061)	(23,622)	(4,506)	(51,359)	(83,935)	(171,483)
Balance as 31 December 2008	**5,521,167**	**14,048,904**	**5,499,958**	**3,684,403**	**2,529,293**	**31,283,725**
Balance as 1 January 2009	**5,521,167**	**14,048,904**	**5,499,958**	**3,684,403**	**2,529,293**	**31,283,725**
Reclassification	-	-	(690,497)	-	690,497	-
Additions	8,070	37,324	250,008	1,857,073	269,825	**2,422,300**
Transfers	966,782	487,439	1,577,566	(3,665,690)	633,903	-
Disposals	(4,470)	(5,591)	(3,205)	(58,357)	(32,027)	**(103,650)**
Balance as 31 December 2009	**6,491,549**	**14,568,076**	**6,633,830**	**1,817,429**	**4,091,491**	**33,602,375**
Accumulated depreciation						
Balance as at 1 January 2008	**(382,735)**	**(2,009,299)**	**(421,762)**	-	**(639,158)**	**(3,452,954)**
Depreciation for the year	(282,319)	(1,154,984)	(474,933)	-	(380,390)	(2,292,626)
Disposals	766	5,199	1,553	-	52,378	59,896
Balance at 31 December 2008	**(664,288)**	**(3,159,084)**	**(895,142)**	-	**(967,170)**	**(5,685,684)**
Balance as at 1 January 2009	**(664,288)**	**(3,159,084)**	**(895,142)**	-	**(967,170)**	**(5,685,684)**
Reclassification	-	-	71,549	-	(71,549)	-
Depreciation for the year	(407,123)	(1,258,902)	(534,466)	-	(461,599)	**(2,662,090)**
Disposals	525	1,756	1,522	-	10,712	**14,514**
Balance at 31 December 2009	**(1,070,886)**	**(4,416,230)**	**(1,356,537)**	**-**	**(1,489,606)**	**(8,333,260)**
Net book value						
At 31 December 2007	**3,879,297**	**10,657,123**	**2,974,758**	**2,079,332**	**1,491,957**	**21,082,467**
At 31 December 2008	**4,856,879**	**10,889,820**	**4,604,816**	**3,684,403**	**1,562,123**	**25,598,041**
At 31 December 2009	**5,420,663**	**10,151,846**	**5,277,293**	**1,817,429**	**2,601,885**	**25,269,115**

As at 31 December 2009 construction in progress includes advance prepayments for property, plant and equipment of RUR 188,979 thousand (2008: RUR 458,916 thousand).

Borrowing costs totalling RUR 313,159 thousand at 31 December 2009 (as at 31 December 2008: RUR 44,674 thousand) were included in the cost of property, plant and equipment and represent interest on loans.

Leased plant and machinery

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

(in thousands of Russian Roubles, unless otherwise stated)

At 31 December 2009 and at 31 December 2008 the net book value of leased property, plant and equipment was as follows:

	31 December 2009	31 December 2008
Cost	1,098,047	1,303,313
Accumulated depreciation	(143,286)	(217,514)
Net book value	**954,761**	**1,085,799**

Note 9. Intangible assets

	Patents and licenses	Computer software	Total
Cost			
Balance as at 1 January 2008	**287,634**	**210,378**	**498,012**
Additions	20,584	15,153	35,737
Balance as at 31 December 2008	**308,218**	**225,531**	**533,749**
Balance as at 1 January 2009	**308,218**	**225,531**	**533,749**
Additions	-	2,871	2,871
Disposals	**(177,578)**	**(13,792)**	**(191,370)**
Balance as at 31 December 2009	**130,640**	**214,610**	**345,250**
Accumulated amortisation			
Balance as at 1 January 2008	**(54,295)**	**(56,486)**	**(110,781)**
Amortisation for the year	(74,382)	(24,067)	(98,449)
Balance as at 31 December 2008	**(128,677)**	**(80,553)**	**(209,230)**
Balance as at 1 January 2009	**(128,677)**	**(80,553)**	**(209,230)**
Amortisation for the year	(155,310)	(20,359)	(175,669)
Disposals	184,757	6,613	191,370
Balance as at 31 December 2009	**(99,230)**	**(94,299)**	**(193,529)**
Net book value			
At 31 December 2007	**233,339**	**153,892**	**387,231**
At 31 December 2008	**179,541**	**144,978**	**324,519**
At 31 December 2009	**31,410**	**120,311**	**151,721**

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

(in thousands of Russian Roubles, unless otherwise stated)

Note 10. Other non-current assets

	31 December 2009	31 December 2008
Finance lease prepayments	205,234	232,183
Financial assets related to the employee benefit fund (available-for-sale)	535,544	482,122
Trade receivables	106,927	13,968
Other receivables	28,390	36,252
Available-for-sale investments	7,095	9,256
Unfinished intangible assets	-	24,890
Less: Allowance for impairment of accounts receivable	(4,141)	(15,717)
Total	**879,049**	**782,954**

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

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

Note 11. Inventories

	31 December 2009	31 December 2008
Raw materials and supplies	535,446	623,133
Spare parts	229,991	253,441
Other inventories	56,130	14,791
Provision for obsolescence	(35,751)	(42,246)
Total	**785,816**	**849,119**

Note 12. Trade and other receivables

	31 December 2009	31 December 2008
Trade receivables	3,608,766	2,588,445
Taxes receivable	2,772	320,308
Other receivables	251,093	159,655
VAT receivable	60,833	104,199
Less:		
Allowance for impairment of trade receivables	(854,699)	(628,969)
Allowance for impairment of other receivables	(22,675)	(11,106)
Total	**3,046,090**	**2,532,532**

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

Note 13. Prepayments for current assets

	31 December 2009	31 December 2008
Prepayments	527,011	641,115
Less: Allowance for impairment of prepayments	(116,539)	(24,015)
Total	**410,472**	**617,100**

(in thousands of Russian Roubles, unless otherwise stated)

Note 14. Cash and cash equivalents

	31 December 2009	31 December 2008
Cash at bank and in hand	425,060	483,665
Cash equivalents	-	279
Total	**425,060**	**483,944**

All cash and cash equivalents are denominated in Russian Roubles. Cash equivalents represent bank notes with original maturities of three month or less.

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

Note 15. Other current assets

	31 December 2009	31 December 2008
Available-for-sale investments	537,480	-
Prepayments for insurance	15,140	18,645
Loans given	-	7,530
Total	**552,620**	**26,175**

As of 31 December 2009 available-for-sale investments include bank promissory notes. The maturity was on 1 February 2010. The interest rate is set at 0.1 % p.a. These promissory notes were repaid at maturity date.

The promissory notes were received in payment for accounts receivable in the reporting period. The amount of the transaction is recognised in the Statement of Cash Flows as part of non-monetary operations on investing activities. Promissory notes received amount to RUR 600,000 thousand, including RUR 63,520 thousand that were sold or repaid during the reporting period.

Note 16. Equity

Share capital

	31 December 2009	31 December 2008
Number of ordinary shares authorised, issued and fully paid	178,577,801,146	178,577,801,146
Par value (in RUR)	0.1	0.1
Total share capital (in RUR)	**17,857,780,115**	**17,857,780,115**

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

20 March 2008 the Company registered the results of 178,477,801,146 ordinary shares issue which were placed by conversion upon merger of regional generation companies.

Formation of the Group was completed on 31 March 2008 through conversion of OJSC Volzhskaya Interregional Distribution Company, OJSC Penzaenerg, OJSC Orenburgenergo, OJSC Chuvashenergo and OJSC Mordovenergo shares into an additionally issued 178,477,801,146 ordinary shares of IDGC of Volga as follows:

(in thousands of Russian Roubles, unless otherwise stated)

- 20,349/139,540 of ordinary shares of OJSC Volzhskaya Interregional Distribution Company with par value of RUR 1.00 were converted into one additionally issued ordinary share of IDGC of Volga with par value of RUR 0.01;
- 20,349/127,791 of preference shares of OJSC Volzhskaya Interregional Distribution Company with par value of RUR 1.00 were converted into one additionally issued ordinary share of IDGC of Volga with par value of RUR 0.01;
- 20,349/1,853,684 of ordinary shares of OJSC Penzaenergo with par value of RUR 8.00 were converted into one additionally issued ordinary share of IDGC of Volga with par value of RUR 0.01;
- 20,349/1,697,604 of preference shares of OJSC Penzaenergo with par value of RUR 8.00 were converted into one additionally issued ordinary share of IDGC of Volga with par value of RUR 0.01;
- 20,349/6,574,832 of ordinary shares of OJSC Orenburgenergo with par value of RUR 10.00 were converted into one additionally issued ordinary share of IDGC of Volga with par value of RUR 0.01;
- 20,349/317,869 of ordinary shares of OJSC Chuvashenergo with par value of RUR 0.50 were converted into one additionally issued ordinary share of IDGC of Volga with par value of RUR 0.01;
- 20,349/144,531 of ordinary shares of OJSC Mordovenergo with par value of RUR 1.00 were converted into one additionally issued ordinary share of IDGC of Volga with par value of RUR 0.01.

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

Dividends paid and declared

In accordance with Russian legislation the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with Russian Accounting Principles. As at 31 December 2009 the Company had retained earnings, including the profit for the current year, of RUR 4,165,826 thousand (2008: RUR 3,928,023 thousand).

In 2009 and 2008 the Group neither declared nor paid dividends.

Earnings per share

The calculation of earnings per share is based upon the profit for the year and the weighted average number of ordinary shares outstanding during the year. The Company has no dilutive potential ordinary shares.

	Year ended 31 December 2009	**Year ended 31 December 2008**
Weighted average number of ordinary shares issued	178,577,801,146	178,577,801,146
Profit attributable to the shareholders	1,304,837	2,034,778
Weighted average earnings per ordinary share – basic (in RUR)	0.0073	0.0114

Note 17. Employee benefits

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

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

The table below summarises the amounts of defined benefit obligations recognised in the Financial Statements as of 31 December 2009 and as of 31 December 2008.

Amounts recognised in the Consolidated Statement of Financial Position:

(in thousands of Russian Roubles, unless otherwise stated)

	31 December 2009		31 December 2008	
	Post-employment benefits	**Other benefits**	**Post-employment benefits**	**Other benefits**
Present value of funded defined benefit obligations	1,041,483	6,093	863,401	7,303
Net actuarial gain not recognised in the statement of financial position	(355,982)	-	(88,584)	-
Past service cost not recognised in the statement of financial position	(9,153)	-	(94,459)	-
Net liability in the Statement of financial position	**676,348**	**6,093**	**680,358**	**7,303**

Amounts recognised in the Consolidated Statement of Comprehensive Income are as follows:

	Year ended 31 December 2009		Year ended 31 December 2008	
	Post-employment benefits	**Other benefits**	**Post-employment benefits**	**Other benefits**
Current service cost	34,039	110	39,155	110
Interest expenses	71,429	583	56,255	288
Recognised actuarial loss	225	(369)	4,519	3,318
Recognised past service cost	36,924	-	19,871	-
Total	**142,617**	**324**	**119,800**	**3,716**

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

	Year ended 31 December 2009		Year ended 31 December 2008	
	Post-employment benefits	**Other benefits**	**Post-employment benefits**	**Other benefits**
Benefit obligations				
Benefit obligations as at the beginning of the year	863,401	7,303	888,373	4,789
Current service cost	34,039	110	39,155	110
Interest cost	71,429	583	56,255	288
Actuarial (gain)/loss	267,623	(369)	(45,438)	3,318
Benefits paid	(146,627)	(1,534)	(158,916)	(1,202)
Past service cost	(48,382)	-	83,972	-
Benefit obligations as at the end of the year	**1,041,483**	**6,093**	**863,401**	**7,303**

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

(in thousands of Russian Roubles, unless otherwise stated)

	Year ended 31 December 2009		Year ended 31 December 2008	
	Post-employment benefits	Other benefits	Post-employment benefits	Other benefits
Net benefit obligations				
Net benefit obligations as at the beginning of the year	680,358	7,303	719,474	4,789
Net costs for the year	142,617	324	119,800	3,716
Benefits paid	(146,627)	(1,534)	(158,916)	(1,202)
Net benefit obligations as at the end of the year	**676,348**	**6,093**	**680,358**	**7,303**

Principal actuarial estimations are as follows:

	Year ended 31 December 2009		Year ended 31 December 2008	
	Post-employment benefits	Other benefits	Post-employment benefits	Other benefits
Discount rate	8.70%	8.70%	8.85%	8.85%
Future Salary increase	5.50%	5.50%	5.81%	5.81%
Future inflation rate	5.50%	5.50%	5.81%	5.81%
Mortality table	Russian 2002	Russian 2002	Russian 2002	Russian 2002
Average expected remaining working life	10	10	11	11
Average period until benefits become vested	7	7	11	11

(in thousands of Russian Roubles, unless otherwise stated)

Note 18. Loans and borrowings

Non-current borrowings

	Effective interest rate,%	Currency	Year of maturity	31 December 2009	31 December 2008
Loans and borrowings					
Including:					
OJSC Orgresbank	8.8-10.7	RUR	2009	-	1,300,000
OJSC Rosbank	11.5	RUR	2011	-	1,200,000
OJSC Orgresbank	11.4-11.5	RUR	2010	-	653,164
OJSC VTB Bank	8.5	RUR	2009	-	120,000
OJSC VTB Bank	10	RUR	2012	130,549	130,549
OJSC Gazprombank	11.4-17	RUR	2011	153,000	800,000
OJSC Gazprombank	11	RUR	2011	-	250,000
OJSC Transkreditbank	12.5-18.3	RUR	2012	1,050,000	
OJSC Sberbank	8.5-13	RUR	2011	1,850,000	100,000
OJSC Svyaz- Bank	12-13.32	RUR	2011	895,561	
OJSC Alfa-Bank	11.5-12,38	RUR	2012	1,300,000	-
Finance lease liability				646,945	729,573
Total non-current debt				**6,026,055**	**5,283,286**
Less:					
Current portion of long-term borrowings				-	(1,520,000)
Current portion of finance lease liability				(194,528)	(262,402)
Total				**5,831,527**	**3,500,884**

Current borrowings

Creditor	Effective interest rate,%	Currency	31 December 2009	31 December 2008
Current borrowings				
Including:				
OJSC Sberbank	7.8-12.0	RUR	-	1,230,000
Current portion of long-term borrowings	-	-	-	1,520,000
Current portion of finance lease liability	-	-	194,528	262,402
Total			**194,528**	**3,012,402**

All loans and borrowings listed above are bank borrowings with fixed interest rate.

The effective interest rate is the market interest rate applicable to the loan at the date of its receipt.

The Group has not entered into any hedging arrangements in respect of its interest rate exposure.

As of 31 December 2009 all loans and borrowings were unsecured (2008: there were secured with inventories in RUR 108,903 thousand)

(in thousands of Russian Roubles, unless otherwise stated)

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

	31 December 2009			31 December 2008		
	Minimum lease payments	**Interest**	**Principal**	**Minimum lease payments**	**Interest**	**Principal**
Less than one year	218,031	95,952	122,079	240,441	84,540	155,901
Between one and five years	361,103	109,191	251,912	318,227	99,029	219,198
More than five years	784	175	610	1,014	277	737
	579,918	**205,318**	**374,600**	**559,682**	**183,846**	**375,836**

The finance lease liabilities are secured by leased assets.

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

Note 19. Trade and other payables

Non-current payables

	31 December 2009	31 December 2008
Advances from customers	64,499	36,818
Other payables	1,083	-
Total	**65,582**	**36,818**

Current payables

	31 December 2009	31 December 2008
Trade payables	793,940	1,436,537
Advances from customers	770,913	862,458
Payables to employees	299,022	256,161
Accrued interest payable	4,755	10,300
Dividends payable	107	107
Other payables	37,827	111,556
Total	**1,906,564**	**2,677,119**

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

Note 20. Other taxes payable

	31 December 2009	31 December 2008
Unified social tax payable	80,415	77,998
Property tax payable	36,806	60,294
Value added tax payable	521,760	12,499
Other taxes payable	56,231	56,885
Fines and other penalties payable	33,351	28,441
Total	**728,563**	**236,117**

(in thousands of Russian Roubles, unless otherwise stated)

Note 21. Revenue

	Year ended 31 December 2009	Year ended 31 December 2008
Electricity transmission	28,491,849	27,288,383
Connection services	473,082	2,691,583
Other revenue	519,326	745,052
Total	**29,484,257**	**30,725,018**

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

Note 22. Operating expenses

	Year ended 31 December 2009	Year ended 31 December 2008
Electricity transmission	8,148,918	6,138,631
Purchased electricity	5,774,040	7,451,409
Personnel costs	5,489,576	5,728,194
Depreciation and amortisation	2,837,759	2,391,075
Materials	1,135,929	1,157,826
Electricity metering services	700,826	1,250,461
Consulting services	653,536	363,215
Write-off and charge of impairment of accounts receivable	603,781	98,288
Rent expenses	365,880	313,452
Repair and maintenance costs	341,388	776,225
Electricity for own needs	282,932	220,582
Taxes other than income tax	256,529	276,374
Insurance expenses	211,873	291,434
Security services	124,764	121,958
Bank commission	60,030	92,555
Social expenditures and charity expenses	19,938	245,109
Loss on the disposal of property, plant and equipment	14,180	19,131
Other expenses	461,589	464,905
Total	**27,483,468**	**27,400,824**

Note 23. Personnel costs

	Year ended 31 December 2009	Year ended 31 December 2008
Wages and salaries	4,339,732	4,661,199
Unified social tax	1,006,903	943,479
Expense in respect of post-employment defined benefit plan	142,941	123,516
Total	**5,489,576**	**5,728,194**

The average number of employees (including production and non-production staff) was 20,012 in 2009 (2008: 18,229).

Note 24. Other income and (expenses), net

	Year ended 31 December 2009	Year ended 31 December 2008
Accounts payable written-off	61,787	7,287
Tax and other penalties	(5,763)	44
Other income and expenses, net	(33,448)	(40,053)
Total	**22,576**	**(32,722)**

(in thousands of Russian Roubles, unless otherwise stated)

Note 25. Finance income and costs

	Year ended 31 December 2009	Year ended 31 December 2008
Finance income		
Interest income	2,239	3,049
Interest on employee benefit fund	-	14,645
	2,239	**17,694**
Finance costs		
Interest expense	(389,803)	(400,926)
Interest on finance lease liabilities	(114,426)	(137,201)
	(504,229)	**(538,127)**
Total	**(501,990)**	**(520,433)**

Note 26. Income tax expense

	Year ended 31 December 2009	Year ended 31 December 2008
Current income tax expense	341,305	829,954
(Over)/under-provided in prior years	(135,779)	4,608
Deferred tax expense	11,012	111,986
Change in tax rate	-	(210,287)
Income tax expense	**216,538**	**736,261**

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

Reconciliation of effective tax rate :

	Year ended 31 December 2009	%	Year ended 31 December 2008	%
Profit before income tax	**1,521,375**	**100**	**2,771,039**	**100**
Income tax at applicable tax rate	304,275	(20)	665,049	(24)
Change in tax rate	-	-	(210,287)	8
(Over)/under-provided in prior years	(135,779)	9	4,608	-
Tax effect of items which are not deductible or taxable for taxation purposes	48,042	(3)	276,891	(10)
Total income tax expense	**216,538**	**(14)**	**736,261**	**(26)**

(in thousands of Russian Roubles, unless otherwise stated)

Deferred tax assets and liabilities

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

	31 December 2008	Effect of tax rate changes	Recognised in income	1 January 2008
Other current assets	-	-	18,345	18,345
Accounts payable	-	-	62,619	62,619
Employee benefit obligations	137,533	27,506	8,784	173,823
Inventories	30,418	6,084	(2,310)	34,192
Intangible assets	757	152	(909)	-
Deferred tax assets	**168,708**	**33,742**	**86,529**	**288,979**
Property, plant and equipment	(921,907)	(184,381)	(187,076)	(1,293,364)
Intangible assets	-	-	(18,377)	(18,377)
Non-current assets	(98,251)	(19,650)	49,794	(68,107)
Trade and other receivables	(187,788)	(37,558)	166,478	(58,868)
Accounts payable	(12,198)	(2,440)	14,638	-
Deferred tax liabilities	**(1,220,144)**	**(244,029)**	**25,457**	**(1,438,716)**
Net deferred tax liabilities	**(1,051,436)**	**(210,287)**	**111,986**	**(1,149,737)**

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

	31 December 2009	Recognised in income	1 January 2009
Accounts payable	46,302	(46,302)	-
Employee benefit obligations	136,489	1,043	137,532
Inventories	45,338	(14,920)	30,418
Intangible assets	-	758	758
Deferred tax assets	**228,129**	**(59,421)**	**168,708**
Property, plant and equipment	(1,171,499)	249,592	(921,907)
Non-current assets	(106,657)	8,406	(98,251)
Trade and other receivables	(12,421)	(175,367)	(187,788)
Accounts payable	-	(12,198)	(12,198)
Deferred tax liabilities	**(1,290,577)**	**70,433**	**(1,220,144)**
Net deferred tax liabilities	**(1,062,448)**	**(11,012)**	**(1,051,436)**

Note 27. Related parties

(a) Control relationships

Untill 30 June 2008 RAO UES of Russia was the parent company of the Company, from that date OJSC IDGC Holding became the parent company of the Company.

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

The majority of the Group's related party transactions are with the subsidiaries of former OJSC RAO UES of Russia and other state controlled entities.

The prices for electricity and electricity transmission are based on tariffs established by Federal Service on Tariffs. Bank loans are obtained under market rates. Taxes are charged and paid under Russian tax legislation. Other related party transactions are based on normal market prices. Outstanding balances at the year-end are unsecured, interest free and are expected to be settled in cash.

(in thousands of Russian Roubles, unless otherwise stated)

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

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

	Year ended 31 December 2009	Year ended 31 December 2008
Revenue:		
Electricity transmission	-	7,829,651
Other sales	93	32,032
Operating expenses:		
Electricity transmission	-	(1,745,568)
Purchased electricity	-	(3,071,846)
Other expenses	(257,040)	(275,959)

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

(c) Transactions with other state controlled entities

In the normal course of business the Group enters into transactions with other entities under Government control. Revenue for electricity transmission is based on the tariffs determined by the government. Bank loans are provided on the basis of market rates.

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

	Year ended 31 December 2009	Year ended 31 December 2008
Revenue:		
Electricity transmission	4,753,107	3,772,790
Connection services	195,690	1,219,856
Other sales	74,266	79,038
Operating expenses:		
Electricity transmission	(6,761,998)	(2,955,670)
Purchased electricity	(1,933,085)	(1,696,586)
Interest expense	(157,244)	(151,462)
Other expenses	(326,296)	(21,411)

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

	31 December 2009	31 December 2008
Accounts receivable and prepayments	806,088	719,191
Accounts payable	(275,048)	(396,455)
Loans and borrowings	(2,878,281)	(1,580,549)

(in thousands of Russian Roubles, unless otherwise stated)

(d) Transactions with management and close family members

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

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

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

	Year ended 31 December 2009		Year ended 31 December 2008	
	Members of Board of Directors	**Top management**	**Members of Board of Directors**	**Top management**
Salaries and bonuses	10,279	27,772	6,079	73,593

Note 28. Operating leases

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

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

	31 December 2009	31 December 2008
Less than one year	334,416	22,463
Between one year and five years	579,451	70,406
After five years	3,179,623	674,880
Total	**4,093,490**	**767,749**

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

During the year ended 31 December 2009 RUR 365,880 thousand (2008: RUR 313,452 thousand) was recognised in profit or loss in respect of operating lease payments.

The Group leased out administrative buildings and other equipment under operating leases. Lease payments are determined by lease agreements and are as follows:

	31 December 2009	31 December 2008
Less than one year	50,617	77,798
Between one year and five years	120,453	83,335
After five years	971,075	790,732
Total	**1,142,145**	**951,865**

Lease payments are reviewed regularly to reflect market rentals. The main part of the contracts for the lease of buildings is for 49 years.

Note 29. Commitments

Capital commitments

As at 31 December 2009 the Group has outstanding commitments under contracts for the purchase and construction of property, plant and equipment for RUR 421,777 thousand (as at 31 December 2008: RUR 1,850,158 thousand).

Note 30. Contingencies

Insurance

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

Litigation

The Group is a party to certain legal proceedings arising in the ordinary course of business. The management does not believe than these matters will have a material adverse effect on the Group's financial position and operating results.

Taxation contingencies

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.

As at 31 December 2009 management believes that its interpretation of the relevant tax, currency and customs legislation is appropriate and the Group's positions will be sustained.

Environmental matters

The Company and its predecessors have operated in the electric transmission industry in the Russian Federation for many years. The enforcement of environmental regulations in the Russian Federation is evolving and the enforcement posture of Government authorities is continually being reconsidered. Company management periodically evaluates its obligations under environmental regulations.

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

(in thousands of Russian Roubles, unless otherwise stated)

Note 31. Financial instruments

(a) Fair value hierarchy

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

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

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

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

	31 December 2009	31 December 2008
Level 1	535,791	482,246
Level 2	-	-
Level 3	544,329	9,132
Total	**1,080,120**	**491,378**

The financial instruments of the Group carried at fair value represent available-for-sale investments.

The table below analyses changes of financial assets in Level 3.

	31 December 2009	31 December 2008
Balance at beginning of the year	**9,132**	-
Total gains or losses recognised in profit or loss	(2,283)	-
Purchases	601,000	9,132
Sales and settlements	(63,520)	-
Balance at end of the year	**544,329**	**9,132**

(b) Credit risk

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

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

	31 December 2009	31 December 2008
Cash and cash equivalents	425,060	483,944
Trade and other receivables (net of allowance for impairment)	2,986,370	2,002,794
Financial assets related to employee benefit fund	535,544	482,122
Other non-current assets (net of allowance for impairment)	6,849	9,132
Other current assets	537,480	7,530
Total	**4,491,303**	**2,985,522**

(in thousands of Russian Roubles, unless otherwise stated)

The Group's four most significant customers, regional distribution entities, account for RUR 1,997,238 thousand of the trade receivables carrying amount at 31 December 2009 (31 December 2008: two customers RUR 1,559,197 thousand).

The maximum exposure to credit risk for trade receivables (excluding other receivables) at the reporting date by type of customer was:

	31 December 2009	31 December 2008
Electricity transmission	3,213,593	2,058,874
Connection services	131,588	19,593
Other sales	370,512	523,946
Less: Allowance for impairment of accounts receivable	(858,004)	(642, 937)
Total	**2,857,689**	**1,959,476**

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

	31 December 2009		31 December 2008	
	Gross	Impairment	Gross	Impairment
Not past due	1,857,068	(7,547)	1,434,741	(138,566)
Past due not more 3 months	1,377,324	(376,932)	121,765	(11,400)
Past due more than 3 months and not more than 6 months	27,156	(14,442)	17,328	(231)
Past due more than 6 months and not more than 1 year	530,649	(406,999)	155,111	-
Past due more than one year	75,689	(75,595)	929,641	(505,595)
Total	**3,867,886**	**(881,515)**	**2,658,586**	**(655,792)**

The movements in the allowance for impairment in respect of trade and other receivables during the year were as follows:

	Year ended 31 December 2009	Year ended 31 December 2008
Balance at 1 January	655,792	628,990
Charge of additional allowance for doubtful debtors	578,086	122,601
Reversal of the allowance for doubtful debtors	(351,532)	(24,313)
Accounts receivable written off through allowance for bad debts	(831)	(71,486)
Balance at 31 December	**881,515**	**655,792**

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

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group monitors the risk of cash shortfalls by means of current liquidity planning. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. This approach is used to analyze payment dates associated with financial assets, and also to forecast cash flows from operating activities.

(in thousands of Russian Roubles, unless otherwise stated)

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

As at 31 December 2009:

	Carrying amount	Contractual cash flows	Less than 6 months	6-12 months	1-2 years	2-5 years	Over 5 years
Financial liabilities							
Unsecured loans and borrowings	5,379,110	6,528,605	325,455	320,700	4,301,818	1,580,632	-
Finance lease liabilities	374,600	579,918	114,921	103,110	167,765	193,338	784
Trade and other payables	832,969	832,969	820,306	12,655	8	-	-
Total	**6,586,679**	**7,941,492**	**1,260,682**	**436,465**	**4,469,591**	**1,773,970**	**784**

As at 31 December 2008:

	Carrying amount	Contractual cash flows	Less than 6 months	6-12 months	1-2 years	2-5 years	Over 5 years
Financial liabilities							
Secured loans and borrowings	100,000	100,662	100,662	-	-	-	-
Unsecured loans and borrowings	5,694,013	6,643,643	1,327,945	1,803,457	1,206,627	2,305,614	-
Finance lease liabilities	375,836	559,682	132,029	108,412	147,335	170,892	1,014
Trade and other payables	1,543,298	1,543,298	1,493,740	49,558	-	-	-
Total	**7,713,147**	**8,847,285**	**3,054,376**	**1,961,427**	**1,353,962**	**2,476,506**	**1,014**

(d) Foreign exchange risk

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

(e) Interest rate risk

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

(f) Fair values sensitivity analysis for fixed rate instruments

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

(g) Capital management

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

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

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

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

(h) Fair values

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