OGK-5 GROUP

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

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Independent Auditors' Report

To the Board of Directors of Open Joint Stock Company "The Fifth Generating Company of the Wholesale Electric Power Market" (OJSC OGK-5)

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of OJSC OGK-5 (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material 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 financial statements are free of material misstatement.

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

KPMG

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2008, 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

24 March 2009

OGK-5 Group
Consolidated Balance Sheet as at 31 December 2008
(in thousands of Russian Roubles)

	Notes	31 December 2008	(Restated) 31 December 2007
ASSETS			
Non-current assets			
Property, plant and equipment	6	74,024,524	63,983,270
Investments in associate	7	69,993	42,361
Other non-current assets	8	1,031,972	544,480
Total non-current assets		**75,126,489**	**64,570,111**
Current assets			
Inventories	10	2,356,220	1,944,532
Trade and other receivables	9	4,298,473	3,728,998
Income tax receivable		134,178	740,084
Short-term investments	11	-	7,160,272
Cash and cash equivalents	12	857,345	826,566
Total current assets		**7,646,216**	**14,400,452**
TOTAL ASSETS		**82,772,705**	**78,970,563**
EQUITY AND LIABILITIES			
Equity	13		
Share capital		35,371,898	35,371,898
Share premium		6,818,747	6,818,747
Treasury shares		(749,239)	(882,022)
Retained earnings		7,034,448	5,435,747
Reserves		15,565,415	14,017,044
Total equity attributable to the shareholders of OJSC "OGK-5"		**64,041,269**	**60,761,414**
Minority interest		**50,436**	**-**
Total equity		**64,091,705**	**60,761,414**
Non-current liabilities			
Non-current borrowings	15	-	5,000,000
Deferred tax liabilities	14	7,535,362	8,787,792
Retirement benefit obligation	16	444,182	379,128
Non-current provisions	25	322,489	165,984
Other non-current liabilities		556	8,444
Total non-current liabilities		**8,302,589**	**14,341,348**
Current liabilities			
Current borrowings and current portion of non-current borrowings	17	6,965,898	87,767
Trade and other payables	18	2,480,472	2,622,401
Income tax payable		79,351	-
Other taxes payable	19	490,122	545,043
Current provisions	25	362,568	612,590
Total current liabilities		**10,378,411**	**3,867,801**
Total liabilities		**18,681,000**	**18,209,149**
TOTAL EQUITY AND LIABILITIES		**82,772,705**	**78,970,563**

General Director A.Y. Kopsov

Chief Accountant D.A.Polenov

24 March 2009

OGK-5 Group
Consolidated Income Statement for the year ended 31 December 2008
(in thousands of Russian Roubles, except for earnings per ordinary share information)

	Notes	Year ended 31 December 2008	(Restated) Year ended 31 December 2007
Revenue	20	42,812,968	33,464,684
Operating expenses	21	(40,363,597)	(33,220,533)
Other operating income	22	387,302	927,849
Operating profit		**2,836,673**	**1,172,000**
Finance income	23	173,177	770,534
Finance expenses	23	(461,352)	(555,652)
Impairment loss	7	(134,067)	-
Share of profit of associate (net of income tax)	7	1,699	2,052
Profit before income tax		**2,416,130**	**1,388,934**
Income tax (expense)/benefit	14	(786,466)	81,373
Profit for the year		**1,629,664**	**1,470,307**
Attributable to:			
Shareholders of OJSC "OGK-5"		1,630,428	1,470,307
Minority interest		(764)	-
Earnings per ordinary share for profit attributable to the shareholders of OJSC "OGK-5" – basic and diluted (in Russian Roubles)	24	0.046	0.042

General Director A.Y.Kopsov

Chief Accountant D.A.Polenov

24 March 2009

OGK-5 Group
Consolidated Cash Flow Statement for the year ended 31 December 2008
(in thousands of Russian Roubles)

	Notes	Year ended 31 December 2008	(Restated) Year ended 31 December 2007
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax		**2,416,130**	**1,388,934**
Adjustments for:			
Depreciation	6	2,467,610	2,068,382
Loss from sale of property, plant and equipment		112,919	39,478
Increase of provision for impairment of trade and other receivables		-	169,287
Gain on sale of trade receivables		(65,445)	-
Impairment loss	7	134,067	-
Finance expenses	23	461,352	460,576
Finance income	23	(173,177)	(770,534)
Employee share option plan		(26,063)	247,906
Share of result of associate		(1,699)	(2,052)
Other non-cash operating items		265,573	24,448
Operating cash flows before working capital changes		**5,591,267**	**3,626,425**
Increase in trade and other receivables		(271,418)	(1,995,858)
(Increase)/decrease in inventories		(253,704)	319,201
(Decrease)/increase in trade and other payables		(889,117)	2,016,747
Decrease in taxes payable, other than income tax		(54,921)	(36,296)
Cash generated from operations before income taxes		**4,122,107**	**3,930,219**
Income tax refunded/(paid)		282,746	(314,567)
Payments to non-state pension fund		(171,100)	(190,816)
Net cash generated from operating activities		**4,233,753**	**3,424,836**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment and other non-current assets		(13,227,739)	(8,543,430)
Proceeds from sale of property, plant and equipment		144,399	121,763
Net repayments from short-term investments	11	7,160,272	5,891,938
Dividends received		151	-
Proceeds from sale of investments		1,965	-
Interest received		246,882	740,896
Increase in equity investments	7	(160,000)	-
Net cash used in investing activities		**(5,834,070)**	**(1,788,833)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from current borrowings		2,200,432	900,005
Repayment of current borrowings		(636,500)	(1,430,005)
Interest paid		-	(380,418)
Dividends paid by the Group to minority interest shareholders		-	(224,500)
Proceeds from sale of treasury shares		67,164	-
Net cash from/ (used in) financing activities		**1,631,096**	**(1,134,918)**
Net increase in cash		30,779	501,085
Cash at beginning of the year	12	826,566	325,481
Cash at end of the year	12	857,345	826,566

General Director A.Y.Kopsov

Chief Accountant D.A.Polenov

24 March 2009

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

(in thousands of Russian Roubles)

		Attributable to the shareholders of OJSC "OGK-5"							
	Note	Ordinary share capital	Treasury shares	Share premium	Retained earnings	Other reserves	Total	Minority interest	Total equity
At 1 January 2007		**35,371,686**	**(879,549)**	**6,818,747**	**3,941,562**	**3,653,696**	**48,906,142**	-	**48,906,142**
Revaluation of fixed assets	6	-	-	-	-	10,354,223	10,354,223	-	10,354,223
Profit for the year (restated)		-	-	-	1,470,307	-	1,470,307	-	1,470,307
Net change in fair value of available-for-sale financial assets		-	-	-	-	9,125	9,125	-	9,125
Total recognised income for the period (restated)		-	-	-	**1,470,307**	**10,363,348**	**11,833,655**	-	**11,833,655**
Issue of shares		212	-	-	(212)	-	-	-	-
Transactions with treasury shares		-	(2,473)	-	684	-	(1,789)	-	(1,789)
Employee share option plan	5	-	-	-	247,906	-	247,906	-	247,906
Dividends	13	-	-	-	(224,500)	-	(224,500)	-	(224,500)
At 1 January 2008 (restated)		**35,371,898**	**(882,022)**	**6,818,747**	**5,435,747**	**14,017,044**	**60,761,414**	-	**60,761,414**
Profit for the year		-	-	-	1,630,428	-	1,630,428	(764)	1,629,664
Net change in fair value of available-for-sale financial assets		-	-	-	-	(9,054)	(9,054)	-	(9,054)
Total recognised income for the period		-	-	-	**1,630,428**	**(9,054)**	**1,621,374**	**(764)**	**1,620,610**
Capital contribution from minorities		-	-	-	-	-	-	51,200	51,200
Income tax rate change effect	14	-	-	-	-	1,557,425	1,557,425	-	1,557,425
Employee share option plan	5	-	132,099	-	(31,962)	-	100,137	-	100,137
Transactions with treasury shares	13	-	684	-	235	-	919	-	919
At 31 December 2008		**35,371,898**	**(749,239)**	**6,818,747**	**7,034,448**	**15,565,415**	**64,041,269**	**50,436**	**64,091,705**

General Director A.Y.Kopsov

Chief Accountant D.A.Polenov

24 March 2009

Note 1. The Group and its operations

Open Joint-Stock Company "The Fifth Generating Company of the Wholesale Electric Power Market" (OJSC "OGK-5", or the "Company") was established on 27 October 2004 within the framework of Russian electricity sector restructuring in accordance with the Resolution No. 1254-r adopted by the Government of the Russian Federation on 1 September 2003.

On 9 February 2007 the Board of Directors of RAO "UES of Russia" approved the change of RAO "UES of Russia" interest in the Company from 75.03% to 50% by disposing 8,853,757,803 ordinary non-documentary shares of the Company (25.03%) through the open auction sale.

The open auction for the sale of 25.03% of the Company shares owned by RAO "UES of Russia" was held on 6 June 2007. Enel Investment Holding B.V. won the auction. During 2007-2008 the stock of Enel Investment Holding B.V. changed several times and by the end of 2008 it was 55.78 % (see Note 5).

The OGK-5 Group (the "Group") operates 4 State District Power Plants ("SDPP") and its principal activity is electricity and heat generation. The Company has:

- a wholly-owned subsidiary LLC "OGK-5 Finance";
- 40% interest associate OJSC "Energeticheskaya Severnaya Companiya" (OJSC "ESC") (see Note 7). OJSC "Novatek" owns the remaining 60% of the ordinary shares of OJSC "ESC".

During 2008, through LLC "OGK-5 Finance", the Group established a new subsidiary, OJSC "Teploprogress", in which it holds a 60% interest. The principal activity of OJSC "Teploprogress" is maintenance of heating networks. The State Property Committee of Sredneuralsk holds the remaining 40% ownership interest in OJSC "Teploprogress".

The Company is registered by the Lenin District Inspectorate of the Russian Federation Ministry of Taxation of Yekaterinburg, Sverdlovsk Region. The Company's office is located at bld. 2, 10-A, 4th Setunsky proezd, 119136, Moscow, Russia.

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 recent 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.

Relations with the state and current regulation. The Government of the Russian Federation, represented by the Federal Agency of Property Management, remains a party with a significant influence after the spin-off, owning 26.43% of shares of the Company.

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

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

Tariffs which the Group may charge for sales of electricity and heat are calculated on the basis of normative documents, which regulate pricing in the field of heat and electricity. Tariffs are calculated in accordance with the "Cost-Plus" method of indexation. Costs are determined under the Regulations on Accounting and Reporting of the Russian Federation, a basis of accounting which significantly differs from International Financial Reporting Standards ("IFRS").

As described in Notes 2, 28, the government's economic, social and other policies could have material effects on the operations of the Group.

Industry restructuring. The electric energy sector as an integral part of the Fuel and Energy sector is one of the basic industries and its share in the GDP of the country is 10-11%. Like other sectors of Fuel and Energy sector the electric energy sector continues to dominate in the production.

In 2008 the Government ratified the decree on the launch of the capacity market in Russia, whose main goal is to ensure in short, middle and long terms the availability of the working generating facilities in the UES of Russia so that it will be enough to cover all electric energy consumption in the system at any time with the relative reliability and quality parameters (including reserves). The draft decree on the capacity market stipulates the availability of two models: transition model – till 2011 and target model.

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

1. At regulated prices:

- purchase/sale of capacity under regulated contracts, at prices set by Federal Tariff Service; volumes sold under regulated contracts shall decrease year by year according to liberalization schedule

2. At free prices:

- purchase/sale of capacity through free bilateral contracts (this is possible only between counterparties of regulated contracts)

- purchase/sale of capacity as a result of the competitive capacity auction.

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

Note 2. Financial condition

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

Note 3. Basis of preparation

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

Each enterprise of the Group individually maintains its own books of accounts and prepares its statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation. The accompanying Financial Statements are based on the statutory records and adjusted and reclassified for the purpose of fair presentation in accordance with IFRS.

Basis of measurement. The consolidated financial statements are prepared on the historical cost basis except that derivative financial instruments, investments at fair value through profit or loss, financial investments classified as available-for-sale and property, plant and equipment are stated at fair value.

Changes in accounting policy. On 1 January 2007 the Group adopted IAS 23, Borrowing Costs (revised March 2007). The main change to IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset. The effect on 2007 financial statements is not significant. Borrowing costs capitalised in 2008 are disclosed in the Note 6.

Prior year restatements and reclassifications.

The following changes were introduced into the consolidated financial statements for 2007:
Prior year restatements

- recognition of a provision for termination benefits related to the Group's top management in accordance with the terms of the employment contracts existed at 31 December 2007. The provision amounted to RR 307,818 thousand;

(in thousands of Russian Roubles)

- recognition of an onerous contract provision related to future supplies to customers from the Caucasus region in the amount of RR 213,616 thousand;
- recognition of a provision for doubtful debts in the amount of RR 169,289 thousand since at 31 December 2007 the Group has the evidence of non-recoverability of these debs;

Reclassifications

- reclassification of the foreign exchange effect in the amount of RR 95,076 thousand into the financial costs to provide the comparability with 2008 financial statements;
- reclassification of the advances to construction suppliers from other non-current assets to property, plant and equipment in the amount of RR 393,342 thousand;
- reclassification of construction inventory in the amount of RR 136,030 thousand into fixed assets;
- reclassification of inventory held as a strategic reserve in the amount of RR 107,642 thousand into other non-current assets;
- presentation of current provisions in the amount of RR 91,156 thousand separately from trade and other payables.

As a result, the following lines of the balance sheet and income statement were changed in the following way.

Restated Balance Sheet as at 31 December 2007

	Originally published	Changes	Group restated
Property, plant and equipment	63,523,331	459,939	63,983,270
Other non-current assets	842,678	(298,198)	544,480
Inventories	2,188,204	(243,672)	1,944,532
Trade and other receivables and other current assets	3,816,357	(87,359)	3,728,998
Retained earnings	5,960,697	(524,950)	5,435,747
Deferred income tax liability	8,953,566	(165,774)	8,787,792
Non-current provisions	0	165,984	165,984
Current provisions	0	612,590	612,590

Restated Income Statement for the year ended 31 December 2007

	Originally published	Changes	Group restated
Operating expenses	32,624,885	595,648	33,220,533
Finance costs	460,576	95,076	555,652
Income tax charge	84,401	(165,774)	(81,373)
Profit for the year	1,995,257	(524,950)	1,470,307

The corresponding changes were introduced also in the statement of changes in equity and statement of cash flows for the year ended 31 December 2007.

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

New Accounting Standards and Interpretations not yet adopted. Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods and which the Group has not early adopted. The Group plans to adopt these pronouncements when they become effective. Of these pronouncements, potentially the following will have an impact on the Group's financial statements:

- **IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009)**, which becomes mandatory for the Group's 2009 consolidated financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. The Group is currently assessing what impact the standard will have on segment disclosures in the consolidated financial statements.

- **IAS 1, Presentation of Financial Statements (revised September 2007; effective for annual periods beginning on or after 1 January 2009).** The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Group expects the revised IAS 1 to affect the presentation of its financial statements but to have no impact on the recognition or measurement of specific transactions and balances.
- ***Amended IAS 27 Consolidated and Separate Financial Statements (2008)*** requires accounting for changes in ownership interests by the Group in a subsidiary, while maintaining control, to be recognised as an equity transaction. When the Group loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in profit or loss. The amendments to IAS 27, which become mandatory for the Group's 2010 consolidated financial statements, are not expected to have any significant impact on the consolidated financial statements.
- ***Amendments to IAS 32 Financial instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*** requires puttable instruments, and instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation, to be classified as equity if certain conditions are met. The amendments, which become mandatory for the Group's 2009 consolidated financial statements, with retrospective application required, are not expected to have any significant impact on the consolidated financial statements.
- ***Amendment to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items*** clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment, which becomes mandatory for the Group's 2010 consolidated financial statements, with retrospective application required, is not expected to have any significant impact on the consolidated financial statements.
- ***Amendment to IFRS 2 Share-based Payment – Vesting conditions and cancellations*** clarify the definition of vesting conditions, introduce the concept of non-vesting conditions, require non-vesting conditions to be reflected in grant-date fair value and provide the accounting treatment for non-vesting conditions and cancellations. The amendments to IFRS 2 will become mandatory for the Group's 2009 consolidated financial statements, with retrospective application. The amendment is not expected to have any significant impact on the consolidated financial statements.
- ***Revised IFRS 3 Business Combinations (2008) and amended IAS 27 (2008) Consolidated and Separate Financial Statements***, which come into effect on 1 July 2009 (i.e. become mandatory for the Group's 2010 consolidated financial statements). The revisions address, among others, accounting for step acquisitions, require acquisition-related costs to be recognised as expenses and remove exception for changes in contingent consideration to be accounted by adjusting goodwill. The revisions also address how non-controlling interests in subsidiaries should be measured upon acquisition and require to recognise the effects of transactions with non-controlling interest directly in equity.
- ***IFRIC 17 Distributions of Non-cash Assets to Owners*** addresses the accounting of non-cash dividend distributions to owners. The interpretation clarifies when and how the non-cash dividend should be recognised and how the differences between the dividend paid and the carrying amount of the net assets distributed should be recognised. IFRIC 17 becomes effective for annual periods beginning 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 purpose, will come into effect not earlier than 1 January 2009.

Unless otherwise described above, the new standards and interpretations are not expected to affect the Group's financial statements significantly.

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 consolidated 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.

In particular, significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements include:

Property, plant and equipment. Fair value of property, plant and equipment has been determined by an independent appraiser based on the depreciated replacement cost method. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation, and obsolescence. Further, management assesses the remaining useful life of property, plant and equipment in accordance with the current technical conditions of assets and estimated period when these assets will bring economic benefit to the Group. Carrying value and depreciation of property, plant and equipment are affected by the estimates of replacement cost, depreciated replacement cost, residual value and remaining useful lives, and actual results could differ from these estimates. See effect of these critical accounting estimates and assumptions in Note 6.

Provision for impairment of trade and other receivables. Provision for impairment of trade and other receivables is based on the Group's assessment of whether the collectibility of specific customer accounts worsened compared to prior estimates. If there is deterioration in a major customer's creditworthiness or actual defaults are higher than the estimates, the actual results could differ from these estimates. See effect of these critical accounting estimates and assumptions in Note 9.

Tax contingencies. Russian tax legislation is subject to varying interpretations and changes, which can occur frequently. Where the Group management believes it is probable that their interpretation of the relevant legislation and the Group's tax positions cannot be sustained, an appropriate amount is accrued for in these IFRS financial statements. See effect of these critical accounting estimates and assumptions in Note 28.

Note 4. Summary of significant accounting policies

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

A) Subsidiaries

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

B) Transactions eliminated on consolidation

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

C) Transactions with minority interest

The Group applies a policy of treating transactions with minority interest as transactions with the owners in their capacity of owners. In case of purchases of minority interest, the difference between any consideration paid and the relevant share of the carrying value of net assets of the subsidiary acquired is recognised in equity.

D) Associates

Associates are entities over which the Group has significant influence, but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. The Group's share of the post-acquisition profits or losses of associates is recorded in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, which form part of the investor's net investment in associate, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Foreign currency transactions. Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising in translation are recognised in the income statement, except for differences arising on the translation of available-for-sale equity instruments.

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

A) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets.

B) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are represented by trade receivables (Note 9) (except for value added tax recoverable and advances to suppliers), long-term loans issued (Note 8), bank deposits and bank bills of exchange (Note 11).

C) Held to maturity investments

Held to maturity classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity.

D) Available for sale financial assets

Available for sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Regular purchases and sales of financial assets are recognised on the trade date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available for sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Held to maturity investments and loans and receivables are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are presented in the income statement within finance items (net), in the period in which they arise. Interest income from financial assets at fair value through profit or loss is recognised in the income statement as part of finance income when the Group's right to receive payments is established.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from investment securities.

Dividends on available for sale equity instruments are recognised in the income statement as part of other income when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available for sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

Except for loans and receivables and available for sale investments, the Group did not have other financial assets in the year ended 31 December 2007 or the year ended 31 December 2008.

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

Property, plant and equipment. Following finalization of the Group restructuring and the start of full operational activity at all of its plants from 1 January 2006, the Group changed its accounting policy to revaluing its property, plant and equipment, excluding construction in progress, from that date. Management believes that this resulted in a more meaningful presentation of the Group's financial position and financial performance.

Property, plant and equipment are subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair values of the assets being revalued. Increases in the carrying amount arising on revaluation of property, plant and equipment are credited to the revaluation reserve in equity. However, the increase shall be recognised in the income statement to the extent that it reverses a revaluation decrease of the same asset previously recognised in the income statement. Decreases that offset previous increases of the same asset are charged against the revaluation reserve directly in equity; all other decreases are charged to the income statement. The Group does not transfer revaluation surplus directly to retained earnings when the asset is derecognized or as the asset is used by the entity.

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

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

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

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

Depreciation of property, plant and equipment is calculated on a straight-line basis over the estimated useful life of the asset when it is available for use.

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

Type of property, plant and equipment	
Electricity and heat generation	9-60
Electricity distribution	8-33
Heating networks	15-41
Other	6-63

The majority of electricity and heat generation assets have useful lives between 9 and 60 years as revised by management starting from 1 January 2008.

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

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

Trade and other receivables. Accounts receivable are recorded inclusive of value added taxes. Trade receivables are recognised initially at fair value and subsequently measured at amortized cost using the effective interest rate method less provision for impairment. Such a provision for impairment of accounts receivable is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of provision for impairment account. When a trade receivable is uncollectible, it is written off against the provision for impairment of trade receivables. Subsequent recoveries of amounts previously written off are credited against operating costs in the income statement.

Value added tax. Output value added tax related to sales is payable to tax authorities on the earlier of collection of the receivables from customers or delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the balance sheet on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT. The related deferred VAT liability is maintained until the debtor is written off.

Treasury shares. When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is deducted from equity. Any gains or losses arising on the disposal of treasury shares are recorded directly in equity attributable to the shareholders of the Company.

Inventories. Inventories are valued at the lower of net realizable value and weighed average acquisition cost. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Provision is made for potential losses on obsolete or slow-moving inventories, taking into account their expected use and future realizable value.

Income taxes

Income taxes have been provided for in the consolidated financial statements in accordance with Russian legislation enacted or substantively enacted by the balance sheet date. The income tax (expense)/benefit comprises current tax and deferred tax and is recognised in the income statement unless it relates to transactions that are recognised, in the same or a different period, directly in equity. Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes, other than on income, are recorded within operating expenses.

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

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

Uncertain tax positions. The Group's uncertain tax positions are reassessed by management at every balance sheet date. Liabilities are recorded for income tax positions that are determined by management as less likely than not to be sustained if challenged by the tax authorities, based on the interpretation of tax laws that have been enacted or substantively enacted by the balance sheet date. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the balance sheet date.

Trade and other payables. Accounts payable are stated inclusive of value added tax. Trade payables are recognised initially at fair value and subsequently measured at amortized cost using the effective interest rate method.

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

Borrowing Costs. Borrowing costs are capitalized in qualifying assets according to IAS 23.

Minority interest. Minority interest represents the minority shareholders' proportionate share of the equity and results of operations of the Group's subsidiaries. This has been calculated based upon the minority interests' ownership percentage of these subsidiaries. In purchases of minority interest, difference, if any, between the carrying amount of a minority interest and the amount paid to acquire it is recorded directly in equity.

Pension and post-employment benefits. In the normal course of business the Group contributes to the Russian Federation defined contribution state pension scheme on behalf of its employees. Mandatory contributions to the governmental pension scheme are expensed when incurred.

The Company operates a number of defined benefit plans: lump-sum payments at retirement, jubilee benefits, financial support for current pensioners, old age life pension program and death benefits. Defined benefits plans, except old-age life pensions, are paid on a pay-as-you-go basis. For old-age life pensions payments the Company has contracted with a non-state pension fund. The Company settles its obligation in relation to former employees when they retire from the Company by purchasing annuity policies in the fund. All defined benefits plans are considered to be fully unfunded. When the pension obligation is settled via a non-state pension fund, the employer buys an annuity with the amount of contributions allocated to individual accounts held by the non-state pension fund and any additional contributions that may be required from the employer to meet the cost of the benefit commitment.

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

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions related to defined benefit pension plans in excess of the greater of 10% of the value of plan assets or

10% of the defined benefit obligations are charged or credited to the income statement over the employees' expected average remaining working lives.

Past service cost related to defined benefit pension plans is recognised as an expense on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits are already vested immediately following the introduction of, or changes to, a defined benefit plan, the Group recognizes past service cost immediately.

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

Revenue recognition. Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer of electricity and heat or non-utility goods and services. Revenue is measured at the fair value of the consideration received or receivable. When the fair value of consideration received cannot be measured reliably, the revenue is measured at the fair value of the goods or services sold/provided. Revenue is stated net of value added tax.

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

Earnings per share. The earnings per share are determined by dividing the profit attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the reporting period. For the purpose of calculating diluted earnings per share, the Group adjusts profit or loss attributable to ordinary equity holders, and the weighted average number of shares outstanding, for the effects of all dilutive potential ordinary shares.

Share-based payment transactions. The share option plan allows Group employees to acquire shares of the Company. The fair value of the options is measured at grant date and considers the period for which employees become unconditionally entitled to the options. The cost of the options is then expensed between the grant date and the vesting date written into the share option contract. The fair value of the options is measured based on the Black-Scholes formula, which takes into account the terms and conditions upon which the instruments were granted.

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.

Restructuring. A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for (see Note 25).

Onerous contracts. A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract (see Note 25).

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

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

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

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.

Impairment

Financial assets. A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

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 original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its 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 the income statement. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to the income statement.

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 the income statement. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

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

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

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

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

(in thousands of Russian Roubles)

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

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, foreign currency losses, changes in the fair value of financial assets at fair value through profit or loss and impairment losses recognised on financial assets other than trade receivables, see Note 23. All borrowing costs are recognised in the income statement using the effective interest method.

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

Note 5. Related Parties

Related parties are defined in IAS 24, *Related Party Disclosures*. Parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The open auction for the sale of 25.03% of the Company shares owned by RAO "UES of Russia" was held on 6 June 2007. ENEL Investment Holding B.V. won the auction and by 11 July 2007 its share in the capital of the Group had increased to 29.9997%.

As at 1 January 2008, the following entities held share capital in the Company:

Entity	% Share Ownership	Status
The Federal Agency of Property Management	26.43%	Entity with significant influence
ENEL Investment Holding B.V.	37.15%	Entity with significant influence
Minority Shareholders	36.42%	

As at this date, there was no ultimate controlling party of the Group.

On 4 February 2008 the term of obligatory offer expired. Within the framework of realization of obligatory offer a part of participation of ENEL Investment Holding B.V. in the share capital of the Group had increased and amounted to 59.8%. The ultimate controlling party of ENEL Investments Holding B.V. is ENEL S.p.A.

On 28 May 2008 the Group completed its organizational processes concerning changes in the governance and starting from that date ENEL Investments Holding B.V. exercised full operational control of the Group.

During the second quarter, 2008 ENEL Investment Holding B.V. sold to European Bank of Reconstruction and Development a 4.1% shareholding in the Group. As a result the participation of ENEL Investment Holding B.V. in the share capital of the Group was reduced to 55.86%.

(in thousands of Russian Roubles)

As at 31 December 2008, the share capital ownership structure of the Company was as follows:

Entity	% Share Ownership	Status
The Federal Agency of Property Management	26.43%	Entity with significant influence
ENEL Investment Holding B.V.	55.86%	Direct controlling parent entity
Minority Shareholders	17.71%	

At this date, the ultimate controlling party of the Group and ENEL Investment Holdings B.V. was ENEL S.p.A. (together with its subsidiaries "ENEL Group").

Transactions with ENEL Investment Holding B.V.

At 31 December 2007 receivables from ENEL Investment Holding B.V. comprised RR 18,599 thousand relating to reimbursement of the Group's expenses on announcement of the obligatory offer for repurchase of shares of the Group and its publication. In February 2008 the given receivable was redeemed.

At 31 December 2008, there were no receivables and payables with ENEL Investment Holding B.V.

Transactions with ENEL Group

For the year ended 31 December 2008 the Group had the following transactions and balances with other ENEL Group entities, except for ENEL Investment Holding B.V.:

	Year ended 31 December 2008	Year ended 31 December 2007
Revenue		
Electricity	407,915	387,979
Other	14,531	-

	31 December 2008	31 December 2007
Trade and other receivables	13,154	-
Trade and other payables	94,585	19

Transactions with State-controlled entities

In the normal course of business the Group enters into transactions with other entities under government control. Prices for natural gas, electricity and heat are based on tariffs set by FTS and RTS. Taxes are charged and paid under the Russian tax legislation.

For the periods ended 31 December 2008 and 31 December 2007, the Group had the following significant transactions and the following balances with state-controlled entities:

	Year ended 31 December 2008	Year ended 31 December 2007
Revenue		
Electricity	3,991,748	2,033,691
Heating	185,859	149,774
Other	8,766	7,266
Purchases		
Fuel	7,678,892	6,352,104
Raw materials and supplies	757	2,186
Fixed assets	-	1,181
Other	326,527	862
Finance income	97,788	280,374
Finance cost	7,933	3,927

	31 December 2008	31 December 2007
Trade and other receivables	825,699	453,756
Trade and other payables	72,227	53,062

(in thousands of Russian Roubles)

Deposits held in state-controlled banks

	31 December 2008	31 December 2007
JSB "Russian Agricultural Bank" Yaroslavl Branch (OJSC)	-	1,750,000
JSB "Sberbank"	-	850,000
JSB "TransCreditBank" (OJSC)	-	500,000
Total	**-**	**3,100,000**

This information does not include transactions and the balances with RAO "UES of Russia" and its subsidiaries. These transactions and balances are shown below.

Operations with other related parties

The operations with other related parties for the year ended 31 December 2008 and 31 December 2007 are shown below:

	Year ended 31 December 2008	Year ended 31 December 2007
Revenue		
Others	437	831
Purchases		
Others	171,000	190,816

As at 31 December 2008 and 31 December 2007 there were no trade receivables and payables.

Transactions with key management

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

At 31 December 2008 interest-free loans receivable from key management is nil (at 31 December 2007: RR 3,588 thousand).

Total remuneration accrued and paid to the members of the Board of Directors and Management Board for 2008 and 2007 was as follows:

	Year ended 31 December 2008		Year ended 31 December 2007	
	Expense	**Accrued liability**	**Expense**	**Accrued liability**
Remuneration	36,838	700	193,940	67,126
Share option plan	18,549	-	110,176	-
Termination costs	-	-	307,818	-
Pension liabilities	2,835	1,868	5,298	3,486

At 31 December 2008 there were 11 members of the Board of Directors and 5 members of the Management Board.

Employee share option plan. In October 2006, the Board of Directors approved a Share Option Plan for the Board members, General Director and employees of the Company (hereinafter the Plan) and a total of up to 353,716,855 ordinary shares (or one percent of the issued ordinary shares of the Company) may be allocated under the Plan.

The Plan provides for the granting of share options to the members of the Group's management and employees of the Company (hereinafter the Plan participants).

The Plan participants are rewarded for their work in the Company over the period of 3 years, starting from 1 December 2006.

Participation of the members of the Board of Directors and General Director in the Share Option Plan and the number of shares in their share option agreements are determined by decision of the Board of Directors. General Director (Executive Board Chairman) determines the list of employees (including top managers) who will participate in the Plan, the number of such persons and personal volumes of participation.

(in thousands of Russian Roubles)

Ordinary shares ultimately issued under the Plan are allocated from treasury shares purchased by the Group for that purpose on the open market by a special-purpose entity, LLC "OGK-5 Finance", which is controlled by the Group.

In the event of reorganization of the share capital in the Group, the participants will obtain the right for the shares distributed among the Company shareholders or into which the shares are converted.

The number of share options granted to participants of the Plan is calculated proportionally based on the number of days worked prior to terminating the employment. In case of breaching certain defined provisions of the labour agreement and termination of employment at the initiative of the Group, the Plan participants will forfeit their right to purchase the shares.

The exercise price of the share option is determined for the date of adoption of resolution on participation in the Plan and is calculated as average weighted price of ordinary shares for the period of 365 days before the date of adoption of the resolution on participation in the Plan according to MICEX data.

The share options can be exercised by a Plan participant in the period of 2 – 3 weeks after vesting date.

As at 31 December 2006, in relation to the Plan, the Group had purchased 350,383,660 treasury shares. Their purchase cost was RR 879,549 thousand. The shares were purchased by LLC "OGK-5 Finance" during the initial public offering of 5,100,000 thousand shares performed by the Group in 2006.

	Quantity of shares	Weighted average exercise price, RR
Options, outstanding as at 31 December 2007	327,387,155	2.34
Options, forfeited during 2008	(102,439,349)	2.30
Options, exercised during 2008	(54,869,719)	2.30
Options, outstanding as at 31 December 2008	**170,078,087**	**2.34**

	Quantity of shares	Weighted average exercise price, RR
Options, outstanding as at 31 December 2006	318,661,252	2.30
Options, issued during 2007	15,616,086	3.19
Options, forfeited during 2007	(6,890,183)	2.36
Options, outstanding as at 31 December 2007	**327,387,155**	**2.34**

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

	Options, granted during the year ended 31 December 2007
Share price (in Russian Roubles)	3.59-4.23
Exercise price (in Russian Roubles)	2.60-3.55
Expected volatility	27%-32%
Option life	1,096 days
Risk-free interest rate	6.13%
Fair value at measurement date (in Russian Roubles)	**1.51**

No options were granted during the year ended 31 December 2008.

The measure of volatility used in option pricing model is the annualized standard deviation of the continuously compounded rates of return on the share over a period of time. Volatility has been determined on the basis of the historical volatility of the share price over the most recent period (one year before grant date).

For options outstanding as at 31 December 2008, the exercise price ranges from 2.30 RR to 3.55 RR per share, and the average weighted lead time is 346 days.

(in thousands of Russian Roubles)

During the year ended 31 December 2008, the Group recognised an income of RR 26,063 thousand relating to the options (during the year ended 31 December 2007 the Group recognised expenses of RR 247,906 thousand).

In March 2008 the share option plan for several members of key management personnel was exercised ahead of schedule. Shares were purchased in quantity of 54,869,719, at exercise price – RR 2.30 per share. The weighted average share price at the date of exercise was RR 2.77 per share.

Note 6. Property, plant and equipment

Fair value

Fair value	Heat and electricity generation	Electricity transmission	Heating networks	Construction in progress	Other	Total
At 1 January 2008	**42,284,070**	**2,465,024**	**494,336**	**7,735,983**	**11,003,857**	**63,983,270**
Additions	259,168	914	1,757	12,320,990	194,730	12,777,559
Transfer	2,566,505	283,183	4,627	(4,179,109)	1,324,794	-
Disposals	(34,697)	(2,161)	(13,521)	(100,476)	(130,152)	(281,007)
At 31 December 2008	**45,075,046**	**2,746,960**	**487,199**	**15,777,388**	**12,393,229**	**76,479,822**
Accumulated depreciation						
At 1 January 2008	-	-	-	-	-	-
Charge for the period	1,502,985	190,745	18,595		755,285	2,467,610
Disposals	(649)	(133)	(211)		(11,319)	(12,312)
At 31 December 2008	**1,502,336**	**190,612**	**18,384**		**743,966**	**2,455,298**
Net book value as at 1 January 2008	**42,284,070**	**2,465,024**	**494,336**	**7,735,983**	**11,003,857**	**63,983,270**
Net book value as at 31 December 2008	**43,572,710**	**2,556,348**	**468,815**	**15,777,388**	**11,649,263**	**74,024,524**

Fair value

Fair value or cost	Heat and electricity generation	Electricity transmission	Heating networks	(Restated) Construction in progress	Other	Total
At 31 December 2006	**32,122,077**	**1,836,558**	**447,429**	**2,666,462**	**9,046,882**	**46,119,408**
Additions	4,672	3,627	-	8,314,826	150,209	8,473,334
Transfer	2,195,061	270,429	-	(3,164,534)	699,044	-
Disposals	(15,296)	(1,185)	(153)	(80,771)	(92,084)	(189,489)
Exclusion of accumulated depreciation	(2,354,952)	(336,260)	(36,710)	-	(1,316,038)	(4,043,960)
Revaluation	10,332,508	691,855	83,770	-	2,515,844	13,623,977
At 31 December 2007	**42,284,070**	**2,465,024**	**494,336**	**7,735,983**	**11,003,857**	**63,983,270**
Accumulated depreciation						
At 31 December 2006	**(1,165,976)**	**(170,682)**	**(18,390)**	-	**(649,464)**	**(2,004,512)**
Charge for the period	(1,190,418)	(165,838)	(18,393)	-	(693,733)	(2,068,382)
Disposals	1,442	260	73	-	27,159	28,934
Exclusion of accumulated depreciation	(2,354,952)	(336,260)	(36,710)	-	(1,316,038)	(4,043,960)
At 31 December 2007	-	-	-	-	-	-
Net book value as at 31 December 2006	**30,956,101**	**1,665,876**	**429,039**	**2,666,462**	**8,397,418**	**44,114,896**
Net book value as at 31 December 2007	**42,284,070**	**2,465,024**	**494,336**	**7,735,983**	**11,003,857**	**63,983,270**

(in thousands of Russian Roubles)

At 31 December 2008 construction in progress includes advance prepayments for property, plant and equipment of RR 10,195,558 thousand (31 December 2007: RR 3,750,163 thousand).

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

Fair values were determined as at 31 December 2007 primarily based on the depreciated replacement cost method. The replacement cost of buildings, constructions and transmission equipment has been estimated based on technical characteristics, unit construction cost and construction estimates. The replacement cost of equipment was estimated based on data of aggregate replacement cost of heat-power station, current purchase contracts and price-list of producers and trading companies. The economic obsolescence was estimated based on profitability test results for each cash-generating unit – Konakovskaya SDPP, Nevinnomysskaya SDPP, Reftinskaya SDPP, Sredneuralskaya SDPP. The discount rate used was 12%, the forecast period – 18 years, long-term growth – 3%. As a result of the revaluation, the Group's equity increased by RR 10,354,223 thousand, comprising an increase in carrying value of property, plant and equipment of RR 13,623,977 thousand, net of related deferred tax of RR 3,269,754 thousand.

As at 31 December 2008 no revaluation of property, plant and equipment has been done. The management performed analysis in respect of main components of property, plant and equipment and believes that their carrying amount represents the fair value. The increase in prices in the first half of 2008 was offset by decrease in the second half of the year. This dynamics is explained by the negative impact of the crisis on steel and iron industry that led to the consequent effect on power machinery prices.

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

Cost	Heat and electricity generation	Electricity transmission	Heating networks	Construction in progress	Other	Total
Net book value as at 31 December 2008	13,536,817	1,888,973	261,460	15,777,388	2,655,095	34,119,733
Net book value as at 31 December 2007	12,709,060	1,790,488	283,783	7,735,983	2,058,621	24,577,935

The assets transferred to the Group upon privatization did not include the land on which the Company's buildings and facilities are situated. The Group is in the position to either acquire this land into property or formalize the respective lease rights.

Currently in relation to Sredneuralsk SDPP, 13 lease contracts were executed for 21 land areas for the term until December 2008. During the period from 31 December 2006 till 31 December 2008, 10 land areas were transferred into property at Nevinnomyssk SDPP and lease contracts are executed for 5 land areas.

Lease contracts are executed for 5 land areas and 1 land area was transferred into property at Reftinskaya SDPP.

For the land occupied by Konakovskaya SDPP and Reftinskaya SDPP, the right for perpetual use has been registered, while the title belongs to the state. In accordance with Russian legislation, the Group plans to reregister the perpetual use right to the tenancy right for these land areas, or to acquire title for them.

During 2008 the Group capitalized borrowing costs in the amount RR 416,139 thousand into fixed assets.

As at 31 December 2008 and 31 December 2007, no property, plant or equipment was pledged as collateral according to loan agreements.

Impairment. Given the current challenging market conditions, the management performed an impairment test in respect of property, plant or equipment. The impairment test is based on value in use methodology.

The following key assumptions were used in determining the recoverable amounts of property, plant or equipment:

(in thousands of Russian Roubles)

- Cash flows were projected based on actual operating results and the most recent business plan approved by the management. The projections incorporate the Group's best estimates of growth rates, costs, future prices.
- A discount rate of 14.2% was applied in determining the recoverable amount. The discount rate was estimated based on weighted average cost of capital.

As a result of the analysis, no impairment loss has been recognised for the year ended 31 December 2008.

Property, plant and equipment write-off. On 20 December 2006 as a result of an emergency at Reftinskaya SDPP the roof of the turbine workshop partially collapsed. A write-off was recognised in the 2006 income statement totaling RR 312,849 thousand. The right for insurance compensation arose in 2007. During the period starting from 1 January 2007 till issuance of these financial statements the Group received insurance compensation in the amount of RR 840,521 thousand, including RR 224,136 thousand, during the year ended 31 December 2008. Compensation for damaged and destroyed property, plant and equipment items is based on accounting values under Regulations on Accounting and Reporting of the Russian Federation.

Operating leases

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

Operating lease rentals are payable as follows:

	31 December 2008	31 December 2007
Less than one year	17,722	5,260
Between one and five years	60,720	1,485
More than five years	10,814	7,438
Total	**89,256**	**14,183**

The land areas leased by the Group are the territories on which the Group's electric power stations, heating stations and other assets are located. The leases typically run for an initial period of 5 to 45 years with an option to renew the lease after that date. The lease payments are subject to regular review that may result in adjustments to reflect market conditions.

The Group leases out a number of items of property, plant and equipment of the following value:

	Heat and electricity generation	Electricity transmission	Heating networks	Other	Total
Appraisal value as at 31 December 2007	167,712	1,105	497	435,313	604,627
Accumulated depreciation as at 31 December 2007	(14,480)	(104)	(53)	(32,322)	(46,959)
Revaluation	33,573	318	127	109,488	143,506
Net book value as at 31 December 2007	186,805	1,319	571	512,479	701,174
Appraisal value as at 31 December 2008	248,027	1,316	550	598,264	848,157
Accumulated depreciation as at 31 December 2008	(6,092)	(45)	(31)	(18,594)	(24,762)
Net book value as at 31 December 2008	241,935	1,271	519	579,670	823,395

(in thousands of Russian Roubles)

Note 7. Investment in associate

Equity investments in associated company accounted for using the equity method are presented by investment in OJSC "Energeticheskaya Severnaya Companiya" (OJSC "ESC") and are as follows:

	31 December 2007	Participation share	Share capital increase	Share of profit of associate	Impairment	31 December 2008	Participation share
OJSC "ESC"	42,361	40.0%	160,000	1,699	(134,067)	69,993	40.0%
Total	**42,361**		**160,000**	**1,699**	**(134,067)**	**69,993**	

During 2008 OJSC "ESC" issued 400,000 additional ordinary shares at a price of RR 1.000 per each share. The shares were placed among the existing OJSC "ESC" shareholders in proportion to their existing shares. The Group received 160,000 shares for RR 160,000 thousand. The shares were fully paid by cash.

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

	31 December 2008	31 December 2007
Total assets	470,813	106,514
Total liabilities	360,553	503
Revenue	6,604	8,253
Profit for the year	4,249	5,239

At 31 December 2008 the equity investment in OJSC "ESC" has been impaired in the amount of RR 134,067 thousand. The purpose of OJSC "ESC" was to bid for a tender for constructing and operating new capacities in Tyumen region. In May 2008 the tender was cancelled. The fair value of the equity investment was recalculated considering all recoverable assets.

Note 8. Other non-current assets

	31 December 2008	(Restated) 31 December 2007
Available-for-sale investments	24,733	96,455
Long term advances to fuel suppliers	103,254	-
Value added tax deposit paid to customs	401,110	-
Other long term financial assets	90,776	71,749
Non-current portion of value added tax recoverable	142,971	210,886
Other	269,128	165,390
Total other non-current assets	**1,031,972**	**544,480**

Available-for-sale investments are shares of former subsidiaries of RAO "UES of Russia": at 31 December 2008 in the amount of RR 19,816 thousand and at 31 December 2007 in the amount of RR 91,538 thousand.

All available-for-sale investments are measured at fair value in reference to their publicly quoted market price at the reporting date. The decline in the fair value of available-for-sale investments has been recognised directly in equity.

'Other long-term assets' include a non-current portion of the Group's receivables from its employees and long-term bills (with maturity between November 2011 and February 2015).

(in thousands of Russian Roubles)

Note 9. Trade and other receivables

	31 December 2008	(Restated) 31 December 2007
Trade receivables (net of provision for impairment of trade receivables of RR 192,340 thousand at 31 December 2008 and RR 599,242 thousand at 31 December 2007)	1,943,551	1,029,218
Interest receivable	1,318	67,417
Advances to suppliers	690,840	1,690,306
Value added tax recoverable	792,374	23,027
Other receivables (net of provision for impairment of other receivables of RR 5,516 thousand at 31 December 2007)	870,390	919,030
Total trade and other receivables	**4,298,473**	**3,728,998**

Management believes that the majority of customers, balances of which are included in trade receivables, comprise the single class, as they bear the same characteristics. Those customers belong to the same wholesale market of electric power (NOREM), which is regulated by NP ATS (Non-commercial Partnership "Administrator of Trade System").

Management has determined the provision for impairment of accounts receivable based on specific customer identification, customer payment trends, subsequent receipts and settlements and analysis of expected future cash flows. Management believes that the Group will be able to realize the net receivable amounts through direct collections and other non-cash settlements, and therefore the recorded values approximate their fair value.

During the year ended 31 December 2008 RR 188,611 thousand of the Group's total accounts receivable was settled via non-cash settlements, mostly by promissory notes (the same period of the previous year - RR 173,692 thousand).

Other receivables are mainly represented by prepayments for insurance.

The Group does not hold any collateral as security.

The Group's exposure to credit risk related to trade and other receivables is disclosed in Note 26.

Note 10. Inventories

	31 December 2008	(Restated) 31 December 2007
Fuel supplies	1,740,631	1,307,323
Materials and supplies	286,105	252,195
Spare parts and other inventories (net of provision for impairment of RR 6,351 thousand at 31 December 2008 and RR 9,595 thousand at 31 December 2007)	329,484	385,014
Total inventories	**2,356,220**	**1,944,532**

As at 31 December 2008 and as at 31 December 2007 none of the inventories held were pledged as collateral according to loan agreements.

(in thousands of Russian Roubles)

Note 11. Short-term investments

As financial assets, short term investments are classified as loans and receivables.

	31 December 2008	31 December 2007	Rating 31 December 2007	Rating agency
Bank deposits				
JSCB "Unicreditbank" (before 01.01.08 - JSCB "International Moscow Bank " (CJSC)	-	1,904,772	BBB	S & P
JSB "Russian Agricultural Bank" Yaroslavl Branch (OJSC)	-	1,750,000	Baa2	Moody's
JSCB "Promsvyazbank" (CJSC)	-	400,000	Ba3	Moody's
JSB "Sberbank"	-	850,000	Baa2	Moody's
JSCB "International Industrial Bank" (CJSC)	-	500,000	B1	Moody's
JSCB "Petrocommerce" (OJSC)	-	450,000	Ba3	Moody's
JSB "TransCreditBank" (OJSC)	-	500,000	Ba1	Moody's
JSB "Nomos-Bank" (CJSC)	-	750,000	Ba3	Moody's
JSCB "Region" (OJSC)	-	55,500	-	-
Total bank deposits	**-**	**7,160,272**	**-**	
Total short-term investments	**-**	**7,160,272**	**-**	**-**

During the year ended 31 December 2008, the Group invested in securities with less than one year maturity periods. Interest rates on these securities are fixed and vary from 2.1% per annum to 6.7% per annum.

Interest accrued on these financial assets is disclosed in Note 23.

Note 12. Cash and cash equivalents

	31 December 2008	31 December 2007
Letter of credit	-	670,958
Bank deposits with maturity of three months or less	793,827	-
Cash at bank and in hand	63,518	155,608
Total cash	**857,345**	**826,566**

The letter of credit opened in bank JSCB "International Moscow Bank" (CJSC) for the settlement of payments for equipment supply until the end of January 2008. The currency of the letter of credit was USD. JSCB "International Moscow Bank" (CJSC) has credit rating BBB set by S&P rating agency. The contract for equipment supply relating to the letter of credit was cancelled in 2007. The letter of credit was closed and cash returned in January 2008.

The currency of cash is the Russian Roubles.

The Group's exposure to interest rate risk is disclosed in note 26.

Note 13. Equity

Share capital *Number of shares unless otherwise stated*	Ordinary shares 31 December 2008	Ordinary shares 31 December 2007
Issued shares	35,371,898,370	35,371,898,370
Par value (in RR)	1.00	1.00

Issue of shares. In September 2007 the Company issued 212,866 ordinary shares. Those shares were placed by conversion of shares of OJSC "OGK-5 Holding" to the shares of the Company in the spin-off process of OJSC "OGK-5 Holding" from RAO "UES of Russia", and with simultaneous merger of OJSC "OGK-5 Holding" to the Company. Details of the spin-off process are described in Note 1.

Treasury shares. Upon consolidation of OJSC "OGK-5 Holding" into the Company 17,685,842,752 treasury shares were recognised by the Company based on their book value to OJSC "OGK-5 Holding" totalling RR 57,727,590 thousand (50% of the share capital of the Company), paid by RAO "UES of

(in thousands of Russian Roubles)

Russia" as a contribution for the share capital of OJSC "OGK-5 Holding". The shares of OJSC "OGK-5 Holding" in the amount of 17,685,633,044 shares totalling RR 57,726,906 thousand were converted into the Company's shares and placed among the shareholders of OJSC "OGK-5 Holding", while the non-placed part in the quantity of 209,708 ordinary registered shares remained held as treasury shares by the Company. The book value of these treasury shares totalled RR 684 thousand. These treasury shares were sold during the year ended 31 December 2008 on the Stock Exchange.

In addition, in the process of share conversion during the spin-off from RAO "UES of Russia", the Group obtained 1,177,914 treasury shares due to conversion of RAO "UES of Russia" shares held by the Group. The book value of these treasury shares totalled to RR 1,789 thousand.

In total, during the year ended 31 December 2007, the Group obtained 1,387,622 shares with a total cost of RR 2,473 thousand, which was recognised in the statement of changes in equity.

In November 2006 the Group acquired 350,383,660 ordinary treasury shares in order to realize the Group share option plan (see Note 5), which made up 0.991% of its share capital at 31 December 2006. The acquisition cost of 208,896,916 treasury shares was equal to their placement cost determined for the initial public offering. Acquisition of 141,486,744 of treasury shares was made at acquisition cost exceeding par value of ordinary shares. Consideration paid for the purchase of treasury shares is accounted for as a deduction from equity.

Nominal value of treasury shares as at 31 December 2008 was RR 296,692 thousand (as at 31 December 2007 – RR 351,770 thousand).

Dividends. In accordance with Russian legislation the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with Russian Accounting Principles. As at 31 December 2008 the Company had retained earnings, including the profit for the current year, of RR 3,651,944 thousand (2007: RR 2,179,367 thousand).

On 1 June 2007 the Annual General Meeting of the Company Shareholders determined the amount of dividends for the six months ended 31 December 2006 in the amount of RR 0.00634689 per ordinary share for the total of RR 224,500 thousand. These dividends were paid and deducted from equity at 31 December 2007.

On 28 May 2008, at the Annual General Meeting of the Company, the Shareholders decided not to pay any dividends to ordinary shareholder in relation to the results of 2007.

Other reserves

	31 December 2008	31 December 2007
Merger reserve	(15,537,266)	(15,537,266)
Revaluation reserve	31,102,610	29,545,185
Available-for-sale financial assets revaluation reserve	71	9,125
Total other reserves	**15,565,415**	**14,017,044**

(in thousands of Russian Roubles)

Note 14. Income tax

Income tax charge	Year ended 31 December 2008	(Restated) Year ended 31 December 2007
Current income tax (charge)/benefit	**(481,471)**	**174,149**
Deferred income tax charge	**(304,995)**	**(92,776)**
Deferred income tax charge before rate recalculation	(256,964)	(92,776)
Tax recalculation due to the rate change	(48,031)	-
Total income tax (charge)/benefit	**(786,466)**	**81,373**

During 2008, the Group entities were subject to 24% income tax rate on taxable profits (2007: 24%). With effect from 1 January 2009 the income tax rate for Russian companies has been reduced to 20%. This rate has been used for the calculation of the deferred tax assets and liabilities.

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

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

	Year ended 31 December 2008	(Restated) Year ended 31 December 2007
Profit before income tax	2,416,130	1,388,934
Theoretical tax charge at the statutory tax rate of 24%	(579,871)	(333,344)
Change in tax rate	(48,031)	-
Tax effect of operating income and expenses which are not assessable for taxation purposes	(158,564)	414,717
Total income tax charge	**(786,466)**	**81,373**

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

	(Restated) 31 December 2007	Movement for the period recognised in the income statement	Movement for the period recognized in the statement of changes in equity	31 December 2008
Total deferred tax liabilities	(9,420,780)	(175,663)	1,557,425	(8,039,018)
Total deferred tax assets	632,988	(129,332)	-	503,656
Deferred tax liabilities, net	**(8,787,792)**	**(304,995)**	**1,557,425**	**(7,535,362)**

Year ended 31 December 2008

Deferred income tax liabilities

	31 December 2007	Movement for the period recognized in the income statement	Movement for the period recognized in the statement of changes in equity	31 December 2008
Property, plant and equipment	(9,417,015)	(161,211)	1,555,010	(8,023,216)
Other	(3,765)	(14,452)	2,415	(15,802)
Total deferred tax liabilities	**(9,420,780)**	**(175,663)**	**1,557,425**	**(8 039 018)**

(in thousands of Russian Roubles)

Deferred income tax assets

	(Restated) 31 December 2007	Movement for the period recognized in the income statement	Movement for the period recognized in the statement of changes in equity	31 December 2008
Unused tax loss carried forward	196,846	(196,846)	-	-
Provision for impairment of trade receivables	81,661	(81,661)	-	-
Trade receivables	28,160	161,537	-	189,697
Trade and other payables	197,819	(40,137)	-	157,682
Retirement benefit obligation	90,991	(2,155)	-	88,836
Inventory	12,393	(4,189)		8,204
Other	25,118	34,119	-	59,237
Total deferred tax assets	**632,988**	**(129,332)**	**-**	**503,656**

Year ended 31 December 2007

Deferred income tax liabilities

	31 December 2006	Movement for the period recognized in the income statement	Movement for the period recognized in the statement of changes in equity	31 December 2007
Property, plant and equipment	(5,595,447)	(551,814)	(3,269,754)	(9,417,015)
Other	(16,525)	15,642	(2,882)	(3,765)
Total deferred tax liabilities	**(5,611,972)**	**(536,172)**	**(3,272,636)**	**(9,420,780)**

Deferred income tax assets

	31 December 2006	Movement for the year recognized in the income statement	(Restated) 31 December 2007
Unused tax loss carried forward	-	196,846	196,846
Provision for impairment of trade receivables	75,962	5,699	81,661
Trade receivables	2,360	25,800	28,160
Trade and other payables	44,378	153,441	197,819
Retirement benefit obligation	64,529	26,462	90,991
Inventory	-	12,393	12,393
Other	2,363	22,755	25,118
Total deferred tax assets	**189,592**	**443,396**	**632,988**

Note 15. Non-current borrowings

At 31 December 2007 non-current borrowings comprise amounts payable on the Company's bonds issued. In October 2006 the Company completed a public offering of interest bearing non-convertible bonds, with a mandatory centralized custody.

The number of issued bonds was 5,000,000 with a nominal value of RR 1,000 per each bond, with maturity of 1,820 days from the date of the issue.

Earlier redemption is possible in 1,092 days since the date of issue. As such, at 31 December 2008 the debt is classified as current (see Note 17).

(in thousands of Russian Roubles)

Note 16. Retirement benefit obligation

The tables below provide information about the benefit obligations, plan assets and actuarial assumptions used for the year ended 31 December 2008. Amounts recognized in the balance sheet:

	31 December 2008	31 December 2007
Present value of defined benefit obligations	1,451,398	1,214,960
Unrecognised actuarial losses	(221,056)	59,771
Unrecognised past service cost	(786,160)	(895,603)
Net liability in balance sheet	**444,182**	**379,128**

Expenses recognized in the income statement:

	Year ended 31 December2008	Year ended 31 December 2007
Current service cost	72,862	71,498
Interest cost	77,647	82,497
Net actuarial gain recognized in the reporting period	(4,469)	-
Amortisation of past service cost	109,442	113,998
Total expenses	**255,482**	**267,993**

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

	31 December 2008	31 December 2007
Present value of defined benefit obligations at beginning of year	**1,214,960**	**1,222,179**
Current service cost	72,862	71,498
Interest cost	77,647	82,497
Actuarial (gain)/loss	276,357	(8,035)
Past service cost	-	4,556
Benefits paid	(190,428)	(157,735)
Pension plan adjustment	-	-
Present value of defined benefit obligations at the end of year	**1,451,398**	**1,214,960**

Principal actuarial assumptions are as follows:

	31 December 2008	31 December 2007
Nominal discount rate	9.0%	6.75%
Wage growth rate	8.0%	7.0%
Inflation rate	6.0%	5.0%
Future pension increases	6.0%	5.0%

Actuarial gains and losses arising during this period correspond to experience adjustments in full.

	31 December 2008	31 December 2007
Present value of defined benefit obligations	1,451,398	1,214,960
Deficit in plan	1,451,398	1,214,960
Losses arising from experience adjustments on plan liabilities	(382,401)	(12,323)

Expected benefit payments under the schemes during the year ended 31 December 2009 are RR 122,248 thousand.

(in thousands of Russian Roubles)

Note 17. Current borrowings and current portion of non-current borrowings

	31 December 2008	31 December 2007
Current borrowings	1,889,083	-
Current portion of non-current borrowings	5,076,815	87,767
Total current borrowings and current portion of non-current borrowings	**6,965,898**	**87,767**

As at 31 December 2008 current borrowings and the current portion of non-current borrowings consist of:

- The bond program and the coupon yield on bonds (see Note 15) for the period from April 5, 2008 to 31 December 2008 (RR 5.1 billion). Fixed interest rate coupon yield was set at the competition held at the date of issue, and was 7.5% per annum. Under the Prospectus of securities, coupon period for payment of the coupon income of the owners of the securities is 182 days. Payment of the coupon yield for the first coupon period was in April 2007, for the second coupon period in October 2007, for the third coupon period in April 2008, the fourth in October 2008.
- The credit line of EUR 45 million (RR 1,864 million) with a duration of 1 year under a finance agreement signed in November 2008.

Note 18. Trade and other payables

	31 December 2008	(Restated) 31 December 2007
Trade payables	2,383,561	2,159,350
Accrued liabilities and other payables	74,567	410,308
Advances received	17,324	32,799
Dividend payable	5,020	19,944
Total trade and other payables	**2,480,472**	**2,622,401**

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

The Group's exposure to liquidity risk related to trade and other payables is disclosed in Note 26.

Note 19. Other taxes payable

	31 December 2008	31 December 2007
Property tax	173,223	161,197
Value added tax	104,756	105,791
Payroll taxes	1,352	23,649
Fines and interest	22,813	16,049
Other taxes	187,978	238,357
Total taxes payable	**490,122**	**545,043**

Note 20. Revenue

	Year ended 31 December 2008	Year ended 31 December 2007
Electricity	40,528,597	31,520,153
Heating	2,016,902	1,630,480
Rent	57,716	56,632
Water circulation	40,019	43,594
Other	169,734	213,825
Total revenues	**42,812,968**	**33,464,684**

Approximately 15% of sales of electricity for the year ended 31 December 2008 relates to resale of purchased power on wholesale market NOREM (for the year ended 31 December 2007 – 14%).

(in thousands of Russian Roubles)

Note 21. Operating expenses

	Notes	Year ended 31 December 2008	(Restated) Year ended 31 December 2007
Fuel		22,787,501	16,957,413
Purchase electricity		6,785,758	4,953,688
Employee benefits		2,854,544	2,958,093
Depreciation	6	2,467,610	2,068,382
Repairs and maintenance		1,630,602	2,065,632
Taxes other than income tax and payroll taxes		752,115	718,196
SO CDU services		570,421	439,065
Water usage expenses		665,984	699,728
Insurance cost		298,678	322,598
Consulting, legal and audit services		145,210	146,432
Security services		193,149	169,752
Raw materials and supplies		139,270	132,118
Social expenses		27,922	22,961
Net (decrease)/increase of provision for impairment of trade and other receivables		(376,585)	169,287
Loss on fixed assets disposal		112,919	39,478
Loss on sale of trade receivables		311,140	-
Other expenses		997,359	1,357,710
Total operating expenses		**40,363,597**	**33,220,533**

Employee benefits expenses comprise the following:

	Year ended 31 December 2008	(Restated) Year ended 31 December 2007
Salaries and wages, accrued bonuses, other short-term benefits and payroll taxes	2,698,304	2,524,691
Share option plan	(26,063)	247,906
Non-governmental pension fund expenses (Note 16)	182,303	185,496
Employee benefits	**2,854,544**	**2,958,093**

Note 22. Other operating income

	Year ended 31 December 2008	Year ended 31 December 2007
Compensation from third parties for items of property, plant and equipment that were damaged or destroyed (see Note 6)	227,304	616,385
Other operating income	159,998	311,464
Total other operating income	**387,302**	**927,849**

(in thousands of Russian Roubles)

Note 23. Finance items (net)

	Year ended 31 December 2008	(Restated) Year ended 31 December 2007
Interest expense	(77,647)	(463,313)
Effect of discounting	(95,793)	2,737
Exchange differences	(227,207)	(95,076)
Other finance expenses	(60,705)	-
Finance expenses	**(461,352)**	**(555,652)**
Finance income	173,177	770,534
Total finance items (net)	**(288,175)**	**214,882**

Interest expense relates to financial liabilities measured at amortised cost.

Finance income arose from interest accrued on short-term investments.

Note 24. 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, calculated as shown below. The dilutive potential of share-based payments is not considered as the effect is immaterial.

	Year ended 31 December 2008	(Restated) Year ended 31 December 2007
Weighted average number of ordinary shares issued (thousands)	35,371,898	35,371,898
Adjustment for weighed average number of treasury shares (thousands)	(308,183)	(350,840)
Weighted average number of ordinary shares outstanding (thousands)	35,063,715	35,021,058
Profit attributable to the shareholders of OJSC "OGK-5"	1,630,428	1,470,307
Earnings per ordinary share for profit attributable to the shareholders of OJSC "OGK-5" – basic and diluted (in Russian Roubles)	**0.046**	**0.042**

Note 25. Provisions

	Termination benefits	Restructuring	Onerous contract	Other	Total
Balance at 1 January 2008	307,818	-	213,616	257,140	778,574
Provisions made during the year	-	310,832	-	208,241	519,073
Provisions used during the year	(307,818)	-	(47,632)	(257,140)	(612,590)
Balance at 31 December 2008	**-**	**310,832**	**165,984**	**208,241**	**685,057**
Non-current	-	206,178	116,311	-	322,489
Current	-	104,654	49,673	208,241	362,568
Total	**-**	**310,832**	**165,984**	**208,241**	**685,057**

Termination benefits

The provision for termination benefits relates to payments to the Group's top management in accordance with the terms of the employment contracts existed at 31 December 2007 (see Note 3).

Restructuring

In 2008 the management approved a five-year headcount restructuring plan which is aimed at aligning the headcount/MW ratio to the best international standards in the power sector, changing the quality mix of staff and decreasing the average age of employees.

These goals will be achieved through the optimization of processes and organizational structure, the centralization of staff functions and processes, the development of multi-skill competencies, the adoption of new IT platform (SAP/R3) and decommissioning of old units.

The provision is based on estimates of the staff reduction and average salaries.

Onerous contract

The provision for onerous contract relates to future supplies to customers from Caucasus region (see Note 3). The provision is based on estimates of fuel costs associated with electricity supplies. The Group expects the resulting outflow of economic benefits over the next three years.

Other

Other provisions include provision for annual bonus and unused vacations.

Note 26. Financial instruments and financial risks

Financial risk factors. The Group's activities expose it to a variety of financial risks, including the effects of changes in interest rates, and the collectability of receivables.

By the closing date, the Group implemented operating and financial risk assessment through the analysis of the main business processes and put in place internal control system on financial reporting. The Group has also started the process of developing a new risk management system expected to be in line with best corporate governance practices. Actually the Group represents the top corporate governance practice in the power sector having achieved in 2008 Standard & Poor's Gamma rating 6.0.

Power and heat produced by the Group are sold on the internal market of Russian Federation with prices fixed in the currency of Russian Federation. Hence, the currency exchange risk of the Group is limited. The financial condition of the Group, its liquidity, financing sources and the results of activities do not considerably depend on currency rates as the Group activities are planned to be performed in such a way that its assets and liabilities be denominated in the national currency. Moreover, the Group does not plan to perform activities on the outer market. That is why the influence of changes in the domestic currency rate as related to foreign currency rates on the financial condition of the Group is estimated as insignificant.

Credit risk

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

(i) Trade and other receivables

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

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

More than 85% of the Group's customers have been transacting with the Group for over several years, and losses have occurred infrequently. In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or legal entity, whether they are a wholesale, retail or end-user customer, geographic location, industry, aging profile, maturity and existence of previous financial difficulties.

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

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

(in thousands of Russian Roubles)

(ii) Investments

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

(iii) Cash balances and deposits

The majority of cash balances and short-term deposits are held with strong banks or financial institutions. The Group places funds in financial institutions characterized by a quite stable financial status. For the funds attracted under the IPO, the Board of Directors approved a list of banks for deposits, as well as rules for the placement of deposits. The funds placed in the deposits during the year were mostly related to the funds raised from the IPO. The table in Note 11 shows the deposits with banks of the major counterparties and their ratings at the balance sheet date.

Exposure to credit risk

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

	Note	Carrying amount 31 December 2008	Carrying amount 31 December 2007
Available-for-sale financial assets	8	24,733	96,455
Loans and receivables	9	1,943,551	1,029,218
Cash and cash equivalents	12	857,345	826,566
Bank deposits	11	-	7,160,272
Other long term financial assets	8	90,776	71,749
		2,916,405	**9,184,260**

Impairment losses

The aging of trade receivables at the reporting date was:

	Gross 2008	Impairment 2008	Gross 2007	Impairment 2007
Not past due	1,662,580	-	837,435	-
Past due 1-3 months	230,276	-	-	-
Past due 3-12 months	43,043	-	16,020	-
Past due more than 12 months	199,992	192,340	775,005	604,758
	2,135,891	**192,340**	**1,628,460**	**604,758**

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

	2008	2007
Balance at 1 January	604,758	435,471
Increase during the period	-	169,289
Written-off during the year as uncollectible	(35,833)	-
Decrease due to reversal	(376,585)	(2)
Balance at 31 December	**192,340**	**604,758**

As at 31 December 2007, the individually impaired receivables mainly related to wholesale customers located in the Caucasus region and were in unexpectedly difficult economic situations. During the year ended 31 December 2008, these receivables were partly sold and accordingly reversed from the provision.

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

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. Prudent liquidity risk management includes maintaining sufficient cash and marketable securities, the availability of funding from an adequate amount of committed credit facilities, ability of the Group to fulfil the current obligations. In order to implement the main investment projects the Group plans to attract long-term financing for 12-15 years. The short term financing for not more than 1 year is attracted to cover the temporary cash shortage for operating activity. The given allocation of financial liabilities by terms enables to ensure that:

(in thousands of Russian Roubles)

- at the required moment the Group has the needed amount of monetary funds in order to fulfil all required financial liabilities of the Group;
- at the required moment the Group will be able to redeem all its financial liabilities in full.

As at 31 December 2008 the Group's financial liabilities include EUR 45 million credit facility provided by CJSC Bank Intesa for 1 year and bonds in the amount of RR 5,000 million maturing in 2011. Bonds can be redeemed early and the timeline for the offer to be submitted is September 2009. Assessing the current situation on the financial markets the Group expects the offer to be submitted for the total amount.

In 2008 the Group entered into various loan agreements: a long-term credit line with ABN AMRO Bank N.V. for the total amount of EUR 240 million and a duration of 12 years, short-term bank loans with Rosbank and Khanty-Mansiysky Bank for the total amount of RR 950 million and a duration of 1 year, and a short-term credit line with CJSC Bank Intesa for the amount of EUR 15 million and a duration of three months. During 2008 the Group did not draw any funds under these credit facilities.

The amounts disclosed in the table are the contractual undiscounted cash flows including interest payable and assuming that the bondholders will exercise their "put" option. Balances due within 12 months approximate their carrying balances. For the impact of discounting please refer to the Note 23.

At 31 December 2008	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years
Bank loans (Note 17)	1,889,083	-	-
Bonds (Note 17)	5,076,815	-	-
Trade and other payables (Note 18)	2,480,472	-	-
At 31 December 2007			
Bonds (Note 15)	87,767	5,000,000	-
Trade and other payables (Note 18)	2,622,401	-	-

Interest rate risk. The Group adopts a policy of ensuring that the majority of its loans and borrowings has the fixed rate basis. Therefore the Group is not currently exposed to the risks related to the changes in the interest rate.

For the future strategy of attraction of monetary funds, the Group plans to use the most reasonable sources of financing in terms of cost. The interest rates may be both fixed and floating. In case of loans with floating interest rates and in order to minimize losses from the possible increase of interest rates, the Group plans to hedge the given risk by using derivative instruments.

The main part of the long-term financing is planned to be attracted from The European Bank for Reconstruction and Development and The European Investment Bank, for which the Group expects favourable conditions.

Management believes that interest rate risk is insignificant.

(in thousands of Russian Roubles)

Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

	Note	Carrying amount 2008	Fair value 2008	Carrying amount 2007	Fair value 2007
Financial assets					
Cash and cash equivalents	12	857,345	857,345	826,566	826,566
Available-for-sale					
Investments	8	24,733	24,733	96,455	96,455
Loans and receivables					
Bank deposits	11	-	-	7,160,272	7,160,272
Trade receivables	9	1,943,551	1,943,551	1,029,218	1,029,218
Other long term financial assets	8	90,776	90,776	71,749	71,749
Accrued income	9	1,318	1,318	67,417	67,417
Total financial assets		**2,917,723**	**2,917,723**	**9,251,677**	**9,251,677**

	Note	Carrying amount 2008	Fair value 2008	Carrying amount 2007	Fair value 2007
Financial liabilities at amortised cost:					
Trade payables	18	2,383,561	2,383,561	2,159,350	2,159,350
Bank loans	17	1,889,083	1,889,083	-	-
Bonds	17	5,076,815	5,076,815	5,087,767	5,087,767
Total financial liabilities		**9,349,459**	**9,349,459**	**7,247,117**	**7,247,117**

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

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

As at 31 December 2008, the Group has been in compliance with the above share capital requirements.

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

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

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings, as shown in the balance sheet, less cash. Total capital is calculated as equity, as shown in the balance sheet, plus net debt.

The gearing ratios at 31 December 2008 and at 31 December 2007 were as follows:

(in thousands of Russian Roubles)

	31 December 2008	31 December 2007
Total borrowings	6,965,898	5,087,767
Cash (Note 12)	857,345	826,566
Net debt	6,108,553	4,261,201
Total equity	64,041,269	60,761,414
Gearing ratio	**9.5%**	**7.0%**

The Company aims at keeping its credit rating at the level not below the current Ba3/Aa3.ru rating assigned by Moody's.

Note 27. Commitments

Fuel commitments. The Group has entered into several long-term contracts for the supply of gas and coal that will be used in the ordinary course of the Group's activities. The pricing terms of these contracts are based on market prices.

The Group has entered into the contracts for the supply of gas for the needs of the Group's plants – Nevinnomysskaya SDPP, Konakovskaya SDPP and Sredneuralskaya SDPP.

In the fourth quarter of 2007 the following contracts were concluded:

For Nevinnomysskaya SDPP:

- for the supply of limited gas, whose price is regulated by the state and currently determined by the Federal Tariff Service for 5 years (2008-2012) with the regional gas company OJSC GAZPROM – LLC Stavropolregiongas, with the yearly supply volume of 1.8 billion m^3;

- for the supply of additional gas whose price is determined in accordance with Decree of the Government No. 333 dated 28 May 2007 for 4 years (2008-2011) with the regional gas company OJSC GAZPROM – LLC Stavropolregiongas, with the total supply volume of 1.6 billion m^3.

For Konakovskaya SDPP:

- for the supply of limited gas, whose price is regulated by the state and currently determined by the Federal Tariff Service for 5 years (2008-2012) with the regional gas company OJSC GAZPROM – LLC Tverregiongas, with the yearly supply volume of 1.75 billion m^3

For Sredneuralskaya SDPP:

- for the supply of gas for 8 years (2008-2015) with CJSC Uralsevergaz (independent gas supplier – structure of LLC NGK ITERA), with the total supply volume of 24.6 billion m^3. A part of the gas volumes under the given contract is supplied at the state regulated price.

In order to supply gas for the needs of Nevinnomysskaya SDPP and Konakovskaya SDPP the Group concluded in 2006 a long-term contract (till 31 December 2011) on gas supply with OJSC NOVATEK, with the total supply volume of 3.3 billion m^3.

For Reftinskaya SDPP:

In the fourth quarter 2007 the Group concluded a contract on the supply of coal for 6 years (2007 – 2012) with LLC Uralsky energetichesky kompleks, with the annual total volume of 0.25 million tons.

At the end of 2008, the Group concluded the following contracts in order to supply coal for the needs of Reftinskaya SDPP :

- a contract with LLC Uralenergougol for the 1st quarter of 2009 with a prolongation option until the end of 2009, with the quarterly supply volume of 2.5 million tons;

- a contract with LLC Energo-Impulse for the first quarter of 2009 with a prolongation option until 1 April 2010 with the quarterly supply volume of 0.6 million tons.

At the closing date, as far as these two coal contracts are concerned, the management believe that notwithstanding the term of the agreements, no matter in continuity of supplies will arise due to fact that the Group represents the main single buyer for both coal mining companies.

Capital commitments. Future capital expenditure for which contracts have been signed amounted to RR 26,519,247 thousand at 31 December 2008 (at 31 December 2007: RR 14,609,761 thousand).

Note 28. Contingencies

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

Insurance. The Group holds limited insurance policies in relation to its assets, operations, public liability or other insurable risks. Accordingly, the Group is exposed to those risks which are not covered by the existing insurance policies.

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

Tax contingency. 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.

Environmental matters. The Group and its predecessor have operated in the electric power industry in the Russian Federation for many years. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluate 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. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.
Due to the attraction of the financing for the investment project on the construction of the new combined cycle gas turbine unit with the capacity of 410 MW at Nevinnomysskaya SDPP the Group undertook to follow the EU environmental standards.
This circumstance significantly reduces the risks of the Company as well as the fact that the Company is a material subsidiary of Enel Group that pays special attention to environmental and safety matters.

Note 29. Events after the balance sheet date

On 30 January 2009 the Group entered into loan agreements with Sberbank for the amount of RR 2.5 billion and duration of 1 year, which will be used both for capital construction and working capital financing.

On 27 February 2009 the Group and The European Bank for Reconstruction and Development signed a loan agreement for the amount of EUR 120 million and duration of 12 years, which will be used for the financing of closed-cycle gas turbine construction at Nevinnomysskaya SDPP.