Open Joint Stock Company Lenenergo

Consolidated Financial Statements
prepared in accordance with
International Financial Reporting Standards

For the year ended 31 December 2008

Ernst & Young

Open Joint Stock Company Lenenergo

Consolidated Financial Statements

For the year ended 31 December 2008

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Independent Auditors' Report

To the Shareholders and Board of Directors of OJSC Lenenergo

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

Management's Responsibility for the Financial Statements

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

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

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

ERNST & YOUNG

Opinion

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

Ernst & Young LLC

15 June 2009
St. Petersburg, Russia

OJSC LENENERGO

Consolidated Balance Sheet as at 31 December 2008

(in thousands of Russian Rubles)

	Note	31 December 2008	31 December 2007 (as restated)	31 December 2007
ASSETS				
Non-current assets				
Intangible assets	5	**570,154**	182,065	182,065
Property, plant and equipment	6	**66,235,792**	23,252,435	23,252,435
Advances for construction of property, plant and equipment	7	**5,025,306**	3,915,529	3,915,529
Available-for-sale investments	8	**304,533**	713,200	384,494
Deferred tax assets	26	**-**	-	8,401
Other non-current assets	9	**887,426**	576,151	576,151
Total non-current assets		**73,023,211**	28,639,380	28,319,075
Current assets				
Cash and cash equivalents	10	**2,498,850**	5,903,078	5,903,078
Accounts receivable	11	**1,209,336**	1,017,493	1,017,493
Inventories	12	**235,484**	217,923	217,923
Other current assets	13	**6,387,647**	2,823,840	2,823,840
Total current assets		**10,331,317**	9,962,334	9,962,334
TOTAL ASSETS		**83,354,528**	38,601,714	38,281,409
EQUITY AND LIABILITIES				
Equity attributable to equity holders of the parent				
Ordinary shares	15	**4,866,115**	4,631,947	4,631,947
Preference shares	15	**625,603**	625,603	625,603
Share premium	15	**5,548,880**	-	-
Other reserves	15	**28,857,780**	5,187,035	1,871,688
Retained earnings		**3,302,755**	1,560,702	4,626,232
		43,201,133	12,005,287	11,755,470
Minority interests	4	**39,430**	-	-
Total equity		**43,240,563**	12,005,287	11,755,470
Non-current liabilities				
Long-term borrowings	16	**12,946,293**	11,555,864	11,555,864
Deferred tax liabilities	26	**5,863,986**	70,488	-
Post-employment benefits liability	17	**308,313**	277,413	277,413
Other non-current liabilities	18	**5,377,237**	3,699,967	3,699,967
Total non-current liabilities		**24,495,829**	15,603,732	15,533,244
Current liabilities				
Short-term portion of long-term borrowings	16	**436,143**	277,007	277,007
Accounts payable and accrued expenses	19	**4,521,033**	3,034,888	3,034,888
Income tax payable		**1,118,258**	598,928	598,928
Other taxes payable	20	**77,868**	102,600	102,600
Other current liabilities	21	**9,464,834**	6,979,272	6,979,272
Total current liabilities		**15,618,136**	10,992,695	10,992,695
Total liabilities		**40,113,965**	26,596,427	26,525,939
TOTAL EQUITY AND LIABILITIES		**83,354,528**	38,601,714	38,281,409

General Director — D.V.Ryabov
Chief Accountant — G.V.Kuznetsova
15 June 2009

The accompanying notes form an integral part of these consolidated financial statements

OJSC LENENERGO

Consolidated Income Statement for the year ended 31 December 2008

(in thousands of Russian Rubles, except per share amounts)

	Note	Year ended 31 December 2008	Year ended 31 December 2007 (as restated)	Year ended 31 December 2007
Revenues	22	**17,913,636**	12,337,880	12,337,880
Operating expenses	23	**(14,607,578)**	(10,036,092)	(10,036,092)
Operating profit		**3,306,058**	2,301,788	2,301,788
Finance income	24	**2,291,642**	113,621	109,298
Finance expenses	25	**(1,372,074)**	(598,463)	(603,322)
Foreign exchange loss		**(967,043)**	(9,182)	-
Permanent decline in fair value of available-for-sale investments		**(210,956)**	-	-
Profit before tax		**3,047,627**	1,807,764	1,807,764
Income tax expense	26	**(1,209,643)**	(522,545)	(522,545)
Net profit for the year		**1,837,984**	1,285,219	1,285,219
Attributed to:				
Equity holders		**1,833,660**	1,285,219	1,285,219
Minority interests		**4,324**	-	-
Earnings per ordinary share – basic and diluted (Russian Rubles)	27	**1.71**	1.58	1.58
Earnings per preference share – basic and diluted (Russian Rubles)	27	**1.71**	1.58	1.58

General Director D.V.Ryabov

Chief Accountant G.V.Kuznetsova

15 June 2009

The accompanying notes form an integral part of these consolidated financial statements

OJSC LENENERGO

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

(in thousands of Russian Rubles)

	Attributable to equity holders of the parent							
	Ordinary shares	**Preference shares**	**Share premium (Note 15)**	**Other reserves (Note 15)**	**Retained earnings**	**Total**	**Minority interests**	**Total equity**
As at 1 January 2007 (as previously reported, Note 3)	**4,631,947**	**625,603**	-	**1,885,820**	**3,369,278**	**10,512,648**	-	**10,512,648**
Correction of prior period errors (Note 3)	-	-	-	3,203,779	(3,065,530)	138,249	-	138,249
As at 1 January 2007 (as restated, Note 3)	**4,631,947**	**625,603**	-	**5,089,599**	**303,748**	**10,650,897**	-	**10,650,897**
Unrealized gain on available-for-sale financial assets, net of tax (as restated, Note 3)	-	-	-	111,568	-	111,568	-	**111,568**
Release of asset revaluation reserve, net of tax	-	-	-	(14,132)	14,132	-	-	-
Net profit for the year	-	-	-	-	1,285,219	1,285,219	-	**1,285,219**
Dividends for 2006	-	-	-	-	(42,397)	(42,397)	-	**(42,397)**
As at 31 December 2007 (as restated, Note 3)	**4,631,947**	**625,603**	-	**5,187,035**	**1,560,702**	**12,005,287**	-	**12,005,287**
Unrealized loss on available-for-sale financial assets, net of tax	-	-	-	(145,127)	-	(145,127)	-	**(145,127)**
Revaluation of property, plant and equipment, net of tax	-	-	-	23,815,872	-	23,815,872	-	**23,815,872**
Ordinary shares issued	234,168	-	5,548,880	-	-	5,783,048	-	**5,783,048**
Minority interests arising on business combination	-	-	-	-	-	-	35,106	**35,106**
Net profit for the year	-	-	-	-	1,833,660	1,833,660	4,324	**1,837,984**
Dividends for 2007	-	-	-	-	(91,607)	(91,607)	-	**(91,607)**
As at 31 December 2008	**4,866,115**	**625,603**	**5,548,880**	**28,857,780**	**3,302,755**	**43,201,133**	**39,430**	**43,240,563**

General Director D.V.Ryabov

Chief Accountant G.V.Kuznetsova

15 June 2009

The accompanying notes form an integral part of these consolidated financial statements

OJSC LENENERGO

Consolidated Cash Flow Statement for the year ended 31 December 2008

(in thousands of Russian Rubles)

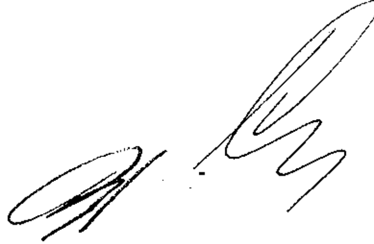
	Note	Year ended 31 December 2008	Year ended 31 December 2007 (as restated)	Year ended 31 December 2007
Cash flow from operating activities				
Profit before tax		**3,047,627**	1,807,764	1,807,764
Adjustments to reconcile profit before tax and net cash flow from operating activities:				
Loss on disposal of property, plant and equipment		**95,902**	12,024	-
Loss on revaluation of property, plant and equipment	23	**797,908**	-	-
Finance income	24	**(2,291,642)**	(109,298)	(109,298)
Depreciation of property, plant and equipment	23	**1,702,052**	1,104,824	1,104,824
Amortization of intangible assets	5, 23	**77,880**	22,880	22,880
Finance expenses	25	**2,339,117**	603,322	603,322
Permanent decline in fair value of available-for-sale investments	23	**210,956**	-	-
Net movement in the provision for impairment of receivables	23, 14	**172,609**	312,524	312,524
Non-cash settlement of technological connection revenue		**(498,339)**	(710,450)	(710,450)
Provision for impairment of inventories	23	**42,431**	54,427	54,427
Net expense for the defined benefit plan	17	**56,500**	52,333	52,333
Adjustments for other non-cash operations		**(1,595)**	122,701	134,725
Operating cash flows before changes in working capital		**5,751,406**	3,273,051	3,273,051
Increase/ (decrease) in accounts payable and accrued expenses		**(378,324)**	(3,525,209)	455,246
Increase in other current liabilities		**5,412,848**	2,445,544	-
Increase in other non-current liabilities		**1,361,480**	1,534,911	-
Increase in trade and other receivables		**(406,135)**	(115,295)	(1,903,323)
Increase in inventories		**(30,321)**	(46,798)	(46,798)
(Increase)/ decrease in taxes payable other than income tax		**(45,278)**	18,106	18,106
(Increase)/ decrease in other current assets		**(1,335,154)**	(1,787,582)	446
Cash generated from operations		**10,330,522**	1,796,728	1,796,728
Interest paid		**(852,280)**	(430,168)	(430,168)
Income tax paid		**(502,175)**	(334,025)	(334,025)
Pension benefits paid	17	**(25,600)**	(19,484)	(19,484)
Net cash generated from operating activities		**8,950,467**	1,013,051	1,013,051
Cash flow from investment activities				
Purchases of property, plant and equipment		**(9,336,268)**	(3,568,567)	(3,568,567)
Purchases of intangible assets		**(159,866)**	(159,460)	(159,460)
Increase in advances for construction of property, plant and equipment		**(1,136,239)**	(1,585,520)	(1,585,520)
Proceeds from disposal of property, plant and equipment		**34,866**	19,693	19,693
Acquisition of subsidiaries, net of cash acquired	4	**(794,071)**	-	-
Deposits placed		**(40,000)**	-	-
Dividends received		**23,992**	45,188	45,188
Interest received		**354,902**	61,629	61,629
Net cash used in investment activities		**(11,052,684)**	(5,187,037)	(5,187,037)

The accompanying notes form an integral part of these consolidated financial statements

OJSC LENENERGO

Consolidated Cash Flow Statement (continued)

	Note	Year ended 31 December 2008	Year ended 31 December 2007 (as restated)	Year ended 31 December 2007
Cash flow from financing activities				
Repayment of short-term borrowings, net		**(22,000)**	(1,500,000)	(6,299,801)
Repayment of long-term borrowings		-	(2,999,801)	-
Long-term borrowings received		-	10,789,716	12,589,716
Advance contributions for shares issued (repaid)/received	15	**(10,033)**	3,055,681	3,055,681
Dividends paid		**(91,607)**	(42,397)	(42,397)
Repayment of finance lease liabilities		**(1,178,371)**	(308,364)	(308,364)
Total cash (used in)/ provided by financing activities		**(1,302,011)**	8,994,835	8,994,835
Net (decrease)/ increase in cash and cash equivalents		**(3,404,228)**	4,820,849	4,820,849
Cash and cash equivalents at the beginning of the year	10	**5,903,078**	1,082,229	1,082,229
Cash and cash equivalents at the end of the year	10	**2,498,850**	5,903,078	5,903,078



General Director D.V.Ryabov

Chief Accountant G.V.Kuznetsova

15 June 2009

1. Corporate information

Open joint stock company of Electricity and Electrification Lenenergo (hereinafter "the Company") was established on 22 January 1993 as the successor of the rights and obligations of state-owned enterprise Electricity and Electrification Industrial Association Lenenergo to the extent specified in the privatization plan dated 22 December 1992. On 1 October 2005, as a result of corporate restructuring through the spin off of electricity generation and sales, heat generation, distribution and sales businesses, the Company retained the electricity transmission networks. Currently the Company provides electricity transmission and network connection services to the consumers.

As at 31 December 2008 the Group comprised OJSC Lenenergo and its subsidiaries: CJSC Lenenergospetsremont (100%), OJSC Kurortenergo (92.56%) and OJSC Tsarskoselskaya Energeticheskaya Compania (96.95%) (hereinafter collectively referred to as "the Group"). The latter two companies were acquired in September and November of 2008 via CJSC Lenenergospetsremont. As at 31 December 2007 the Group comprised OJSC Lenenergo and its subsidiary: CJSC Lenenergospetsremont (100%).

The Group currently operates in two regions of the Russian Federation: the city of St. Petersburg and Leningrad Region.

The registered office of the Company is at 1, Constitution Square, 196247, St. Petersburg.

At 31 December 2008 the total number of employees was 6,086 (2007: 5,538).

Relations with the state and current legislation

The Group is under control of OJSC MRSK Holding (hereinafter "MRSK-Holding"), which as at 31 December 2008 owned 45.71% of the Group's share capital, including 50.31% of voting ordinary shares, and which in turn is controlled by the Russian Federation (as at 31 December 2007 OJSC RAO UES Rossii (hereinafter "RAO UES"), a legal predecessor of MRSK-Holding, owned 59% shares in the Group, including 67% of voting ordinary shares). The Group provides services to a number of entities controlled by or closely related to the state. In addition, a number of the Group's suppliers are state-controlled entities.

The government directly influences the Group's operations through the regulation of wholesale electricity sales by the Federal Service on Tariffs (FST) and of retail electricity sales by Regional Electricity commissions for St. Petersburg and Leningrad Region. The Group sets electricity transmission tariffs for its customers based on regulated tariffs. The Russian Federation government's economic, social and other policies can have a material effect on the Group's operations.

Financial position and liquidity

As at 31 December 2008 the Group's current liabilities exceeded its current assets by 5,286,819 (31 December 2007: 1,030,361). The Group's net profit for the year ended 31 December 2008 was 1,837,984, including 1,833,660 attributed to equity holders of the parent (2007: 1,285,219 all attributed to equity holders of the parent). In 2008 the Group generated cash flow from operating activities of 8,950,467 (2007: 1,013,051).

1. Corporate information (continued)

Financial position and liquidity (continued)

In 2008 the Group experienced a decline in most of liquidity ratios. The ongoing global financial crisis caused instability in the stock markets affecting the financial situation, operating performance and general economic outlook for the Group. Thus, current ratio, being current assets divided by current liabilities, decreased from 0.91 as at 31 December 2007 to 0.66 as at 31 December 2008; quick assets ratio, being current receivables and cash (including cash equivalents) divided by current liabilities, decreased from 0.63 as at 31 December 2007 to 0.24 as at 31 December 2008.

In the reporting period the change in the liquidity ratios was affected by the following:

1) Increase in short-term obligations mainly due to the increase of advances received for technological connection to electricity grids (Note 21).
2) Decrease in cash and cash equivalents balance as at respective reporting dates mainly due to significant increase in cash outflow related to investment activities in 2008.

In 2008 the Group did not attract additional borrowings.

In 2008 the Group's management monitored compliance with financial performance requirements set forth in the loan agreement with Barclay's Bank concluded in December 2007 (Note 16). As at 31 December 2008 the Group's financial performance indicators were in line with the covenants imposed by the respective loan. In order to compensate for currency risk the Group concluded swap agreement (Note 16).

The Group's management is taking the following measures to improve the Group's financial and liquidity position:

1) Adjustment of the Group's investments into power lines and equipment:
   - the emphasis was shifted from the construction of new electric power supplies and other power equipment to completion of the previously launched projects having high stage of completion in order to ensure additional operating cash flows within relatively short period of time;
   - measures are being taken to decrease the construction period from 2-2.5 years to one year and thus to accelerate cash inflows from customers for technological connection to the electricity grids;
   - several engineering and construction works were suspended and some investment projects may be deferred or scaled down commensurate with the financing needed to support the Group's current operations.
2) Investing into the expansion of the transmission network of the Group into Leningrad Region via acquisition of subsidiaries (Note 4), with a goal to generate additional operating cash inflows.
3) Negotiating with federal and regional governments and regulators on increases in tariffs to support adequate long-term investments into electricity transmission and distribution assets of the Group. In 2009 the average increase in transmission regulated tariffs was 28%.
4) Improving operating efficiency of the Group through implementation of programs to reduce technological losses on transmission of electricity through the Group's own network and operating expenses.
5) Implementing improved financial budgeting procedures with a strong focus on timely collection of receivables; restructuring of liabilities to enable their repayment over a longer period.
6) Negotiating favorable terms for attracting additional borrowings.

1. Corporate information (continued)

Financial position and liquidity (continued)

The above measures are expected to ensure cash inflows sufficient to finance operations in 2009, including refinancing of the short-term liability under the existing borrowings.

2. Basis of presentation of the financial statements

2.1 Basis of preparation

The consolidated financial statements comprise the financial statements of OJSC Lenenergo and its subsidiaries as at 31 December 2008. These financial statements are prepared based on the statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation, with adjustments and reclassifications recorded for the purpose of fair presentation of ending balances, results of operations and cash flows in accordance with IFRS.

These consolidated financial statements were prepared on historical cost convention, except for the following items: property, plant and equipment and assets under construction, derivative financial instruments, available-for-sale investments and financial assets at fair value through profit and loss – that were measured at fair value.

The consolidated financial statements are in Russian Rubles, with all amounts rounded to thousands, except where stated otherwise.

Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Going concern

The consolidated financial statements are prepared based on the assumption that the Group will continue as a going concern in the foreseeable future, and its assets will be recovered and liabilities met as they become due. The financial statements do not include any adjustments that would be necessary if the Group was unable to continue as a going concern.

Basis of consolidation

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as at the parent company, using consistent accounting policies. All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

Minority interests represent the portion of profit or loss and net assets that is not held by the Group and are presented separately in the consolidated income statement and within equity in the consolidated balance sheet, separately from parent shareholders' equity. Acquisitions of minority interests are accounted for using the entity concept method, whereby, the difference between the consideration and the book value of the share of the net assets acquired is recognised in equity.

2. Basis of presentation of the financial statements (continued)

2.2 Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Group has adopted the following new and amended IFRS and IFRIC interpretations as at 1 January 2008.

- IFRIC 12 *Service Concession Arrangements*
- IFRIC 14 *IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

The Group has also early adopted the following IFRS as at 1 January 2008.

- IFRS 2 *Share-Based Payment* (Revised) effective 1 January 2009

Adoption of these standards and interpretations did not have any effect on the financial performance or position of the Group.

IFRIC 12 Service Concession Arrangements

IFRIC Interpretation 12 was issued in November 2006 and became effective for annual periods beginning on or after 1 January 2008. This Interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. No member of the Group is an operator and hence this Interpretation will have no impact on the Group.

IFRIC 14 IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

IFRIC Interpretation 14 was issued in July 2007 and became effective for annual periods beginning on or after 1 January 2008. This Interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognized as an asset under IAS 19 Employee Benefits. The Group believes that this Interpretation does note have an impact on the financial position or performance of the Group as all defined benefit schemes are currently in deficit.

IFRS 2 Share-Based Payment (revised)

The IASB issued an amendment to IFRS 2 in January 2008 that clarifies the definition of a vesting condition and prescribes the treatment for an award that is effectively cancelled. The adoption of the revised IFRS 2 has no impact on the financial position or performance of the Group in the period of initial application, since it does not currently have share-based payment schemes with awards that are effectively cancelled.

2. Basis of presentation of the financial statements (continued)

2.3 Future changes in accounting policies

The Group has not applied the following IFRS and IFRIC Interpretations that have been issued but are not yet effective:

Standard / Interpretation	Essence of amendments	Effective date
IAS 1 (as amended in 2007) *Presentation of Financial Statements*	Separates change in shareholder's capital from other changes in equity. Statement of changes in equity will provide detail information only for operations with shareholders, while other changes in equity (income and expenses, recognized immediately in equity) will be recorded within the single line. Introduces new report for gross income, where both income and expenses lines recorded in P&L and income and expenses, recognized immediately in equity, should be recorded. Changes of income and expenses recognized immediately in equity can be presented in gross income report or in two separate reports: P&L and gross income report.	Applicable for annual reporting periods, starting on or after 1 January 2009.
IAS 23 (as amended in 2006) *Borrowing Costs*	Eliminates option of immediate expensing borrowing costs, attributable to assets with long period of time needed for preparing them for use or sale.	Applicable for annual reporting periods, starting on or after 1 January 2009.
Amendments to IAS 32 and IAS 1: *Puttable Financial Instruments and Obligations Arising on Liquidation*	Require some financial instruments and liabilities connected with liquidation to be classified as equity in some circumstances. Define disclosure for instruments with early repayment option and classified as equity.	Applicable for annual reporting periods, starting on or after 1 January 2009.
IFRS 3 (as amended in 2008) *Business Combinations*	Introduces several amendments for group of companies accounting. Those changes will influence amount of goodwill and financial results subject to reporting in acquisition period and further periods.	Applicable for annual reporting periods, starting on or after 1 July 2009.
IAS 27 (as amended in 2008) *Consolidated and Separate Financial Statements*	Requires treating change of share in subsidiary Group as equity operation. Amends treatment requirements for subsidiary losses and loss of control for subsidiary Group.	Applicable for annual reporting periods, starting on or after 1 July 2009.

2. Basis of presentation of the financial statements (continued)

2.3 Future changes in accounting policies (continued)

IFRIC 13 *Customer Loyalty Programmes*	Requires bonus terms provided for client loyalty support to be treated as separate component of trade transaction. Part of received consideration fair value is assigned to those bonus terms and transferred to future reporting period, until bonus terms will be fulfilled.	Applicable for annual reporting periods, starting on or after 1 July 2008.
IFRIC 15 *Agreements for the Construction of Real Estate*	Defined criteria for construction contracts and principles of revenue recognition to be accounted under IAS 11 Construction contracts and IAS 18 Revenue.	Applicable for annual reporting periods, starting on or after 1 January 2009.
IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*	Defines, for what risks, connected with foreign investments hedge accounting is acceptable and amends treatment rules for those operations	Applicable for annual reporting periods, starting on or after 1 October 2008.
IFRIC 17 *Distributions of Non-cash Assets to Owners*	Explains how non-cash assets are distributed between owners. Also considers situations, where Group provides option for receiving non-cash assets or their cash equivalent.	Applicable for annual reporting periods, starting on or after 1 July 2009.
IFRIC 18 *Transfers of Assets from Customers*	Explains circumstances, in which assets, transferred by clients should be recognized as Group's assets, and defines approaches for their valuation when initially recognized. Also considers situations, where client provides cash for purchase of those assets.	Applicable for annual reporting periods, starting on or after 1 July 2009.
Amendments for IAS 39 and IFRS 7 *Reclassification of Financial Assets*	Defines rules for reclassification of financial assets between different categories and requirements for disclosure for those reclassifications.	Applicable for annual reporting periods, starting on or after 1 July 2008.
IFRS annual improvement project	Project stipulates improvements eliminating inefficiency for several existing standards.	Effective dates are individual for every amendment approved

Improvements to IFRS

In May 2008 the Board issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. The Group has not yet adopted the following amendments and anticipates that these changes will have no material effect on the financial statements:

- IAS 1 *Presentation of Financial Statements*: Assets and liabilities classified as held for trading in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* are not automatically classified as current in the balance sheet.
- IAS 16 *Property, Plant and Equipment*: Replace the term 'net selling price' with 'fair value less costs to sell'.

2. Basis of presentation of the financial statements (continued)

2.3 Future changes in accounting policies (continued)

Improvements to IFRS (continued)

- IAS 23 *Borrowing Costs*: The definition of borrowing costs is revised to consolidate the two types of items that are considered components of 'borrowing costs' into one – the interest expense calculated using the effective interest rate method calculated in accordance with IAS 39.

- IAS 28 *Investment in Associates*: If an associate is accounted for at fair value in accordance with IAS 39, only the requirement of IAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loans applies.

- IAS 31 *Interest in Joint Ventures*: If a joint venture is accounted for at fair value, in accordance with IAS 39, only the requirements of IAS 31 to disclose the commitments of the venturer and the joint venture, as well as summary financial information about the assets, liabilities, income and expense will apply.

- IAS 36 *Impairment of Assets*: When discounted cash flows are used to estimate 'fair value less cost to sell' additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate 'value in use'.

- IAS 38 *Intangible Assets*: Expenditure on advertising and promotional activities is recognised as an expense when the company either has the right to access the goods or has received the service.

- IFRS 7 *Financial Instruments: Disclosures*: Removal of the reference to 'total interest income' as a component of finance costs.

- IAS 8 *Accounting Policies, Change in Accounting Estimates and Errors*: Clarification that only implementation guidance that is an integral part of an IFRS is mandatory when selecting accounting policies.

- IAS 10 *Events after the Reporting Period*: Clarification that dividends declared after the end of the reporting period are not obligations.

- IAS 16 *Property, Plant and Equipment*: Items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale.

- IAS 18 *Revenue*: Replacement of the term 'direct costs' with 'transaction costs' as defined in IAS 39.

- IAS 19 *Employee Benefits*: Revised the definition of 'past service costs', 'return on plan assets' and 'short term' and 'other long-term' employee benefits. Amendments to plans that result in a reduction in benefits related to future services are accounted for as curtailment. Deleted the reference to the recognition of contingent liabilities to ensure consistency with IAS 37.

- IAS 20 *Accounting for Government Grants and Disclosures of Government Assistance*: Loans granted in the future with no or low interest rates will not be exempt from the requirement to impute interest. The difference between the amount received and the discounted amount is accounted for as government grant. Also, revised various terms used to be consistent with other IFRS.

- IAS 27 *Consolidated and Separate Financial Statements*: When a parent entity accounts for a subsidiary at fair value in accordance with IAS 39 in its separate financial statements, this treatment continues when the subsidiary is subsequently classified as held for sale.

2. Basis of presentation of the financial statements (continued)

2.3 Future changes in accounting policies (continued)

Improvements to IFRS (continued)

- IAS 29 *Financial Reporting in Hyperinflationary Economies*: Revised the reference to the exception to measure assets and liabilities at historical cost, such that it notes property, plant and equipment as being an example, rather than implying that it is a definitive list. Also, revised various terms used to be consistent with other IFRS.

- IAS 34 *Interim Financial Reporting*: Earnings per share are disclosed in interim financial reports if an entity is within the scope of IAS 33.

- IAS 39 *Financial Instruments: Recognition and Measurement*: Changes in circumstances relating to derivatives are not reclassifications and therefore may be either removed from, or included in, the 'fair value through profit or loss' classification after initial recognition. Removed the reference in IAS 39 to a 'segment' when determining whether an instrument qualifies as a hedge. Require the use of the revised effective interest rate when remeasuring a debt instrument on the cessation of fair value hedge accounting.

- IAS 40 *Investment Property*: Revision of the scope such that property under construction or development for future use as an investment property is classified as investment property. If fair value cannot be reliably determined, the investment under construction will be measured at cost until such time as fair value can be determined or construction is complete. Also, revised of the conditions for a voluntary change in accounting policy to be consistent with IAS 8 and clarified that the carrying amount of investment property held under lease is the valuation obtained increased by any recognized liability.

- IAS 41 *Agriculture*: Removed the reference to the use of a pre-tax discount rate to determine fair value. Removed the prohibition to take into account cash flows resulting from any additional transformations when estimating fair value. Also, replaced of the term 'point-of-sale costs' with 'costs to sell'.

The Group is currently evaluating the impacts of adoption of the new standards and interpretations on its financial position and results of operations and will adopt these new standards and interpretations when they become effective.

2.4 Significant accounting judgments, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date and for the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. Actual results could differ from these estimates.

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments which have the most significant effect on the amounts recognised in the consolidated financial statements:

2. Basis of presentation of the financial statements (continued)

2.4 Significant accounting judgments, estimates and assumptions (continued)

Judgments (continued)

Accounting for connection fee revenue

Management believes that connection fee revenue (one-time fee charged to clients when first connected to power grid) is a necessary prerequisite to the sale of electricity, and, as such, should be recognised immediately at the time when access to electrical power is provided (i.e. at the time of connection). The total connection fee revenue reported in the income statement for the year ended 31 December 2008 was 5,670,549 (year ended 31 December 2007: 3,493,550) (Note 22).

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are disclosed below.

Useful life of intangible assets

The Group assesses the remaining useful life of intangible assets at least at each financial year-end. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS *8 Accounting Policies, Changes in Accounting Estimates and Errors.* These estimates may have a material impact on the amount of the carrying values of intangible assets and on amortization recognized in profit or loss.

Useful life of property, plant and equipment

The Group assesses the remaining useful lives of items of property, plant and equipment at least at each financial year-end. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. These estimates may have a material impact on the amount of the carrying values of property, plant and equipment and on depreciation recognized in profit or loss.

Revaluation of property, plant and equipment

The Group measures property, plant and equipment at revalued amounts in accordance with IAS 16 with changes in fair value being recognised in equity. See Note 6 for further details.

Impairment of non-financial assets

The determination of impairment involves the use of estimates that include, but are not limited to, the cause, timing and amount of the impairment. Impairment is based on a large number of factors, such as changes in current competitive conditions, expectations of growth in the industry, increased cost of capital, changes in the future availability of financing, technological obsolescence, discontinuance of service, current replacement costs and other changes in circumstances that indicate impairment exists. The determination of the recoverable amount of a cash-generating unit involves the use of estimates by management. Methods used to determine the value in use include discounted cash flow-based methods, which require the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. These estimates, including the methodologies used, may have a material impact on the fair value and ultimately the amount of any property, plant and equipment and intangible assets' impairment.

2. Basis of presentation of the financial statements (continued)

2.4 Significant accounting judgments, estimates and assumptions (continued)

Estimates and assumptions (continued)

Fair value of available-for-sale financial assets

The Group classifies certain assets as available-for-sale and recognises movements in their fair value in equity. Where the fair value of financial assets and financial liabilities recorded in the balance sheet cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Fair values of assets and liabilities acquired in business combinations

The Group is required to recognize separately, at the acquisition date, the identifiable assets, liabilities and contingent liabilities acquired or assumed in the business combination at their fair values, which involves estimates. Such estimates are based on valuation techniques, which require considerable judgment in forecasting future cash flows and developing other assumptions.

Impairment provision for accounts receivable and advances given

The Group estimates the amount of impairment provision for its receivables. Significant judgment is used to estimate accounts which are impaired. In estimating doubtful accounts historical and anticipated customer performance are considered. Changes in the economy, industry, or specific customer conditions may require adjustments to the impairment provision for accounts receivable recorded in the consolidated financial statements. As at 31 December 2008 impairment provision for accounts receivable was created in the amount of 892,629 (as at 31 December 2007: 720,020). See Note 14 for further details.

Deferred tax assets

Deferred tax assets are recognized to the extent that it is probable to generate sufficient taxable income against which the deductible temporary differences can be utilized. Various factors are used to assess the probability of the future utilization of deferred tax assets, including past operating results, operational plan, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from these estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows of the Group may be negatively affected. In the event that an assessment of future utilization indicates that the carrying amount of deferred tax assets must be reduced, this reduction is recognized in profit or loss. See Note 26 for further details.

Pension and other post employment benefits

The cost of defined benefit pension plans is determined using actuarial valuations. The actuarial valuation involves making assumptions about mortality, both during and after employment, rates of employee turnover, discount rate, future salary and benefit levels and, to a limited extent, expected return on plan assets. In the event that further changes in the key assumptions are required, the future amounts of the pension benefit costs may be affected materially. The net employee liability under the defined benefit pension plans as at 31 December 2008 was 308,313 (2007: 277,413). See Note 17 for further details.

2. Basis of presentation of the financial statements (continued)

2.4 Significant accounting judgments, estimates and assumptions (continued)

Estimates and assumptions (continued)

Equity-settled share-based payment transactions

The Group treats the transfers of an entity's equity instruments by its shareholders to parties that have supplied goods or services to the entity (including employees) as share-based payment transactions, unless the transfer is clearly for a purpose other than payment for goods or services supplied to the entity. The Group recognizes the goods or services received or acquired in a share-based payment transaction when it obtains the goods or as the services are received. The Group recognizes a corresponding increase in equity if the goods or services were received in an equity-settled share-based payment transaction or a liability if the goods or services were acquired in a cash-settled share-based payment transaction. The Group measures the goods or services received and the corresponding increase in equity at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. The estimation of the fair value requires significant judgement to be applied.

In 2008 the Group completed the placement of shares which commenced in November 2007 and received property, plant and equipment as a part of consideration for the shares issued (Note 15). The Group recorded property, plant and equipment and related increase in equity based on an independent appraisal of the fair value of the transferred assets which were assessed as 2,737,385.

2.5 Summary of significant accounting policies

Business combinations and goodwill

Business combinations are accounted for using the purchase method. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are measured initially at fair values at the date of acquisition, irrespective of the extent of any minority interest.

Goodwill is initially measured at cost being the excess of the cost of the business combination over the Group's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. In 2008 and 2007 the whole Group was considered as a single cash generating unit – OJSC Lenenergo.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained. When the Group acquires a business, embedded derivatives separated from the host contract by the acquiree are not reassessed on acquisition unless the business combination results in a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

2. Basis of presentation of the financial statements (continued)

2.5 Summary of significant accounting policies (continued)

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the income statement in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised on a straight-line basis over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are not amortised, but tested for impairment annually either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

The expected useful lives by asset groups, in years, are as follows:

Asset group	Useful life
Accounting software packages	2-3
Certificates	3

2. Basis of presentation of the financial statements (continued)

2.5 Summary of significant accounting policies (continued)

Property, plant and equipment

The Group uses revaluation model prescribed by IAS 16 *Property, Plant and Equipment* recognising the net book value of property, plant and equipment and construction in progress. Property, plant and equipment is stated at a revalued amount, which is their fair value as at the revaluation date less subsequent accumulated depreciation and subsequent accumulated impairment losses.

Any revaluation surplus is credited to the assets revaluation reserve included in the equity section of the balance sheet, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the income statement, in which case the increase is recognised in the income statement. A revaluation deficit is recognised in the income statement, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

The revaluation surplus included in equity in respect of an item of property, plant and equipment may be transferred directly to retained earnings when the asset is derecognised. This involves transferring the whole of the surplus when the asset is retired or disposed of. However, some of the surplus may be transferred as the asset is used by an entity. In such a case, the amount of the surplus transferred would be the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Transfers from revaluation surplus to retained earnings are not made through profit or loss.

Major renewals and improvements are capitalized, and the assets replaced are retired. Expenditure for routine repairs and maintenance are charged to the income statement as incurred. Profits and losses arising as a result of retirement of property, plant and equipment are immediately recognised in the income statement.

Construction in progress reflects the net book value of property, plant and equipment items not yet put in operation, and as such, is not depreciated.

Expenditures related to the construction or acquisition of social assets are not capitalized as the Group does not expect to receive any future economic benefits from them.

Property, plant and equipment depreciation is calculated on a straight-line basis over the estimated useful life of the asset from the date it is put in operation. For revalued property, plant and equipment, depreciation rates are based on their estimated remaining useful lives as at the valuation date. The estimated useful lives by asset groups, in years, are as follows:

Asset group	Useful life
Production premises	40-50
Power lines	30-40
Equipment, power equipment, sub-stations	25-40
Other	10

The useful lives and residual value of assets and methods are reviewed at each financial year-end and, if expectations differ from previous estimates, the changes are accounted for prospectively.

2. Basis of presentation of the financial statements (continued)

2.5 Summary of significant accounting policies (continued)

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

For arrangements entered into prior to 1 January 2005, the date of inception is deemed to be 1 January 2005 in accordance with the transitional requirements of IFRIC 4.

Group as a lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected in profit or loss. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in profit or loss on a straight line basis over the lease term.

Group as a lessor

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

Impairment losses of continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset, except for property previously revalued where the revaluation was taken to equity. In this case the impairment is also recognised in equity up to the amount of any previous revaluation.

2. Basis of presentation of the financial statements (continued)

2.5 Summary of significant accounting policies (continued)

Impairment of non-financial assets (continued)

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount.

A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

The following criteria are also applied in assessing impairment of specific assets:

Goodwill

Goodwill is tested for impairment annually as at 31 December and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than their carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods. No impairment of goodwill was recognised in 2008.

Intangible assets

Intangible assets with indefinite useful lives are tested for impairment annually as at 31 December either individually or at the cash generating unit level, as appropriate and when circumstances indicate that the carrying value may be impaired.

Financial assets

Initial recognition

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

Financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way purchases) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

The Group's financial assets include cash and short-term deposits, trade and other receivables, loan and other receivables, quoted and unquoted financial instruments, and derivative financial instruments.

2. Basis of presentation of the financial statements (continued)

2.5 Summary of significant accounting policies (continued)

Financial assets (continued)

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term.

This category includes derivative financial instruments entered into by the Group that do not meet the hedge accounting criteria as defined by IAS 39 (Note 13). Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit and loss are carried in the balance sheet at fair value with gains or losses recognised in the income statement.

Derivatives embedded in host contracts are accounted for as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value. These embedded derivatives are measured at fair value with gains or losses arising from changes in fair value recognised in the income statement. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such financial assets are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in the consolidated income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

The Group has the following categories of assets classified as loans and receivables: accounts receivable (Note 11) and other current assets with respect to short-term bank deposits and promissory notes (Note 13).

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold it to maturity. After initial measurement held-to-maturity investments are measured at amortised cost using the effective interest method. This method uses an effective interest rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset. Gains and losses are recognised in the consolidated income statement when the investments are derecognised or impaired, as well as through the amortisation process. The Group did not have any held-to-maturity investments during the years ended 31 December 2008 and 2007.

2. Basis of presentation of the financial statements (continued)

2.5 Summary of significant accounting policies (continued)

Financial assets (continued)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial measurement, available-for-sale financial assets are measured at fair value with unrealised gains or losses recognised directly in equity until the investment is derecognised, at which time the cumulative gain or loss recorded in equity is recognised in the income statement, or determined to be impaired, at which time the cumulative loss recorded in equity is recognised in the income statement. As at 31 December 2008 the Group holds available-for-sale investments with fair value of 304,533 (31 December 2007: 713,200).

Financial liabilities

Initial recognition

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

Financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings, financial guarantee contracts and derivative financial instruments.

Subsequent measurument

The measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that do not meet the hedge accounting criteria as defined by IAS 39. Gains or losses on liabilities held for trading are recognised in the income statement. The Group has not designated any financial liabilities as at fair value through profit or loss.

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

2. Basis of presentation of the financial statements (continued)

2.5 Summary of significant accounting policies (continued)

Financial liabilities (continued)

Initial recognition (continued)

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the balance sheet date and the amount recognised less cumulative amortisation.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated balance sheet if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

Amortised cost of financial instruments

Amortised cost is computed using the effective interest method less any allowance for impairment and principal repayment or reduction. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2. Basis of presentation of the financial statements (continued)

2.5 Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

The Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is recognised in the income statement.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

For available-for-sale financial investments, the Group assesses at each balance sheet date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from equity and recognised in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognised directly in equity.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded as part of 'Interest and similar income'. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

2. Basis of presentation of the financial statements (continued)

2.5 Summary of significant accounting policies (continued)

Derecognition of financial instruments

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, a new asset is recognised to the extent of the Group's continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset, is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

When continuing involvement takes the form of a written and/or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

Derivative financial instruments

Initial recognition and subsequent measurement

The Group uses derivative financial instruments such as currency swap contracts and interest rate swaps to hedge its foreign market risks and interest rate risks respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives during the year that do not qualify for hedge accounting and the ineffective portion of an effective hedge, are taken directly to the income statement.

2. Basis of presentation of the financial statements (continued)

2.5 Summary of significant accounting policies (continued)

Derivative financial instruments (continued)

Initial recognition and subsequent measurement (continued)

For the years ended 31 December 2008 and 2007 the Group did not have any derivatives designated as hedging instruments. Gains of 1,887,531 (2007: 4,323) (Note 24) related to the change in the fair value of the interest rate and currency swap contract were included in finance income in the income statement, for the year, ended 31 December 2008 and 2007, respectively.

Inventories

Inventories are valued at the lower of net realisable value or FIFO. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale. If there is an indication that inventories may be impaired (obsolescence or severe wear and tear) an impairment provision is created. As at 31 December 2008 and 2007 the Group recognized an impairment provision of 42,431 and 54,427 respectively.

Cash and cash equivalents

Cash and short term deposits in the balance sheet comprise cash at banks and on hand and short-term deposits with original maturity of three months or less.

Pensions and other post-employment benefit plans

In the normal course of business the Group contributes to the Russian Federation state pension scheme on behalf of its employees. Mandatory contributions to the governmental pension scheme are expensed when incurred. Discretionary pensions and other post-employment benefits are included in labour costs in the income statement.

The Group operates defined benefit and defined contribution pension plans (five year period onward). The defined benefit plans involve post-employment payments based upon one or more factors, such as age, years with the Group and salary. The liability recognized on the balance sheet in connection with the pension plan is the discounted value of the defined benefit liability less the fair value of the plan assets, including adjustments related to unrecognized actuarial gains and losses.

Liabilities under the defined benefit plans are determined using the projected unit credit actuarial valuation method. The present value of liabilities under the defined benefit plans is determined by discounting the future estimated cash outflows using actuarial method.

Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses for each individual plan at the end of the previous reporting year exceeded 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plans.

2. Basis of presentation of the financial statements (continued)

2.5 Summary of significant accounting policies (continued)

Pensions and other post-employment benefit plans (continued)

Other long-term benefits include:

- current/retired employee death benefit
- funeral benefit
- jubilee benefit
- occasional financial aid to retired employees
- one-time retirement bonus

The Group applies a simplified accounting treatment to other long-term benefits. Under simplified method the actuarial gains and losses are recognized immediately, and so is the cost of past services.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in profit or loss net of any reimbursement.

Provisions are assessed by calculating the discounting expected future cash flows using the pre-tax rate that reflects their estimated present value taking into account changes due to passage of time and risks specific to the liability.

Borrowing costs

Borrowing costs are recognised as an expense when incurred.

Foreign currency translation

The Group's consolidated financial statements are presented in rubles, which is the Group's functional currency, being the currency of the primary economic environment in which the Group operates. Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rate of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when fair value is determined.

Monetary assets and liabilities expressed in foreign currencies are reported in the amounts calculated using the official ruble exchange rate prevailing at 31 December 2008, i.e. 29.3804 Rubles for 1 USD and 41.4411 Rubles for 1 Euro (31 December 2007: 24.5462 Rubles for 1 USD and 35.9332 Rubles for 1 Euro).

2. Basis of presentation of the financial statements (continued)

2.5 Summary of significant accounting policies (continued)

Revenue recognition

Revenue is recognized by type of activity. Revenue is recognized when the services are rendered (work is performed) and is reported in the income statement net of value added tax, discounts and similar mandatory payments.

The Group has two major types of revenues:

- Network transmission of electricity, and
- Technological connection to electricity grids

The Group charges all its customers (wholesale or retail sellers of electricity) for actual electricity network transmission traffic based on pre-set per kW tariffs regulated by the St.-Petersburg Tariffs Committee and Leningrad Region Tariffs and Pricing Policy Committee. Technological losses of electricity in transmission though the Group's network include losses at the normal expected level (Note 22) and losses in excess of the normal expected level (Note 23). Revenue from network transmission of electricity is presented net of technological losses at the normal expected level. Technological losses in excess of the normal expected level are included into operating expenses (Note 23).

Technological connection fees are recognised as revenues immediately at the time when access to electrical power is provided (i.e. at the time of connection) as they do not result in the Group's obligation to provide further services to the customers that are consumers of electricity and are separate from network transmission services provided to the sellers of electricity.

Taxes

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date. Current income tax relating to items recognized directly in equity is recognized in equity and not in profit or loss. Income tax rate enacted for 2008 and 2007 was 24%. Starting from 1 January 2009 the Russian Government changed the income tax rate to 20%.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2. Basis of presentation of the financial statements (continued)

2.5 Summary of significant accounting policies (continued)

Taxes (continued)

Deferred income tax (continued)

Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in profit or loss.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets.

Dividends

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

Earnings per share

IAS 33 *Earnings per share*, as revised, requires the application of the "two-class method" to determine earnings applicable to ordinary shareholders, the amount of which is used as a nominator to calculate earnings per ordinary share. The application of the "two-class method" requires that the profit or loss after deducting preferred dividends is allocated to ordinary shares and other participating equity instruments to the extent that each instrument shares in earnings as if all of the profit or loss for the period had been distributed. The total profit or loss allocated to each class of equity instrument is determined by adding together the amount allocated for dividends and the amount allocated for a participation feature.

2. Basis of presentation of the financial statements (continued)

2.5 Summary of significant accounting policies (continued)

Earnings per share (continued)

Preference shares are treated as voting shares. See Note 15 for further details. Earnings per share are calculated by dividing profit attributable to ordinary and preference shareholders by the weighted average number of ordinary and preference shares outstanding during the period less weighted average number of treasury shares held by the Group.

3. Correction of errors and reclassifications

In the course of preparation of the financial statements as at and for the year ended 31 December 2008, the Group identified errors related to the financial information for the prior periods. The errors related to 2007 and previous years were corrected by restating of the comparative information for the year ended 31 December 2007 or, when the error occurred before the year ended 31 December 2007, by restating the balances of assets, liabilities and retained earnings as at 31 December 2006.

a) As at 31 December 2007 and 2006 the Group erroneously reported available-for-sale investments in the amount of 384,494 at their cost instead of stating them at fair value as required by IAS 39 *Financial Instruments: Recognition and Measurement*. The fair value of available-for-sale investments as at 1 January 2007 and 31 December 2007 comprised 566,400 and 713,200, respectively. As a result, the carrying value of available-for-sale investments was understated by 181,906 and 328,706 and the unrealized gain reported in other reserves was understated by 138,249 and 249,817, net of corresponding deferred tax liability of 43,657 and 78,889 as at 1 January 2007 and 31 December 2007, respectively (Note 26).

b) The Group incorrectly accounted for the decrease in the carrying value of property, plant and equipment as a result of the revaluation in 2006. The decrease in the carrying value of property, plant and equipment for the amount of 3,065,530, net of deferred tax of 968,061, was erroneously debited to the asset revaluation reserve instead of including this amount of decrease in the income statement for the year ended 31 December 2006. As a result, the retained earnings were overstated and asset revaluation reserve was understated by the amount of 3,065,530 (Note 15).

3. Correction of errors and reclassifications (continued)

Certain prior year amounts and disclosures have been reclassified to conform to the current year presentation. The reclassifications and other presentation changes made by the Group are as follows:

c) Fair value of derivative instrument (swap contract) of 4,323 as at 31 December 2007 was shown separately from other current assets, where it was previously reported (Note 13). Change in fair value of swap of 4,323 was shown separately from foreign exchange loss (previously reported in finance expense) for the year ended 31 December 2007 (Note 24).

d) Foreign exchange loss of 9,182 was presented separately from finance expenses for the year ended 31 December 2007.

e) Expenses of 59,727 related to utilities expenses for the year ended 31 December 2007 were shown separately from other operating expenses (Note 23).

f) Interest expense of 38,228 related to interest expense on finance lease for the year ended 31 December 2007 was shown separately from interest expense (Note 25).

Effects of correction of the above errors and reclassifications on financial statements for 2007 are summarized in the tables below:

	As previously reported	(a)	(b)	Total adjustments	As Restated
Consolidated Balance Sheet as at 31 December 2007					
Available-for-sale investments	384,494	328,706	-	328,706	713,200
Other reserves, net of tax	(1,871,688)	(249,817)	(3,065,530)	(3,315,347)	(5,187,035)
Retained earnings	(4,626,232)	-	3,065,530	3,065,530	(1,560,702)
Deferred tax assets	8,401	(8,401)	-	(8,401)	-
Deferred tax liabilities	-	(70,488)	-	(70,488)	(70,488)

	As previously reported	(a)	(b)	Total adjustments	As restated
Consolidated Statement of Changes in Equity for the year ended 31 December 2007					
As at 1 January 2007					
Other reserves, net of tax	1,885,820	138,249	3,065,530	3,203,779	5,089,599
Retained earnings	3,369,278	-	(3,065,530)	(3,065,530)	303,748
Total equity as at 1 January 2007	10,512,648	138,249	-	138,249	10,650,897
As at 31 December 2007					
Other reserves, net of tax	1,871,688	249,817	3,065,530	3,315,347	5,187,035
Retained earnings	4,626,232	-	(3,065,530)	(3,065,530)	1,560,702
Total equity as at 31 December 2007	11,755,470	249,817	-	249,817	12,005,287

	As previously reported	(c)	(d)	Total adjustments	As restated
Consolidated Income Statement for the year ended 31 December 2007					
Finance income	109,298	4,323	-	4,323	113,621
Foreign exchange loss	-	-	(9,182)	(9,182)	(9,182)
Finance expenses	(603,322)	(4,323)	9,182	4,859	(598,463)

4. Business combinations and acquisition of minority interests

Acquisition of OJSC Tsarskoselskaya Energeticheskaya Compania

On 22 September 2008, as a part of the business strategy to expand its activities in Leningrad Region, the Group acquired 96.955% of the voting shares of OJSC Tsarskoselskaya Energeticheskaya Compania (hereinafter referred to as "OJSC TEC"), that is engaged in the same business activities as the Group. The difference between cash consideration paid of 543,083 and fair value of the interest acquired of 230,250, was recognised as goodwill, which is attributable to the expected synergies arising from the acquisition.

The Group accounted for the acquisition of OJSC TEC applying the purchase method, in accordance with provisions of IFRS 3 *Business Combinations*. The results of operations and financial position of OJSC TEC were consolidated by the Group starting from 22 September 2008.

The following table summarizes the fair values of identifiable net assets of OJSC TEC acquired as at the acquisition date:

	Fair value recognised at acquisition
Property, plant and equipment	279,281
Inventories	15,906
Trade receivables	79,666
Cash and cash equivalents	70,450
Trade payables	(185,309)
Deferred tax liability	(22,512)
Net assets	**237,482**
Minority interest (3.045%)	(7,232)
Net assets acquired	**230,250**
Goodwill arising on acquisition	312,833
Total consideration	**543,083**

The disclosure of carrying values of assets, liabilities and contingencies of OJSC TEC in accordance with IFRS, immediately before the business combination, is impracticable as OJSC TEC had not been an IFRS reporter.

Cash outflow on acquisition was as follows:

Net cash acquired with the subsidiary	70,450
Cash paid	(543,083)
Net cash outflow	**(472,633)**

From the date of acquisition, OJSC TEC has contributed 32,521 to the profit of the Group for 2008. If the combination had taken place at the beginning of the year, the profit for the year from continuing operations for the Group would have been 1,850,333 and revenue from continuing operations would have been 17,875,726.

4. Business combinations and acquisition of minority interests (continued)

Acquisition of OJSC Kurortenergo

On 17 November 2008, as a part of the business strategy to expand its activities in Leningrad Region the Group acquired 92.565% of the voting shares of OJSC Kurortenergo that is engaged in the same business activities as the Group.

The Group accounted for the acquisition of OJSC Kurortenergo applying the purchase method, in accordance with provisions of IFRS 3 *Business Combinations*. The results of operations and financial position of OJSC Kurortenergo were consolidated by the Group starting from 17 November 2008.

The following table summarizes the fair values of identifiable net assets of OJSC Kurortenergo as at the acquisition date:

	Fair value recognised at acquisition
Property, plant and equipment	468,758
Inventories	25,487
Trade receivables	149,370
Cash and cash equivalents	25,562
Trade payables	(263,687)
Short-term borrowings	(22,000)
Deferred tax liability	(8,607)
Net assets	**374,883**
Minority interest (7.435%)	(27,874)
Total net assets acquired	**347,009**
Excess of net assets acquired over consideration paid	(9)
Total consideration	**347,000**

The excess of net assets acquired over consideration paid of 9 was recognized in the income statement.

Cash outflow on acquisition was as follows:

Net cash acquired with the subsidiary	25,562
Cash paid	(347,000)
Net cash outflow	**(321,438)**

From the date of acquisition, OJSC Kurortenergo has contributed 50,191 to the profit of the Group for 2008. If the combination had taken place at the beginning of the year, the profit for the year from continuing operations for the Group would have been 1,881,276 and revenue from continuing operations would have been 17,946,099.

5. Intangible assets

	Accounting software	Certificates	Goodwill	Total
Cost				
Balance as at 31 December 2007	130,480	74,465	-	204,945
Additions for the period	138,960	14,176	-	153,136
Acquisition of subsidiaries (Note 4)	-	-	312,833	312,833
Balance as at 31 December 2008	**269,440**	**88,641**	**312,833**	**670,914**
Amortization and impairment				
Balance as at 31 December 2007	(10,650)	(12,230)	-	(22,880)
Charge for the period	(54,481)	(23,399)	-	(77,880)
Balance as at 31 December 2008	**(65,131)**	**(35,629)**	-	**(100,760)**
Net book value				
31 December 2007	**119,830**	**62,235**	-	**182,065**
31 December 2008	**204,309**	**53,012**	**312,833**	**570,154**

Certificates are acquired for the purposes of conformity with the electricity quality standards. The certificates are valid until 2010.

6. Property, plant and equipment

	Production premises	Power lines	Equipment, power equipment, sub-stations	Other	Assets under construction	Total
Cost						
As at 1 January 2007	2,864,241	18,710,051	4,184,870	5,559,008	3,264,025	34,582,195
Additions	11,966	4,801	1,224,522	12,544	8,649,983	9,903,816
Disposals	(2,669)	(3,789)	(18,876)	(352,446)	(35,680)	(413,460)
Transfer	118,475	1,369,813	1,494,474	860,468	(3,843,230)	-
As at 31 December 2007	**2,992,013**	**20,080,876**	**6,884,990**	**6,079,574**	**8,035,098**	**44,072,551**
Additions	57	34,064	1,355,204	5,405	11,288,910	12,683,640
Additions due to contribution to charter capital	1,948,500	139,981	618,884	30,020	-	2,737,385
Additions due to acquisition of subsidiaries	35,035	386,088	151,968	46,480	128,468	748,039
Disposals	(12,230)	(3,736)	(4,797)	(68,686)	(109,194)	(198,643)
Revaluation	4,176,454	35,859,600	8,345,579	2,267,185	2,181,071	52,829,889
Transfer	3,255,930	909,306	2,386,592	460,751	(7,012,579)	-
As at 31 December 2008	**12,395,759**	**57,406,179**	**19,738,420**	**8,820,729**	**14,511,774**	**112,872,861**
Accumulated depreciation						
As at 1 January 2007	**(1,126,901)**	**(9,767,764)**	**(2,031,458)**	**(5,243,074)**	**(1,892,139)**	**(20,061,336)**
Charge for the year	(92,455)	(679,637)	(222,647)	(110,085)	-	**(1,104,824)**
Disposals	1,127	2,078	10,446	332,393	-	**346,044**
Transfer	4,164	249	353	(4,766)	-	-
As at 31 December 2007	**(1,214,065)**	**(10,445,074)**	**(2,243,306)**	**(5,025,532)**	**(1,892,139)**	**(20,820,116)**
Charge for the year	(137,541)	(796,976)	(554,018)	(213,517)	-	(1,702,052)
Disposals	1,164	1,994	2,712	62,005	-	67,875
Revaluation	(687,660)	(19,066,791)	(2,623,335)	(1,804,990)	-	(24,182,776)
As at 31 December 2008	**(2,038,102)**	**(30,306,847)**	**(5,417,947)**	**(6,982,034)**	**(1,892,139)**	**(46,637,069)**
Net book value as at 31 December 2007	**1,777,948**	**9,635,802**	**4,641,684**	**1,054,042**	**6,142,959**	**23,252,435**
Net book value as at 31 December 2008	**10,357,657**	**27,099,332**	**14,320,473**	**1,838,695**	**12,619,635**	**66,235,792**

Revaluation

The effect of revaluation as at 31 December 2008 was accounted for as follows:

	Production premises	Power lines	Equipment, power equipment, sub-stations	Other	Assets under construction	Total
Impairment recognized in income statement	(839,650)	(727,989)	(1,527,055)	(309,285)	(719,742)	(4,123,721)
Reversal of impairment previously recognized in income statement	443,050	1,972,693	752,776	542	156,752	3,325,813
Revaluation recognized within equity	4,095,520	15,804,028	6,528,613	795,132	2,744,061	29,967,354
Reversal of revaluation previously recognized within equity	(210,126)	(255,923)	(32,090)	(24,194)	-	(522,333)
Total	**3,488,794**	**16,792,809**	**5,722,244**	**462,195**	**2,181,071**	**28,647,113**

6. Property, plant and equipment (continued)

Revaluation (continued)

Property, plant and equipment were revalued to fair value as at 31 December 2008. The revaluation was performed based on the reports of independent appraisers with a recognised and relevant professional qualification and recent experience in valuation of assets of similar location and category. Fair values were estimated using appropriate valuation techniques using the following methodology and assumptions:

- An income method was applied, using discounted cash flows projections, which resulted in the total fair value of 66,235,792. This value was then apportioned between the individual items of property, plant and equipment prorata on the basis of their depreciated replacement cost;
- The following methods of the calculation of revenue of the Group were applied: up to the year 2009, application of 'cost plus' method; from 2010 and onwards – application of the method of economically reasonable rate on return (ROR);
- The following assumptions have been used by the Group in performing the revaluation:

	2009	2010-2011	2012-2013	2014-2020
Transmission revenue tariff increase, %	-	29%-34%	20%-25%	2%-8%
Transmission volume increase, %	(0.4%)-(2.9%)	0.4%-1.7%	0.1%-0.5%	0%-0.5%
Normal network technological losses, %	12.9%-13.5%	12.3%-12.4%	12.3%-12.4%	12.3%-12.4%
Weighted average cost of capital (WACC)	15.9%	13%-14.5%	11.5%	11.5%

As a result of the revaluation, 29,445,021 was credited to the fair value reserve as at 31 December 2008 (Note 15), while 797,908 was charged to the income statement for 2008 as an impairment loss (Note 23).

As at 31 December 2008 and 2007 the net book value of property, plant and equipment received under finance lease contracts was as follows:

	Power equipment	Vehicles	Total
Cost	1,276,745	34,828	1,311,573
Accumulated depreciation	(4,718)	(11,208)	(15,926)
Net book value as at 31 December 2007	**1,272,027**	**23,620**	**1,295,647**
Cost	2,603,585	34,828	2,638,413
Accumulated depreciation	(82,900)	(22,818)	(105,718)
Net book value as at 31 December 2008	**2,520,685**	**12,010**	**2,532,695**

Property, plant and equipment under finance lease were pledged as security for the respective finance lease agreements.

Acquisitions under finance leases of 1,326,840 (2007: 1,232,598) have been excluded from the consolidated cash flow statement, so investing activities in the consolidated cash flow statement represent actual cash transactions.

7. Advances for construction of property, plant and equipment

Advances of 5,025,306 paid to construction contractors (31 December 2007: 3,915,529) are stated net of an impairment provision of 110,805 (31 December 2007: 64,261). Movements in the provision for impairment of advances to construction are disclosed in Note 14.

8. Available-for-sale investments

	% Shareholding	31 December 2008	31 December 2007 (as restated)	31 December 2007
OJSC Petersburg Sales Company	**12.5%**	**196,000**	284,000	52,520
OJSC FSK UES	**0.051%**	**71,700**	-	-
OJSC Peterburgskie Magistralnye Seti	-	-	394,000	282,656
OJSC North-West Energy Management Company	**12.5%**	**36,700**	35,200	49,318
Other	-	**133**	-	-
Total		**304,533**	713,200	384,494

In July 2008, in the course of restructuring, ordinary and preference shares of OJSC Peterburgskie Magistralnye Seti held by the Group (comprising 12.5% of ownership) were converted into shares of OJSC Federalnaya setevaya compania UES (hereinafter – "OJSC FSC UES"), comprising 0.051% of ownership.

As referred to above in the Note 3, in 2008 the Group assessed fair value of available-for-sale investments as at 1 January 2007, 31 December 2007 and 2008 and restated comparative information for 2007.

The fair value of the quoted ordinary shares (OJSC FSK UES) was determined by the reference to published price quotations in an active market.

The fair value of the unquoted ordinary and preference shares was estimated using either guidelines-company method using industry multiplicators within market approach (for OJSC Petersburg Sales Company) or income method (for OJSC Peterburgskie Magistralnye Seti and OJSC North-West Energy Management Company) using the following rates of weighted-average cost of capital:

	2008, %	2009 – 2017, %
OJSC Peterburgskie Magistralnye Seti	**12.8**	12.5 – 13.9
OJSC North-West Energy Management Company	**18.2**	16.9 – 18.5

9. Other non-current assets

	31 December 2008	31 December 2007
VAT recoverable after more than 12 months	**810,632**	568,860
Other non-current assets	**76,794**	7,291
Total	**887,426**	576,151

10. Cash and cash equivalents

	31 December 2008	31 December 2007
Bank deposits reclaimable on demand – RR	**1,673,179**	5,000,000
Bank accounts and cash in hand – RR	**406,671**	903,078
Promissory notes	**419,000**	-
Total	**2,498,850**	5,903,078

As at 31 December 2008 the Group had open deposit agreements with a number of banks bearing an interest at 4-10 % p.a. if the Group maintains minimum cash balances. Interest receivable as at 31 December 2008 included in finance income (Note 24) comprised 346,970 (2007: 60,717).

Promissory notes have been issued by banks and have original maturity of less than 3 months.

Current bank accounts do not bear interest.

11. Accounts receivable

	31 December 2008	31 December 2007
Trade receivables net of impairment provision of 631,427 (2007: 505,537)	**1,035,210**	922,589
Other accounts receivable net of impairment provision of 63,533 (2007: 39,331)	**174,126**	94,904
Total	**1,209,336**	1,017,493

Management determined the provision for impairment of receivables based on specific customer solvency, industry-specific payment trends, subsequent receipts and settlements and analysis of expected future cash flows. The Group analyses the ability of debtors to fulfill the payment obligation on a regualar basis and creates provision for impairment that represents the estimate of potential losses in respect of trade and other receivables (Note 14). The components of this provision are a specific provision for individual losses. Management believes that the Group will be able to realise the net receivable amount through direct collections and non-cash settlements, and therefore the recorded value approximates their fair value. Movements in the provision for impairment of accounts receivable are disclosed in Note 14.

For trade and other receivables which are neither past due nor impaired at the balance sheet date, no information is available to indicate that the debtors may default on their obligations, as the Group monitors debtors on an ongoing basis and periodically reconciles receivable balances. Trade and other receivables bear no interest and are generally repaid within a calendar year.

11. Accounts receivable (continued)

As at 31 December 2008 and 2007, the ageing analysis of trade receivables is as follows:

	31 December 2008			31 December 2007		
	Total	**Neither past due nor impaired**	**Past due not impaired**	**Total**	**Neither past due nor impaired**	**Past due not impaired**
Trade receivables (electricity transmission services)	**797,639**	511,623	286,016	375,788	375,788	-
Trade receivables (technological connection services)	**237,571**	204,743	32,828	250,264	250,264	-
State exemptions	-	-	-	296,537	-	296,537
Total trade accounts receivable	**1,035,210**	**716,366**	**318,844**	922,589	626,052	296,537
Other accounts receivable	**174,126**	**174,126**	-	94,904	94,904	-

As at 31 December 2008 the amounts which are past due but not impaired mainly represent receivables from electricity transmission customets who have failed to make a payment when contractually due.

As at 31 December 2007 past due but not impaired receivables of 296,537 represented compensations due from the state authorities for the tariff exemptions provided by the Group to residents of St.Petersburg and Leningrad Region in the period from 1 January 2002 to 1 October 2005. In 2008 291,475 out of this amount was repaid by state authorities. The remaining balance of 5,062 was fully provided for as at 31 December 2008, since the Group estimates the probability of its settlement as low.

12. Inventories, net of impairment

	31 December 2008	**31 December 2007**
Materials	**112,949**	107,064
Spare parts	**79,795**	62,656
Uniform	**15,336**	25,550
Tools	**9,100**	20,288
Goods for resale	**6,145**	-
Other inventories	**12,159**	2,365
Total	**235,484**	217,923

Inventories are stated net of impairment of 158,654 as at 31 December 2008 (as at 31 December 2007: 116,223).

13. Other current assets

	31 December 2008	31 December 2007 (as restated)	31 December 2007
VAT receivable net of impairment provision of 65,154 (2007: 76,953)	**3,109,880**	1,502,392	1,502,392
Prepayments and advances given to suppliers net of impairment provision of 21,710 (2007: 33,938)	**1,094,070**	1,298,565	1,298,565
Fair value of the derivative instrument	**1,891,854**	4,323	-
Promissory notes	**243,159**	-	-
Short-term bank deposit	**40,000**	-	-
Income tax and other taxes receivable	**6,701**	16,279	16,279
Other current assets	**1,983**	2,281	6,604
Total	**6,387,647**	2,823,840	2,823,840

Fair value of the derivative instrument (swap contract) is calculated by discounting future cash flows determined by conditions and payments schedule of the swap agreement using forward rates of similar instruments at the reporting date (Note 16). Change in fair value of the swap contract for the year ended 31 December 2008 is included in finance income (Note 24).

Promissory notes issued by OJSC Bank Tavrichesky stated at amortized cost and maturing in December 2009 were received as a settlement for trade accounts receivable.

Movements in the provision for impairment of VAT receivable, prepayments and advances to suppliers are disclosed in Note 14.

14. Impairment provision for accounts receivable and advances given

Movements in the provision for impairment of receivables were as follows:

	Trade receivables	VAT receivable	Advances to suppliers	Advances for construction	Other receivables	Total
As at 1 January 2007	**245,235**	**87,154**	**42,873**	**32,234**	**-**	**407,496**
Charge for the year	260,302	-	-	32,027	39,331	331,660
Released	-	(10,201)	(8,935)	-	-	(19,136)
As at 31 December 2007	**505,537**	**76,953**	**33,938**	**64,261**	**39,331**	**720,020**
Charge for the year	199,509	19,932	9,841	63,548	37,372	330,202
Released	(73,619)	(31,731)	(22,069)	(17,004)	(13,170)	(157,593)
As at 31 December 2008	**631,427**	**65,154**	**21,710**	**110,805**	**63,533**	**892,629**

15. Equity

	Number of shares issued and fully paid		Share capital	
	31 December 2008	**31 December 2007**	**31 December 2008**	**31 December 2007**
Ordinary shares	**926,021,679**	691,854,144	**4,866,115**	4,631,947
Preference shares	**93,264,311**	93,264,311	**625,603**	625,603
Total	**1,019,285,990**	785,118,455	**5,491,718**	5,257,550

Share capital

The par value of both ordinary and preference shares is 1 Ruble per share.

In 2008 the Group completed a closed placement of 234,167,535 ordinary shares announced in 2007. Total additional capital raised comprised 5,783,048. Additional shares were subscribed to by the City of St. Petersburg and some of the existing shareholders that paid 3,045,663 in cash altogether. The remaining amount of 2,737,385 represents a fair value of fixed assets contributed by the City of St. Petersburg. Methodology applied for fair value assessment was the same as disclosed in Note 6.

The excess of fair value of the above mentioned contribution of 5,783,048 over par value of issued shares of 234,168 was recognized as share premium of 5,548,880.

The excess of the advance outstanding as at 31 December 2007 in the amount of 3,055,324 (Note 21) over cash contribution of 3,045,663 was repaid back to shareholders.

Ordinary shares carry voting rights with no guarantee of dividends.

Preference shares

Preference shares have priority over ordinary shares in the event of liquidation but carry no voting rights except on resolutions regarding liquidation or reorganization of the Group, changes or amendments to the Articles of Association limiting rights of preference shareholders, changes to dividend levels of preference shares, or the issuance of additional preference stock. Such resolutions require 75% approval of both preference and ordinary shareholders.

Preference shareholders have the right to participate in general shareholders' meetings and vote on all issues within the competence of general shareholders' meetings following the annual general meeting at which, for whatever reason, a decision not to pay (or not to pay the full amount of) dividends on preference shares was taken. The right of preference shareholders to vote at general shareholders' meetings ceases from the date of the first full payment of dividend on such shares.

Preference shares carry no rights of redemption or conversion.

Preference shares carry dividends amounting to the higher of 10% of the net income after taxation of the Group as reported in the Russian statutory accounts divided by the number of preference shares and the dividends paid on one ordinary share. Dividends on the preference shares are non-cumulative. In case of liquidation, the assets remaining after settlement with creditors, payment of preference dividends and redemption of the par value of preference shares are distributed among preference and ordinary shareholders proportionally to the number of shares owned.

Accordingly, the Group's preference shares are considered participating equity instruments for the purpose of earnings per share calculations (Note 27).

15. Equity (continued)

Distributable earnings

Distributable earnings of all entities included in the Group are limited to their respective retained earnings, as mandated by statutory accounting rules. Statutory net profit of the Company as at 31 December 2008 amounted to 1,539,618 (as at 31 December 2007: 916,067).

Dividend declared and paid

In 2008 dividends for the year ended 31 December 2007 were declared in the amount of 0.9822265 Rubles per preference share (nil for ordinary share). The total amount of dividends accrued in 2008 for the year ended 31 December 2007 was 91,607 (31 December 2006: 42,397). In 2009 dividends for the year ended 31 December 2008 were declared in the amount of 1.6508 Rubles per preference share (nil for ordinary share). The total amount of dividends declared in 2009 for the year ended 31 December 2008 is 153,961.

Other reserves

	Asset revaluation reserve	Net unrealised gains on available-for-sale investments	Total
As at 1 January 2007 (as restated, Note 3)	**4,951,350**	**138,249**	**5,089,599**
Release of asset revaluation reserve, net of tax effect of 4,463	(14,132)	-	**(14,132)**
Unrealized gains on available-for-sale investments, net of tax effect of 35,232	-	111,568	**111,568**
As at 31 December 2007 (as restated, Note 3)	**4,937,218**	**249,817**	**5,187,035**
Revaluation of property, plant and equipment, net of tax effect of 5,629,149	23,815,872	-	**23,815,872**
Unrealised losses on available-for-sale investments, net of tax effect of 52,717	-	(145,127)	**(145,127)**
As at 31 December 2008	**28,753,090**	**104,690**	**28,857,780**

Asset revaluation reserve is used to record increases in the fair value of property, plant and equipment and assets under construction and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity.

Net unrealized gains reserve accumulates changes in the fair value of available-for-sale investments.

16. Long-term borrowings

	Currency	Effective interest rate	Maturity date	31 December 2008	31 December 2007
Bonds issued by the Group					
series 02	Rubles	8.54%	2012	**2,981,472**	2,977,119
series 03	Rubles	8.02%	2012	**2,981,534**	2,977,144
Long-term bank loans	USD	Libor + 1.25%	2010	**5,834,784**	4,847,536
Finance lease liabilities	Rubles		2011	**1,584,646**	1,031,072
Total long-term debt				**13,382,436**	11,832,871
Less: current portion				**(436,143)**	(277,007)
Long-term debt, net of current portion				**12,946,293**	11,555,864

Bonds

As at 31 December 2008 the Group had outstanding 2nd and 3rd issue bonds.

In February 2007 the Group registered the 2nd issue of 3,000,000 certified coupon bonds with a par value of 1,000 Rubles each carrying 10 interest-bearing coupons. Payments under the first coupon were due on the 181st day from the date of bond placement, and other coupon payments are payable every 184th day. The interest rate under coupons is set at 8.54% p.a. The bonds mature in January 2012, in 1820 days from the date of placement with no option for early redemption. In 2008 the Group fully met its coupon obligations under the 2nd and 3rd coupons at 8.54% p.a. in the total amount of 255,480 (2007: under the 1st coupon - 127,749). Coupon payment per bond was 42.58 Rubles. As at 31 December 2008 the outstanding 2nd issue bonds of 2,981,472 were classified as long-term debt (as at 31 December 2007: 2,977,119).

In April 2007 the Group registered the 3rd issue of 3,000,000 certified coupon bonds with a par value of 1,000 Rubles each carrying 10 interest-bearing coupons. Payments under the first coupon are due on the 181st day from the date of bond placement, and other coupon payments are effected every 184 day. The interest rate under coupons is set at 8.02% p.a. The bonds mature in April 2012, in 1820 days from the date of placement with no option for early redemption. In 2008 the Group fully met its coupon obligations under the 2nd and 3rd coupon at 8.02% p.a. in the total amount of 239,940 (as at 31 December 2007: 119,970). Coupon payment per bond was 39.99 Rubles. As at 31 December 2008 the outstanding 3rd issue bonds of 2,981,534 were classified as long-term debt (as at 31 December 2007: 2,977,144).

Loans

The long-term currency-denominated bank loan is stated at the USD/RR exchange rate at 31 December 2008. The Group's management has entered into an interest/currency swap agreement in connection with the long-term loan, whereby the loan is converted into 4,900,000 Russian rubles, and the interest is payable at a fixed interest rate of 8.42% (31 December 2007: 8.42%).

The Group did not designate the above interest rate and currency swap derivative as hedging instrument. Therefore, this financial instrument was classified as financial asset at fair value through profit and loss with the gain for year 2008 amounting to 1,887,531 (Note 24). Fair value of the derivative is calculated by discounting future cash flows determined by condition and payments schedule of the agreement using forward rates of similar instruments at the reporting date. The derivative is repayable at the same date as the loan.

16. Long-term borrowings (continued)

Loans (continued)

The Group has to comply with certain conditions, including maintenance of certain financial performance standards. Under the syndicated loan agreement with Barclay's Bank the Group has to maintain the following financial performance ratios (computed based on IFRS financial statements for each period):

- Net debt to EBITDA ratio – maximum 4:1 for the first year of the loan (from 12 December 2007 to 12 December 2008), 3:1 for the rest of the loan period (from 13 December 2008 to maturity date);
- EBITDA to net interest ratio – minimum 4:1;
- Material assets to the total assets ratio– minimum 0.6;
- No pledges of any assets;
- Total debt – maximum 40 million US Dollars (except for this loan and the existing debts at the moment of the loan issuance);
- Dividends for a year < 100% of net profit for the year under the Russian Accounting Standards;
- Audited consolidated financial statements under the Russian Accounting Standards for the years ending on and after 31 December 2008 – on or earlier than 28 June of the next year;
- Un-audited quarterly consolidated financial statements – on or earlier than on the 90th day after the preceding quarter-end;
- Un-audited consolidated financial statements under Russian Accounting Standards, forwarded to the tax authorities, – on or earlier the 90th day after the preceding year end.

The Group has to comply with the following restrictions:

- Assets sales or lease maximum 5 million US Dollars if not in a usual course of business or under the Restructuring approved by the Bank;
- Restructuring of the Group if not approved by the Bank;
- Acquisition or establishment of another company without the Bank's approval;
- Repurchase of own shares (if not required by law or a court order);
- Overdue payments (if not a technical error or if not repaid in 3 days).

As at 31 December 2008 and for the year then ended, the Group complied with all of the above restrictions and covenants.

16. Long-term borrowings (continued)

Finance lease commitments

As at 31 December 2008 the Group entered into lease agreements for electricity transmission equipment and transport vehicles which have been delivered to the Group by the reporting date and, therefore, are recognized in these consolidated financial statements. Future minimum lease payments under finance lease are as follows:

	During the next year	During 2-5 years	Over 5 years	Total
As at 31 December 2008				
Future minimum lease payments	859,055	1,592,408	-	**2,451,463**
Less: future interest expenses	(422,912)	(443,905)	-	**(866,817)**
Present value of future minimun lease payments	**436,143**	**1,148,503**	-	**1,584,646**
As at 31 December 2007				
Future minimum lease payments	556,989	1,089,886	-	**1,646,875**
Less: future interest expenses	(279,982)	(335,821)	-	**(615,803)**
Present value of future minimum lease payments	**277,007**	**754,065**	-	**1,031,072**

All lease agreements are fully secured against the Group's leased assets (Note 6).

In 2008 and 2007, the Group's primary lessors were LLC Sevzapleasing and LLC Rosgazleasing. In 2008, effective interest rate on lease liabilities ranged from 12.79% to 58.14% p.a. (2007: 20.35% to 58.14%).

The Group had entered into a number of finance leases under which equipment was not received as at 31 December 2008. Accordingly, the liabilities arising from the above financial leases are not reported in these financial statements. The present value of future minimum lease payments under these agreements as at 31 December 2008 is 3,031,863 (31 December 2007: 4,365,565). Future interest expense is 2,279,553 (31 December 2007: 239,507). As at 31 December 2008 the Group paid advances of 933,439 under these leases (31 December 2007: 436,339).

17. Post-employment benefit liabilities

The Group makes payments to the Government pension fund for its employees. Such contributions are included in the unified social tax ("UST") calculated by the Group using regressive scale and are charged to expense when incurred during the employee's service period. Total contributions for UST amounted to 419,540 during the year ended 31 December 2008 (2007: 360,201).

In addition to mandatory payments to the Russian Federation state pension scheme, the Group provides non-government pensions to its employees through post-employment benefits plan.

The majority of employees are eligible for defined benefit plans which provide an old age retirement pension. The plans provide for payments of retirement benefits starting from statutory retirement age which is currently 55 for women and 60 for men. The amount of payments is calculated using the formula according to which the amount of benefit depends on a number of parameters, including an employee's salary at the retirement date and a number of years with the Group.

17. Post-employment benefit liabilities (continued)

Non-government pension fund Electroenergetiki, which is related to the Group (Note 29), maintains the above defined benefit pension plan.

The Group further provides other long-term employee benefits of a defined benefit nature such as lump-sum payments upon retirement, lump-sum payments upon death, jubilees benefits.

As at 31 December 2008 there were 5,758 working employees participating to the defined benefit plan of the Group and 1,392 pensioners (31 December 2007: 5,531 and 1,421 respectively).

For the purpose of presentation, lump-sum benefits at retirement, pension benefits and funeral compensations are classified as 'post-employment benefits'; jubilee benefits and funeral compensations in the case of a relative's death are classified as 'long-term employee benefits'.

As at 31 December 2008 and 2007 net liabilities under defined benefit and other post-employment benefit plans comprised the following:

	2008			2007		
	TOTAL	Post employment benefits	Long-term employee benefits	TOTAL	Post employment benefits	Long-term employee benefits
Present value of defined benefit obligation	**(421,168)**	(339,936)	**(81,232)**	(296,924)	(230,627)	(66,297)
Fair value of plan assets	-	-	-	-	-	-
Unrecognized net actuarial (gains)/ losses	**(11,731)**	(11,731)	-	4,802	4,802	-
Unrecognized past service cost	**124,586**	124,586	-	14,709	14,709	-
Net pension liability in the balance sheet	**(308,313)**	(227,081)	**(81,232)**	(277,413)	(211,116)	(66,297)

Changes in the present value of defined benefit obligations in 2008 and 2007 were as follows:

	2008			2007		
	TOTAL	Post employment benefits	Long-term employee benefits	TOTAL	Post employment benefits	Long-term employee benefits
Net defined benefit obligation as at 1 January	**296,924**	230,627	66,297	249,891	195,946	53,945
Interest cost on benefit obligation	**22,959**	18,578	4,381	16,867	13,226	3,641
Current service cost	**15,675**	9,461	6,214	12,718	7,040	5,678
Past service cost (recognized and unrecognized)	**114,386**	114,386	-	34,011	26,507	7,504
Benefits paid	**(25,600)**	(16,583)	(9,017)	(19,484)	(11,567)	(7,917)
Actuarial (gains)/losses on obligation	**(3,176)**	(16,533)	13,357	2,921	(525)	3,446
Net defined benefit obligation as at 31 December	**421,168**	339,936	81,232	296,924	230,627	66,297

17. Post-employment benefit liabilities (continued)

The movements in the net pension liability in 2008 and 2007 were as follows:

	2008			2007		
	TOTAL	Post employment benefits	Long-term employee benefits	TOTAL	Post employment benefits	Long-term employee benefits
Net pension liability as at 1 January	**277,413**	**211,116**	**66,297**	244,564	190,619	53,945
Net expense	**56,500**	**32,548**	**23,952**	52,333	32,064	20,269
Benefits paid	**(25,600)**	**(16,583)**	**(9,017)**	(19,484)	(11,567)	(7,917)
Net pension liability as at 31 December	**308,313**	**227,081**	**81,232**	277,413	211,116	66,297

Net expense under the defined benefit plans in 2008 and 2007 was as follows:

	2008			2007		
	TOTAL	Post employment benefits	Long-term employee benefits	TOTAL	Post employment benefits	Long-term employee benefits
Current service cost	**15,675**	**9,461**	**6,214**	12,718	7,040	5,678
Interest cost	**22,959**	**18,578**	**4,381**	16,867	13,226	3,641
Expected return on plan assets	-	-	-	-	-	-
Net actuarial loss recognized in the period	**13,357**	-	**13,357**	3,446	-	3,446
Recognized past service cost	**4,509**	**4,509**	-	19,302	11,798	7,504
Net expense for the defined benefit plan	**56,500**	**32,548**	**23,952**	52,333	32,064	20,269

Expenses on the defined benefit plans were included in Payroll and payroll taxes in the consolidated income statement.

As at 31 December the principal actuarial assumptions of defined benefit pension plan were as follows:

	2008	2007
Discount rate (actuarial rate of return), %	**9.0**	6.75
Estimated future salary increases, %	**8.0**	7.0
Estimated future rate of inflation, %	**6.5**	6.0

Present value of defined benefit obligation and experience adjustments for the current and previous two periods are as follows:

	2008	2007	2006
Defined benefit obligation	**(421,168)**	(296,924)	(249,891)
Experience adjustments on plan liabilities	**56,625**	(32,967)	11,508

The Group expects to contribute 31,880 kRR to its defined benefit pension plans in 2009.

18. Other non-current liabilities

	31 December 2008	31 December 2007
Long-term advances received	**5,293,574**	3,586,430
Trade accounts payable	**83,663**	113,537
Total	**5,377,237**	3,699,967

19. Accounts payable and accrued expenses

	31 December 2008	31 December 2007
Trade accounts payable	**3,863,111**	2,547,313
Interest accrued on bank loans and coupon bonds	**235,427**	166,141
Salaries payable	**173,561**	138,642
Accruals	**111,323**	84,954
Other	**137,611**	97,838
Total	**4,521,033**	3,034,888

20. Other taxes payable

	31 December 2008	31 December 2007
Assets tax	**29,620**	27,667
Personal income tax	**18,992**	33,058
Payroll taxes	**11,507**	37,070
Value added tax	**8,614**	-
Other taxes	**9,135**	4,805
Total	**77,868**	102,600

21. Other current liabilities

	31 December 2008	31 December 2007
Advances received	**9,464,834**	3,923,948
Advance contributions for future share issue (Note 15)	**-**	3,055,324
Total	**9,464,834**	6,979,272

22. Revenue

	2008	2007
Network transmission of electricity	**15,064,055**	11,605,858
Technological losses at the normal expected level	**(3,374,311)**	(2,997,996)
Network transmission of electricity, net of normal (expected) losses	**11,689,744**	8,607,862
Technological connection to electricity grids	**5,670,549**	3,493,550
Other revenue	**553,343**	236,468
Total	**17,913,636**	12,337,880

Technological connection fees of 498,339 (2007: 710,450) were settled by contribution of property, plant and equipment items from the customers.

22. Revenue (continued)

In 2008 electricity transmission revenue before technological losses at the normal expected level from OJSC Peterburg Sales Company (hereinafter "OJSC PSC"), a related party, and OJSC RKS-Energo, a third party, amounted to 10,322,861 (2007: 9,212,886) and 1,329,279 (2007: 1,528,527), respectively, comprising 77% of the total revenue from transmission of electricity before the technological losses at the normal expected level.

23. Operating expenses

	2008	2007 (as restated)	2007
Transmission fee	**5,588,872**	3,679,415	3,679,415
Payroll and payroll taxes	**2,505,066**	2,078,609	2,078,609
Depreciation (Note 6)	**1,702,052**	1,104,824	1,104,824
Property, plant and equipment impairment loss (Note 6)	**797,908**	-	-
Repairs and maintenance	**690,788**	599,250	599,250
Electric metering services	**650,314**	341,717	341,717
Rent	**432,811**	324,728	324,728
Raw materials and supplies	**230,994**	171,258	171,258
Telecommunication and information services	**216,852**	186,959	186,959
Provision for impairment of receivables (Note 14)	**172,609**	312,524	312,524
Social expenses	**148,080**	165,951	165,951
Taxes other than income tax	**141,634**	103,472	103,472
Consulting, legal and audit services	**139,590**	139,751	139,751
Internal sercurity costs	**112,021**	99,012	99,012
Agency services	**99,175**	89,211	89,211
Amortisation of intangible assets (Note 5)	**77,880**	22,880	22,880
Utilities	**64,613**	59,727	-
Provision for impairment of inventories	**42,431**	54,427	54,427
Technological losses of electricity in transmission through own network in excess of the normal expected level	**4,010**	25,659	25,659
Other operating expenses	**789,878**	476,718	536,445
Total	**14,607,578**	10,036,092	10,036,092

24. Finance income

	2008	2007 (as restated)	2007
Change in fair value of swap (Note 16)	**1,887,531**	4,323	-
Interest receivable	**346,970**	60,717	60,717
Dividends received (Note 29)	**26,365**	45,188	45,188
Other finance income	**30,776**	3,393	3,393
Total	**2,291,642**	113,621	109,298

25. Finance expenses

	2008	2007 (as restated)	2007
Interest expense on loans	**424,811**	42,069	80,297
Interest expense on financial leases	**411,761**	38,228	-
Interest expense on bonds	**504,650**	493,267	493,267
Net effect of change in the value of interest rate and currency swap and foreign exchange loss	-	-	4,859
Other finance expenses	**30,852**	24,899	24,899
Total	**1,372,074**	598,463	603,322

26. Income tax

During the year ended 31 December 2008 the Group was subject to income tax rate of 24% on taxable profits. Starting from 1 January 2009 the Russian Government changed the income tax rate to 20%.

	2008	2007
Current income tax:		
Current income tax charge	**1,023,696**	656,443
Deferred income tax:		
Relating to origination and reversal of temporary differences	**(83,747)**	(133,898)
Relating to changes in tax rate from 24% to 20%	**269,694**	-
Income tax expense reported in consolidated income statement	**1,209,643**	522,545

Reconciliation between tax expense and accounting profit multiplied by tax rate for the years ended 31 December is as follows:

	2008	2007
Accounting profit before tax	**3,047,627**	1,807,764
Theoretical tax expense at statutory income tax rate of 24%	**731,430**	433,863
Non-deductible expenses	**208,519**	88,682
Change of tax rate (24% to 20%)	**269,694**	-
Income tax expense reported in consolidated income statement	**1,209,643**	522,545

Deferred income tax as at 31 December 2007 relates to the following:

	31 December 2006 (as restated)	Movement during 2007 recognized in: Equity	Movement during 2007 recognized in: Profit for the period	31 December 2007 (as restated)
Tax effect of deferred tax assets:				
Impairment of property, plant and equipment & assets under construction	1,405,787	-	(65,955)	1,339,832
Impairment provision for account receivables	90,063	-	82,742	172,805
Inventory impairment provision	15,051	-	12,843	27,894
Deferred expenses	7,959	-	-	7,959
Post-employee benefits liability	58,695	-	7,884	66,579
Employee-related accruals	12,920	-	3,187	16,107
Others	3,149	-	27,658	30,807
Deferred tax assets, total	1,593,624	-	68,359	1,661,983
Tax effect of deferred tax liabilities:				
Revaluation of property, plant and equipment & assets under construction to fair value	(1,563,582)	4,463	-	(1,559,119)
Accelerated property, plant and equipments depreciation for tax purposes	(137,687)	-	94,843	(42,844)
Discounting of long-term trade accounts payable	(21,777)	-	5,975	(15,802)
Accounting for finance lease	(538)	-	(10,673)	(11,211)
Revaluation of SWAP to fair value	-	-	(1,038)	(1,038)
Discounting of bonds issued	-	-	(10,977)	(10,977)
Revaluation of available-for-sale investments	(43,657)	(35,232)	-	(78,889)
Forex on floating rate loan	-	-	(12,591)	(12,591)
Deferred tax liabilities, total	(1,767,241)	(30,769)	65,539	(1,732,471)
Total deferred tax liabilities, net	(173,617)	(30,769)	133,898	(70,488)

26. Income tax (continued)

Deferred income tax as at 31 December 2008 relates to the following:

	31 December 2007 (as restated)	Movement during 2008 recognized in		Additions with acquired sub-sidiaries	Movements due to change in tax rates recognized in		31 December 2008
		Equity	Profit for the period		Equity	Profit for the period	
Tax effect of deferred tax assets:							
Impairment of property, plant and equipment & assets under construction	1,339,832	-	159,581	-	-	(223,306)	**1,276,107**
Impairment provision for account receivables	172,805	-	34,522	-	-	(28,801)	**178,526**
Inventory impairment provision	27,894	-	8,486	(208)	-	(4,649)	**31,523**
Deferred expenses	7,959	-	12,561		-	(1,327)	**19,193**
Revaluation of available-for-sale investments	(78,889)	39,569	50,630	-	13,148	(8,439)	**16,019**
Forex on swapped loan	(12,591)	-	200,305	-	-	2,099	**189,813**
Post-employee benefits liability	66,579	-	6,180	-	-	(11,097)	**61,662**
Employee-related accruals	16,107	-	(6,053)	-	-	(2,684)	**7,370**
Others	30,807	-	4,822	4,392	-	(5,135)	**34,886**
Deferred tax assets, total	1,570,503	39,569	471,034	4,184	13,148	(283,339)	**1,815,099**
Tax effect of deferred tax liabilities:							
Revaluation of property, plant and equipment & assets under construction to fair value	(1,559,119)	(5,889,004)	-	(42,584)	259,855	-	**(7,230,852)**
Accelerated property, plant and equipments depreciation for tax purposes	(42,844)	-	13,291	-	-	7,141	**(22,412)**
Accounting for finance lease	(11,211)	-	(16,379)	-	-	1,867	**(25,723)**
Discounting of long-term trade accounts payable	(15,802)	-	(5,585)	7,281	-	2,634	**(11,472)**
Revaluation of SWAP to fair value	(1,038)	-	(380,362)	-	-	173	**(381,227)**
Discounting of bonds issued	(10,977)	-	1,748	-	-	1,830	**(7,399)**
Deferred tax liabilities, total	**(1,640,991)**	**(5,889,004)**	**(387,287)**	**(35,303)**	**259,855**	**13,645**	**(7,679,085)**
Total deferred tax liabilities, net	**(70,488)**	**(5,849,435)**	**83,747**	**(31,119)**	**273,003**	**(269,694)**	**(5,863,986)**

27. Earnings per share

	31 December 2008	31 December 2007
Weighted average number of outstanding ordinary shares (thousands)	**926,022**	691,854
Weighted average number of outstanding preference shares (thousands)	**93,264**	93,264
Dividends paid to holders of ordinary shares	**-**	-
Dividends paid to holders of preference shares	**91,607**	42,397
Total income less dividends paid	**1,742,053**	1,242,822
- attributable to holders of ordinary shares	**1,582,656**	1,095,187
- attributable to holders of preference shares	**159,397**	147,635
Earnings per ordinary share – basic and diluted (Rubles)	**1.71**	1.58
Earnings per preference share – basic and diluted (Rubles)	**1.71**	1.58

28. Commitments and contingencies

Commitments to purchase property, plant and equipment

Future capital expenditures for which contracts have been signed amounted to 15,338,332 as at 31 December 2008 (31 December 2007: 10,129,126).

As at 31 December 2008 the Group provided the following guarantees for the loans granted by OJSC Bank VTB Severo-Zapad to the Group's lessor (CJSC Rosgazleasing):

Guarantee	Underlying loan agreement	Maturity date	Amount of loan guaranteed
CJSC Rosgazleasing	#107/07 dated 22 August 2007	22 August 2012	62,470
CJSC Rosgazleasing	#108/07 dated 22 August 2007	22 August 2012	289,120

Social commitments

The Group contributes to the maintenance and upkeep of the local infrastructure and the welfare of its employees involved in production. In particular, the Group participates in the development and maintenance of housing, recreation and other social needs in the geographical areas in which it operates. All expenditures in connection with social commitments are expensed when incurred.

Political environment

The operations and earnings of the Group are affected by political, legislative, fiscal and regulatory developments in Russia.

28. Commitments and contingencies (continued)

Operating environment of the Group

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The ongoing global financial crisis has resulted in capital markets instability, significant deterioration of liquidity in the banking sector, and tighter credit conditions within Russia. While the Russian Government has introduced a range of stabilization measures aimed at providing liquidity and supporting debt refinancing of foreign debt for Russian banks and companies, there continues to be uncertainty regarding the access to capital and cost of capital for the Group and its counterparties, which could affect the Group's financial position, results of operations and business prospects.

While the management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Group's results and financial position in a manner not currently determinable.

Tax legislation

The existing Russian tax, currency and customs legislation allows for various interpretations and is prone to frequent changes. Interpretation by the Group's management of the legislation in place when applicable to the Group's transactions and activities may be challenged by the appropriate regional or federal authorities. Recent events that occurred in the Russian Federation are indicative of the fact that tax authorities may assume a tougher stance with regard to interpretation of legislation and review of tax returns. Consequently, tax authorities may challenge transactions and accounting methods that they had never challenged before. As a result, significant additional taxes, penalties and fines may be accrued. It is not possible to determine amounts of constructive claims or evaluate probability of their negative outcome. Tax audits may cover a period of three calendar years immediately preceding the reporting one. Under certain circumstances, tax authorities may review earlier accounting periods.

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

Since the tax and other legislation does not fully cover all aspects of the Group restructuring, certain legal and tax risks might still arise.

In April 2008 the tax authorities performed a tax field audit of the Group covering the period from 1 January 2005 to 31 December 2006. As the result the tax authorities additionally accrued 1,349,999 of taxes, 161,361 of penalties and 300,061 of late payment interests. The Group did not agree with the decision and filed a complaint to the Arbitration court.

The Group has accrued 1,236,989 of the above-mentioned additional taxes in these financial statements. The Group believes that the tax authority had no legal grounds to charge 113,010 of additional taxes, 161,361 of penalties and 300,061 of late payment interests. Thus, as at 31 December 2008 and 2007 the Group did not accrue provision for contingent liability related to the income tax and other taxes of 113,010, late payment interests of 300,061 and penalties of 161,361.

28. Commitments and contingencies (continued)

Environmental matters

Group entities and their predecessor entities have operated in the electric power industry in the Russian Federation for many years. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group entities periodically evaluate their obligations under environmental regulations. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

Insurance

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

Legal proceedings

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

29. Related party transactions

For the purposes of these consolidated financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence 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 Group had significant balances outstanding as at 31 December 2008 or entered into significant transactions during the year then ended with the following related parties.

Parent company

As at 31 December 2008 the Group was under control of MRSK-Holding (as at 31 December 2007 under control of RAO UES, a legal predecessor of MRSK-Holding, Note 1). The Group provides services to a number of entities controlled by or closely related to the state. In addition, a number of the Group's suppliers are state-controlled entities.

The outstanding balances with RAO UES and MRSK-Holding were as follows:

	31 December 2008	**31 December 2007**
Trade account payable (RAO UES)	-	49,041
Trade account payable (MRSK-Holding)	**44,198**	-

29. Related party transactions (continued)

Other related parties

Other related parties include entities under MRSK-Holding control (2007: under RAO UES control). Significant transactions with other related parties and balances outstanding are as follows:

	2008	2007
Revenue from electricity transmission (OJSC PSC)	**10,322,861**	9,212,886
Purchase of compensation electricity in the amount of technological losses (OJSC PSC)	**(3,353,647)**	(3,023,655)
Cost of electricity transmission through the federal grid (OJSC FSK UES)	**(3,081,172)**	(2,333,191)

	31 December 2008	31 December 2007
Accounts receivable, including:		
Trade receivables:	**205,992**	160,754
OJSC PSC	**201,125**	160,208
OJSC FSK UES	**4,838**	-
Others	**29**	546
Advances given	**241,086**	301,949
OJSC PSC	**216,695**	61,287
OJSC FSK UES	**19,956**	180,258
NPF Electroenergetiki	-	55,579
Others	**4,435**	4,825
Accounts payable, including:		
Trade payables	**281,738**	37,916
OJSC FSK UES	**268,307**	6,561
OJSC PSC	**7,050**	19,257
OJSC TGK-1	**3,098**	6,437
Others	**3,283**	5,661
Advances received	**8,725**	3,350
GUP Svet	**5,787**	-
OJSC TGK-1	**2,938**	-
OJSC FSK UES	-	3,350
Dividends received	**26,365**	45,376
OJSC PSC	**21,077**	37,562
OJSC North-West Energy Management Company	**4,888**	7,413
Other	**400**	401

	31 December 2008	31 December 2007 (as restated)	31 December 2007
Available-for-sale investments	**304,400**	713,200	384,494
OJSC PSC	**196,000**	284,000	52,520
OJSC FSK UES	**71,700**		
OJSC North-West Energy Management Company	**36,700**	35,200	49,318
OJSC Peterburgskie Magistralnye Seti	-	394,000	282,656

29. Related party transactions (continued)

State-controlled entities

In the course of its operating activities the Group is also engaged in transactions with state-controlled entities. The Group had the following material transactions with state-controlled entities:

	2008	2007
Revenue from electricity transmission	**2,347,752**	2,227,120
Revenue from technological connection	**1,640,314**	628,445
Other revenue	**29,618**	-
Cost of electricity transmission through other distribution grids	**(680,418)**	(272,111)

The Group had the following material balances arising from transactions with state-controlled entities:

	31 December 2008	31 December 2007
Accounts receivable net of impairment provision		
Trade accounts receivable	**229,345**	219,206
Other accounts receivable	**29,433**	75,070
Advances given	**16,258**	6,698
Accounts payable, including		
Advances received	**1,453,221**	314,852
Long-term trade accounts payable	**132,028**	132,028
Short-term trade accounts payable	**75,784**	39,702
Other accounts payable	**5,708**	13,038

Revenues and purchases from related parties are measured at regulated tariffs where applicable, in other cases revenues and purchases from related parties are measured at normal market prices. There have been no guarantees provided or received for any related party receivable or payable. As at 31 December 2008 the Group has recorded provision for impairment of receivables from related parties of 243,660 (2007: 85,123) and recognised a related expense of 158,537 (2007: income from release of provision 73,996).

As at 31 December 2008 the Group had the following cash balances on current accounts with state-controlled banks:

	31 December 2008	31 December 2007
OJSC Northwest bank of Sberbank	**1,200,598**	273,803
OJSC Vneshtorgbank	**262,744**	190,256
Total	**1,463,342**	464,059

29. Related party transactions (continued)

Compensation to key management personnel

Key management personnel comprise general director of the Company and his deputies, including finance director and chief accountant, as well as members of the Board of Directors. Total compensation to key management personnel, which is represented by short-term and long-term employee benefits (monthly payroll, annual bonuses and pensions), included in payroll and payroll taxes in the income statement, was as follows:

	2008	2007
Short-term employee benefits	71,145	82,558
Long-term employee benefits	5,028	5,813
Termination benefits	3,250	-
Total	79,423	88,371

30. Segment information

The Group operates in one industry segment, being the provision of electricity transmission services and technological connection to the electricity grids to domestic customers in one geographic area, i.e. St. Petersburg and Leningrad region. The results of this segment and assets and liabilities as at 31 December 2008 and 2007 are presented in the consolidated income statement and the consolidated balance sheet, respectively.

An analysis of revenue by service type is disclosed in Note 22.

All of the Group's assets are located within the territory of St. Petersburg and Leningrad Region.

The Group had no individual customers, other than the Government of the Russian Federation and its related parties (Note 22, 29), that accounted for greater than 10% of its revenue during the years ended 31 December 2008 and 2007.

31. Financial risk management

The Group's major financial liabilities, apart from derivatives, comprise bank loans, bonds, finance leases and trade payables. The main purpose of these instruments is to raise finance for the Group's operations. The Group has various financial assets such as trade receivables, cash and short term deposits which arise directly from its operations.

In addition, during 2007 the Group has entered into a transaction involving a derivative instrument, namely, a currency/interest rate swap with a view to manage interest rate and foreign exchange risks arising from the changes in floating interest rates and foreign exchange rates which affect its currency denominated borrowings. It is, and has been throughout 2008 and 2007, the Group's policy that no trading in derivatives shall be undertaken.

The main risks arising from the Group's financial instruments are credit risk and liquidity risk. The exposure of the Group to these and other financial risks is disclosed below.

31. Financial risk management (continued)

Credit risk

The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The maximum exposure is the carrying amount as disclosed in Note 11.

The Group's revenue from two largest customers OJSC PSC and OJSC RKS-Energo is disclosed in Note 22.

With respect to credit risk arising from other financial assets of the Group, which comprise cash and cash equivalents, available-for-sale financial investments, financial assets at fair value through profit and loss and certain derivative instruments, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Liquidity risk

The Group monitors its risk of a shortage of funds using a recurring liquidity planning tool. With the help of this tool, the Group considers the maturity of both its financial assets and liabilities and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans, debentures, preference shares and finance leases.

The table below summarises the maturity profile of the Group's financial liabilities as at 31 December based on contractual undiscounted payments:

Year ended 31 December 2008	**1 year**	**2 years**	**3-5 years**	**Over 5 years**
Bonds issued	151,765	-	6,000,000	-
Interest-bearing loans (Note 16)	83,662	4,900,000	-	-
Trade and other accounts payable	4,174,283	67,805	5,400	104,201
Other financial obligations	859,064	703,462	888,937	-
Total	**5,268,774**	**5,671,267**	**6,894,337**	**104,201**

Year ended 31 December 2007	**1 year**	**2 years**	**3-5 years**	**Over 5 years**
Bonds issued	150,429	-	6,000,000	-
Interest-bearing loans (Note 16)	15,712	-	4,900,000	-
Trade and other accounts payable	2,783,793	1,800	71,428	123,024
Other financial obligations	556,989	465,219	624,667	-
Total	**3,506,923**	**467,019**	**11,596,095**	**123,024**

31. Financial risk management (continued)

Fair values

Set out below is a comparison by category of carrying amount and fair value of the Group's financial instruments that are carried in the consolidated financial statements:

	2008		2007 (restated)	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Financial assets				
Cash	**2,498,850**	**2,498,850**	5,903,078	5,903,078
Available-for-sale investments	**304,533**	**304,533**	713,200	713,200
Loans and receivables	**1,493,110**	**1,493,110**	1,024,783	1,024,783
Derivative financial instruments	**1,891,854**	**1,891,854**	4,323	4,323
Financial liabilities				
Interest-bearing loans and borrowings:				
Obligations under finance leases	**(1,584,646)**	**(1,584,646)**	(1,031,072)	(1,031,072)
Floating rate borrowings	**(5,834,784)**	**(5,834,784)**	(4,847,536)	(4,847,536)
Long-term fixed rate borrowings	**(5,963,006)**	**(3,374,700)**	(5,954,263)	(5,897,698)
Short-term part of borrowings	**(235,427)**	**(235,427)**	(166,141)	(166,141)

The fair value of derivatives and borrowings with floating rate has been calculated by discounting the expected future cash flows at prevailing interest rates. The fair value of fixed rate borrowings and other financial assets has been calculated using market interest rates.

Foreign exchange risk

The Group operates in the Russian Federation. The majority of the Group's purchases and borrowings are denominated in Russian Rubles. To manage foreign exchange risk originating from foreing currency denominated borrowings, the Group enters into currency swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable loan balance calculated by reference to an agreed upon nominal principal amount. Therefore, the Group is not exposed to material risks related to foreign exchange rate movements.

Interest rate risk

Interest rate risk mainly relates to long-term debt instruments with fixed interest rate. The Group's policy is to manage its interest expenses using a mix of fixed and variable rate debts. To manage this, the Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed upon notional principal amount.

32. Events after the balance sheet date

In January 2009 the Group fully met its coupon obligations on the 2nd bond issue under the 4th coupon at 8.54% p.a. in the total amount of 127,740.

On 11 June 2009 the annual shareholders' meeting of OJSC Lenenergo approved distribution of profits for 2008 and payment of dividends for 2008 of 153,961. Dividend will be paid only on preference shares of the Group.