OGK-2 GROUP
CONSOLIDATED FINANCIAL STATEMENTS
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)
FOR THE YEAR ENDED 31 DECEMBER 2009

BDO

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Independent Auditor's Report

To the Shareholders and the Board of Directors of Open Joint Stock Company "The Second Generating Company of the Wholesale Electric Power Market" (OJSC "OGK-2")

We have audited the accompanying consolidated financial statements of OJSC "OGK-2" and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated income statement and statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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Emphasis of Matter

Without qualifying our opinion we draw attention to Notes 1, 5, 26 and 27 to the accompanying consolidated financial statements of the Group. The Government of the Russian Federation has an ultimate controlling interest in the Group and Governmental economic and social policies affect the Group's financial position, results of operations and cash flows.

Other Matter

The consolidated financial statements of the Group for the year ended 31 December 2008 were audited by another auditor, ZAO PricewaterhouseCoopers, who expressed opinion on those statements modified by emphasis of matter on 29 April 2009.

ZAO BDO

19 April 2010

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OGK-2 Group

Consolidated Statement of Financial Position as at 31 December 2009

(in thousands of Russian Roubles)

	Notes	31 December 2009	31 December 2008
ASSETS			
Non-current assets			
Property, plant and equipment	6	34,845,586	34,785,137
Intangible assets	7	1,509,771	1,941,330
Other non-current assets	8	6,028,463	5,546,197
Total non-current assets		**42,383,820**	**42,272,664**
Current assets			
Cash and cash equivalents	9	1,553,428	3,161,417
Trade and other receivables	10	4,601,861	2,670,803
Inventories	11	2,246,001	2,500,469
Current income tax prepayments		130,898	896,309
Other current assets	12	3,200,000	66,160
Total current assets		**11,732,188**	**9,295,158**
TOTAL ASSETS		**54,116,008**	**51,567,822**
EQUITY AND LIABILITIES			
Equity			
Share capital			
Ordinary shares	13	11,872,828	11,872,828
Treasury shares		(5,579)	(5,579)
Share premium		23,916,508	23,916,508
Merger reserve		(377,383)	(377,383)
Retained earnings		2,042,077	913,542
Total equity		**37,448,451**	**36,319,916**
Non-current liabilities			
Deferred income tax liabilities	14	2,120,813	2,411,788
Non-current debt	15	68	4,908,978
Retirement benefit obligations	19	554,566	502,026
Restoration provision	20	355,582	410,486
Other long-term liabilities		15,369	-
Total non-current liabilities		**3,046,398**	**8,233,278**
Current liabilities			
Current debt and current portion of non-current debt	16	9,576,509	2,712,529
Trade and other payables	17	3,343,687	3,682,172
Other taxes payable	18	666,509	448,777
Restoration provision	20	34,454	57,254
Provision for current income tax payable	14	-	113,896
Total current liabilities		**13,621,159**	**7,014,628**
Total liabilities		**16,667,557**	**15,247,906**
TOTAL EQUITY AND LIABILITIES		**54,116,008**	**51,567,822**

General Director A.A. Mityushov

Chief Accountant L.V. Klisch

19 April 2010

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

OGK-2 Group
Consolidated Income Statement for the year ended 31 December 2009
(in thousands of Russian Roubles, except for earning/(loss) per ordinary share information)

	Notes	Year ended 31 December 2009	Year ended 31 December 2008
Revenues	21	40,769,958	40,556,305
Operating expenses	22	(38,845,673)	(41,196,312)
Other operating items		(26,185)	(57,096)
Operating profit / (loss)		**1,898,100**	**(697,103)**
Finance income	23	470,164	708,915
Finance cost	24	(966,106)	(710,384)
Profit / (loss) before income tax		**1,402,158**	**(698,572)**
Total income tax (charge) / reversal	14	(308,034)	313,487
Profit / (loss) for the year		**1,094,124**	**(385,085)**
Attributable to:			
Shareholders of OJSC OGK-2		1,094,124	(385,085)
Minority interest		-	-
Earning / (loss) per ordinary share for profit / (loss) attributable to the shareholders of OJSC OGK-2 – basic and diluted (in Russian Roubles)	25	**0.03**	**(0.01)**

General Director — A.A. Mityushov

Chief Accountant — L.V. Klisch

19 April 2010

OGK-2 Group
Consolidated Statement of Comprehensive Income for the year ended 31 December 2009
(in thousands of Russian Roubles)

	Year ended 31 December 2009	Year ended 31 December 2008
Profit / (loss) for the year	**1,094,124**	**(385,085)**
Available-for-sale investments	24,152	(61,982)
Total comprehensive income / (expense) for the year	**1,118,276**	**(447,067)**
Attributable to:		
Shareholders of OJSC OGK-2	1,118,276	(447,067)
Minority interest	-	-

General Director A.A. Mityushov

Chief Accountant L.V. Klisch

19 April 2010

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OGK-2 Group

Consolidated Statement of Cash Flows for the year ended 31 December 2009

(in thousands of Russian Roubles)

	Notes	Year ended 31 December 2009	Year ended 31 December 2008
CASH FLOW FROM OPERATING ACTIVITIES:			
Profit / (loss) before income tax		**1,402,158**	**(698,572)**
Adjustments to reconcile profit before income tax to net cash provided by operations:			
Depreciation of property, plant and equipment	6	1,282,491	1,276,427
(Reversal) / charge of property, plant and equipment impairment	6	(33,277)	287,903
Impairment for intangible assets	7	391,841	-
Amortisation of intangible assets	7	51,769	24,065
Charge / (reversal) of provision for impairment of trade and other receivables	22	597,077	(55,780)
Provision for inventory obsolescence	22	19,701	4,869
Finance income	23	(470,164)	(708,915)
Finance costs	24	966,106	710,384
Increase in retirement benefit obligations	19,22	100,668	190,507
Employee share option plan	13	10,259	61,863
Loss on disposal of assets	22	128,172	22,079
Other non-cash items		9,014	32,962
Operating cash flows before working capital changes and income tax paid		**4,455,815**	**1,147,792**
Working capital changes:			
Increase in trade and other receivables		(2,737,822)	(687,591)
Payments in respect of retirement benefit obligations		(10,428)	(154,309)
Decrease / (increase) in inventories		251,196	(509,483)
Decrease in other current assets		660	14
Increase in long-term input VAT from advances paid		-	(3,024,242)
(Decrease) / increase in trade and other payables		(323,948)	1,696,991
Decrease in other non-current liabilities		(96,038)	-
Increase in taxes payable, other than income tax		209,806	93,095
Income tax received / (paid) in cash		59,645	(384,643)
Net cash generated from / (used in) operating activities		**1,808,886**	**(1,822,376)**
CASH FLOW FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(1,515,249)	(17,821,141)
Proceeds from sale of property, plant and equipment		2,391	1,545
Purchase of intangible assets		(16,483)	(1,286,953)
Increase in deposits		(4,100,000)	(4,413,160)
Proceeds from deposits		665,500	6,559,400
Interest received		295,993	636,135
Proceeds from disposal of subsidiary, net		-	11,500
Net cash used in investing activities		**(4,667,848)**	**(16,312,674)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from short-term borrowings		7,250,000	7,302,000
Proceeds from long-term borrowings		-	2,260,950
Repayment of short-term borrowings		(5,150,000)	(6,402,000)
Repayment of long-term borrowings		-	(2,384,968)
Interest paid		(826,795)	(812,835)
Payments under finance lease		(22,232)	(92,296)
Purchase of treasury shares	13	-	(52,357)
Proceeds from sale of treasury shares	13	-	1,055
Net cash generated from / (used in) financing activities		**1,250,973**	**(180,451)**
Net decrease in cash and cash equivalents		(1,607,989)	(18,315,501)
Cash and cash equivalents at the beginning of the year	9	3,161,417	21,476,918
Cash and cash equivalents at the end of the year	9	**1,553,428**	**3,161,417**

General Director — A.A. Mityushov

Chief Accountant — L.V. Klisch

19 April 2010

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

OGK-2 Group
Consolidated Statement of Changes in Equity for the year ended 31 December 2009
(in thousands of Russian Roubles)

	Share capital	Treasury shares	Share premium	Merger reserve	Retained earnings	Total
At 1 January 2008	**11,872,231**	**(23,155)**	**23,865,543**	**(377,383)**	**1,298,746**	**36,635,982**
Loss for the year	-	-	-	-	(385,085)	(385,085)
Available-for-sale investments	-	-	-	-	(61,982)	(61,982)
Total comprehensive expense for the year	-	-	-	-	*(447,067)*	*(447,067)*
Purchase of treasury shares (Note 13)	-	(52,357)	-	-	-	(52,357)
Employee share option plan (Note 13)	-	-	-	-	61,863	61,863
Exchange of shares transaction	597	68,878	50,965	-	-	120,440
Sale of treasure shares (Note 13)	-	1,055	-	-	-	1,055
At 31 December 2008	**11,872,828**	**(5,579)**	**23,916,508**	**(377,383)**	**913,542**	**36,319,916**
At 1 January 2009	**11,872,828**	**(5,579)**	**23,916,508**	**(377,383)**	**913,542**	**36,319,916**
Profit for the year	-	-	-	-	1,094,124	1,094,124
Available-for-sale investments	-	-	-	-	24,152	24,152
Total comprehensive income for the year	-	-	-	-	*1,118,276*	*1,118,276*
Employee share option plan (Note 13)	-	-	-	-	10,259	10,259
At 31 December 2009	**11,872,828**	**(5,579)**	**23,916,508**	**(377,383)**	**2,042,077**	**37,448,451**

General Director A.A. Mityushov

Chief Accountant L.V. Klisch

19 April 2010

Note 1. The Group and its operations

Open Joint Stock Company "The Second Generating Company of the Wholesale Electric Power Market" (OJSC "OGK-2", or the "Company" and together with subsidiaries – the "Group") was established on 9 March 2005 within the framework of Russian electricity sector restructuring in accordance with the Resolution No. 1254-r adopted by the Russian Federation Government on 1 September 2003.

The Group's primary activities are generation and sale of electric and heat power. The Group consists of the following power stations (plants): Troitskaya GRES, Stavropolskaya GRES, Pskovskaya GRES, Serovskaya GRES and Surgutskaya GRES-1.

The Company is registered by the Izobilnensk District Inspectorate of the RF Ministry of Taxation of Stavropol Region.

The Company's office is located at 101-3, Vernadskogo Avenue, 119526, Moscow, Russian Federation.

Operating environment of the Group. The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation. Despite strong economic growth in recent years, the financial situation in the Russian market significantly deteriorated during 2008, particularly in the fourth quarter. As a result of global volatility in financial and commodity markets, among other factors, there has been a significant decline in the Russian stock market since mid-2008. Since September 2008, there has been increased volatility in currency markets and the Russian Rouble (RR) has depreciated significantly against some major currencies. The official US Dollar (USD) exchange rate of the Central Bank of the Russian Federation ("CBRF") increased from RR 25.3718 at 1 October 2008 to RR 30.2442 at 31 December 2009.

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes. Furthermore, the need for further developments in the bankruptcy laws, the absence of formalised procedures for the registration and enforcement of collateral, and other legal and fiscal impediments contribute to the challenges faced by legal entities currently operating in the Russian Federation. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the government, together with tax, legal, regulatory, and political developments.

Management is unable to predict all developments which could have an impact on the utilities sector and the wider economy and consequently what effect, if any, they could have on the financial position of the Group.

Impact of the ongoing global financial and economic crisis. The ongoing global financial and economic crisis that emerged out of the severe reduction in global liquidity which commenced in the middle of 2007 (often referred to as the "Credit Crunch") has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector and wider economy, and, at times, higher interbank lending rates and very high volatility in stock and currency markets. The uncertainties in the global financial markets have also led to failures of banks and other corporates, and to bank rescues in the United States of America, Western Europe, Russia and elsewhere. The full extent of the impact of the ongoing financial crisis is proving to be difficult to anticipate or completely guard against.

The uncertainty in the global markets combined with other local factors has led over the recent period to very high volatility in the Russian Stock Markets and at times much higher than normal interbank lending rates. Management is unable to estimate reliably the effects on the Group's financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Management believes it takes all the necessary measures to support the sustainability and growth of the Group's business in the current circumstances.

Relations with the state and current regulation. As at 31 December 2009 the Company is controlled by Gazprom, the largest Russian gas production company.

Until 1 July 2008, Russian Open Joint Stock Company for Energy and Electrification Unified Energy System of Russia ("RAO UES") owned 65.47% of the Company, on 1 July 2008 as part of electric industry restructuring process RAO UES ceased to exist as a separate legal entity. Also as a result of the restructuring process Gazprom Group has obtained control over the Company at this date.

Gazprom Group, in its turn, is controlled by the Russian Federation; therefore, the Russian Government is the ultimate controlling party of the Group as at 31 December 2009 and 31 December 2008.

The Group's customer base includes a large number of entities controlled by or related to the state. The list of the Group's major fuel suppliers includes subsidiaries of Gazprom Group which is ultimately controlled by the state.

The state directly affects the Group's operations through regulation by the Federal Service for Tariffs ("FST") with respect to its wholesale energy sales under the terms of Regulated Contracts, and by the Regional services for tariffs ("RSTs") with respect of its heat sales. Operations of all generation facilities are centrally coordinated by OJSC "System operator of the Unified energy system" ("SO UES") in order to meet system requirements in an efficient manner. SO UES is controlled by the Russian Federation.

Tariffs which the Group may charge for sales of electric energy and heat are governed by regulations specific to the electricity and heat industry and by regulations applicable to natural monopolies in the Russian Federation. Historically the tariffs have been based on a "cost-plus" basis, meaning tariffs are based on the cost of service plus a margin, where costs are determined under the Regulations on Accounting and Reporting of the Russian Federation ("RAR"), a basis of accounting which significantly differs from International Financial Reporting Standards ("IFRS"). In practice, tariff decisions were impacted significantly by social and political considerations, causing significant delays in tariff determinations and tariff increases that were lower than required to compensate for cost increases.

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

Sector restructuring. The Russian electric utilities industry was undergoing a restructuring process designed to introduce competition into the electricity and capacity sector and to create an environment in which the successor companies of RAO UES (including the Company) can raise the capital required to maintain and expand current capacity.

A crucial step in developing a competitive wholesale electricity (capacity) market was the adoption of the new Wholesale Electric Power (capacity) Market (NOREM) Rules of the Transitional Period ("Rules") approved by Resolution of the Government of the Russian Federation No. 529 dated 31 August 2006 and which came into force on 1 September 2006. Under the new wholesale market framework three sectors of the electricity market were introduced: sector of Regulated Contracts (sales of pre-determined volumes are performed at tariffs (prices) approved by FST), day-ahead market (electricity competitive trading, non-regulated prices) and balancing (deviation) electricity market (non-regulated prices). Also, mechanism of the sale (purchase) of electricity at non-regulated prices was determined. No mechanism of sale (purchase) of capacity at non-regulated prices was introduced.

The period from 1 September 2006 to the end of 2010 appears to be "transitional period" pending full liberalisation of the wholesale electricity and capacity market.

At the beginning of the "transitional period" Regulated Contracts covered almost all volume of electricity and power produced and sold. During the "transitional period" the share of the Regulated Contracts sector is planned to gradually reduce in accordance with the schedule incorporated into the government Resolution No. 205 dated 7 April 2007 in the following way: 70 – 85% in 2008, 65 – 70% in the first half of 2009 and 45 - 50% after 1 July 2009.

By 2011 it is expected that a fully competitive market will be developed and as the result, electricity and capacity will be traded at non-regulated prices, excluding sales to the households which will continue to be regulated by the state.

On 28 June 2008 the amendments to the above mentioned Rules were approved by the government Resolution No. 476, which stipulated the introduction of competitive mechanisms of trade of capacity on the new wholesale market. Within the transition period a respective portion of capacity (as defined in the schedule referred to above) could be traded at non-regulated prices.

The competitive mechanisms of capacity trade ensure suppliers guaranteed payment for capacity included in the annual forecast balance as at 1 January 2007 at tariffs not exceeding regulated tariffs approved by FST. At the same time sales of above mentioned capacity volumes can be made through bilateral agreements with customers at non-regulated tariffs, not limited by FST tariff. Capacity price of new generating units put into operation after 1 January 2007 is not limited by regulated tariff but should be economically sound. The correspondence of supplier application to the above criteria is monitored by wholesale trade organization – Non-profit Partnership Council for Organizing Efficient System of Trading at Wholesale and Retail Electricity and Capacity Market (hereinafter NP Council Market).

On 13 April 2010 Russian Federation Government adopted Resolution №238 "Pricing strategy of capacity trading on the wholesale electricity (capacity) market during the transition period" effective from 26 April

2010. This Resolution determines the pricing parameters of capacity trading on the whole sale capacity market during the transition period and together with Russian Federation Government Resolution № 89 "Certain organizational aspects of long-term capacity take-off on a competitive basis on the wholesale electricity (capacity) market", fully determine the principles of whole sale capacity market functioning.

In accordance with above resolution in case of discover by the Federal Antimonopoly Service (FAS) the reason for settle and applying the maximum level of capacity price, based on competitive capacity take-off in the zone of free capacity exchange, the maximum level of capacity price will be settled. This level will be defined for 2011 as a maximum monthly price on the level of RR 112.5 thousand per MWt for the first price zone and RR 120.35 thousand for the second price zone adjust on coefficient of utilizing power for auxiliaries (1,05).

Management believes that ultimately a stable regulatory regime and a competitive power market will be put in place such that the Group will be able to raise required financing to sustain the business. However, there can be no assurance in this regard.

Note 2. Financial condition

As at 31 December 2009, the Group's current liabilities exceeded its current assets by RR 1,888,971 thousand (as at 31 December 2008 the Group's current assets exceeded its current liabilities by RR 2,280,530 thousand). This excess resulted from reclassification of long - term discount bonds issued in July 2007 and then subsequently partly was reissued at the end April 2008 at 94.80% of nominal value (see Note 15, 16) to the current debt with maturity expire date 5 July 2010. Management plans to find the necessary financials for repayment of this bond. Also Company has already repaid their current loans ahead of schedule in the first quarter of 2010 (see Note 30).

Note 3. Basis of preparation

Statement of compliance. These consolidated financial statements ("Financial Statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS") and related interpretations adopted by the International Accounting Standards Board ("IASB").

The Company and each subsidiary of the Company individually maintain its own books of accounts and prepares its statutory financial statements in accordance with the RAR. The accompanying Financial Statements are based on the statutory records and adjusted and reclassified for the purpose of fair presentation in accordance with IFRS.

Functional and presentation currency. The national currency of the Russian Federation is the RR, which is the functional currency of the Company and its subsidiaries and the currency in which these financial statements are presented. All financial information presented in RR has been rounded to the nearest thousand.

Accounting for the effects of hyperinflation. The Russian Federation has previously experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29 Financial Reporting in Hyperinflationary Economies. IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the reporting date. Hyperinflation in the Russian Federation ceased effective from 1 January 2003. Restatement procedures of IAS 29 are therefore only applied to assets acquired or revalued and liabilities incurred or assumed prior to that date. For these balances, the amounts expressed in the measuring unit current at 31 December 2002 are treated as the basis for the carrying amounts of these financial statements.

New accounting developments. Certain new standards and interpretations became effective for the Company from 1 January 2009:

IFRS 8, Operating Segments. The standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments, with segment information presented on a similar basis to that used for internal reporting purposes. The revised IFRS 8 had an impact on the presentation of information about its operating segments but had no impact on the recognition or measurement of specific transactions and balances.

IAS 23, Borrowing Costs, revised in March 2007. The main change is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. Borrowing costs that are directly attributable to the acquisition,

construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale (a qualifying asset) form part of the cost of that asset, if the commencement date for capitalisation is on or after 1 January 2009. Other borrowing costs are recognised as an expense using the effective interest method. The revised IAS 23 did not have impact on this financial statement, because there was no interest capitalised during reporting period.

IAS 1, Presentation of Financial Statements, revised in September 2007. The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which includes all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities are allowed to present two statements: a separate income statement and a statement of comprehensive income. The Company has elected to present a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a balance sheet (Statement of Financial Position) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The revised IAS 1 had an impact on the presentation of the Company's financial statements but had no impact on the recognition or measurement of specific transactions and balances.

Improvements to International Financial Reporting Standards (issued in May 2009). In 2008, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The amendments did not have an impact on the Company.

Puttable Financial Instruments and Obligations Arising on Liquidation - IAS 32 and IAS 1 Amendment. The amendment requires classification as equity of some financial instruments that meet the definition of financial liabilities. The amendment did not have an impact on these financial statements.

Vesting Conditions and Cancellations - Amendment to IFRS 2, Share-based Payment. The amendment clarified that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The amendment did not have an impact on these financial statements.

IFRIC 13, Customer Loyalty Programmes. IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. The amendment did not have an impact on these financial statements.

IFRIC 15, Agreements for the Construction of Real Estate. The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. It also provides criteria for determining when entities should recognise revenue on such transactions. The amendment did not have an impact on these financial statements.

Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate - IFRS 1 and IAS 27 *Amendment, issued in May 2008.* The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous GAAP carrying value as deemed cost in the separate financial statements. The amendment also requires

distributions from pre-acquisition net assets of investees to be recognised in profit or loss rather than as a recovery of the investment. The amendment did not have an impact on these financial statements.

Improving Disclosures about Financial Instruments - Amendment to IFRS 7, Financial Instruments: *Disclosures, issued in March 2009*. The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity is required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (b) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. The enhanced disclosures are included in these financial statements.

Embedded Derivatives - Amendments to IFRIC 9 and IAS 39, issued in March 2009. The amendments clarify that on reclassification of a financial asset out of the 'at fair value through profit or loss' category, all embedded derivatives have to be assessed and, if necessary, separately accounted for. The amendment did not have an impact on these financial statements.

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

Certain new standards and interpretations have been published that are mandatory for the Company's accounting periods beginning on or after 1 January 2010 or later periods and which the Company has not early adopted:

IFRIC 17, Distribution of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009). The amendment clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets will be recognised in profit or loss when the entity settles the dividend payable. IFRIC 17 is not relevant to the Company's operations because it does not distribute non-cash assets to owners.

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

Classification of Rights Issues - Amendment to IAS 32 (issued 8 October 2009; effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives.

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

IFRS 3, Business Combinations (revised January 2009; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer will have to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. IFRS 3 is not relevant to the Company as it does not expect a business combination to occur.

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

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

Group Cash-settled Share-based Payment Transactions - Amendments to IFRS 2, Share-based Payment (effective for annual periods beginning on or after 1 January 2010). The amendments provide a clear basis to determine the classification of share-based payment awards in both consolidated and separate financial statements. The amendments incorporate into the standard the guidance in IFRIC 8 and IFRIC 11, which are withdrawn. The amendments expand on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation. The amendments also clarify the defined terms in the Appendix to the standard. The Company does not expect the amendments to have any material effect on its financial statements.

Additional Exemptions for First-time Adopters - Amendments to IFRS 1, First-time Adoption of IFRS (effective for annual periods beginning on or after 1 January 2010). The amendments exempt entities using the full cost method from retrospective application of IFRSs for oil and gas assets and also exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4, 'Determining Whether an Arrangement Contains a Lease' when the application of their national accounting requirements produced the same result. The amendments will not have any impact on the Company's financial statements.

Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of

intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. The Company does not expect the amendments to have any material effect on its financial statements.

Amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. Management of the Group currently assesses the potential effect of the amendment.

IFRS 9, Financial Instruments Part 1: Classification and Measurement. IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted.

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (issued in November 2009, effective for annual periods beginning on or after 1 July 2010 with earlier application permitted). The interpretation clarifies the requirements of International Financial Reporting Standards (IFRSs) when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. IFRIC 19 clarifies that a) the entity's equity instruments issued to a creditor are part of the consideration paid to extinguish the financial liability; b) the equity instruments issued are measured at their fair value. If their fair value cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished; c) the difference between the carrying amount of the financial liability extinguished and the initial measurement amount of the equity instruments issued is included in the entity's profit or loss for the period. The Company is considering the implications of the standard, the impact on the Company and the timing of its adoption by the Company.

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

Going concern. The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realisation of assets and the satisfaction of liabilities in the normal course of business. The recoverability of the Group's assets, as well as the future operations of the Group, may be significantly affected by the current and future economic environment. The accompanying financial statements do not include any adjustments should the Group be unable to continue as a going concern.

Critical accounting estimates and assumptions. The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and

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

Provision for impairment of trade and other receivables

Provision for impairment of trade and other receivables is based on the Group's assessment of whether the collectability of specific customer accounts worsened compared to prior estimates. If there is deterioration in a major customer's creditworthiness or actual defaults are higher than the estimates, the actual results could differ from these estimates. See effect of these critical accounting estimates and assumptions in Note 10.

Provision for impairment of property, plant and equipment and assets under construction

At each reporting date the Group assesses whether there is any indication that the recoverable amount of the Group's property, plant and equipment and assets under construction has declined below the carrying value. The recoverable amount of property, plant and equipment and assets under construction is the higher of an asset's fair value less costs to sell and its value in use. When such a decline is identified, the carrying amount is reduced to the recoverable amount. The amount of the reduction is recorded in the consolidated income statement in the period in which the reduction is identified. If conditions change and management determines that the value of property, plant and equipment and assets under construction has increased, the impairment provision will be fully or partially reversed. See effect of these critical accounting estimates and assumptions in Note 6. As described in Notes 1, 2, and 27, the government's economic, social and other policies could have material effects on the operations of the Group.

Useful lives of property, plant and equipment

The estimation of the useful lives of an item of property, plant and equipment is a matter of management judgment based upon experience with similar assets. In determining the useful life of assets, management considers the expected usage, estimated technical obsolescence, physical wear and tear and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments for future depreciation rates. See effect of these critical accounting estimates and assumptions in Note 6.

Tax contingencies

Russian tax legislation is subject to varying interpretations and changes, which can occur frequently. Where the Group management believes it is probable that their interpretation of the relevant legislation and the Group's tax positions cannot be sustained, an appropriate amount is accrued for in these IFRS financial statements. See effect of these critical accounting estimates and assumptions in Note 27.

Note 4. Summary of significant accounting policies

Principles of consolidation. The Financial Statements comprise the financial statements of OJSC "OGK-2" and the financial statements of those entities whose operations are controlled by OJSC "OGK-2".

Control is presumed to exist when OJSC "OGK-2" controls, directly or indirectly through subsidiaries, more then half of the voting power of an entity unless or it can be clearly demonstrated that such ownership does not constitute control. Control although exists when the parent owners half or less of the voting power when there is:

(a) power over more than half of the voting rights by virtue of an agreement, with other investors;
(b) power to govern the financial and operating polices of the entity under a statute or an agreement;
(c) power to appoint or remove the majority of the members of the board of directors or equivalent governing body and control of the entity is by that board or body; or
(d) power to cast the majority of votes at meeting of the boards of directors or equivalent governing body and control over the entity is by that board or body.

A) Subsidiaries

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

B) Transactions eliminated on consolidation

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

Transfers of businesses from parties under common control. The Group was formed by the combination of a number of businesses under common control. Contributions to share capital of shares in subsidiaries (businesses) from parties under common control are accounted for using predecessors basis of accounting. The assets and liabilities of the subsidiary transferred under common control are accounted at the predecessor entity's carrying amounts. Because of the consequent use of the predecessor basis of accounting, the principal component of the net equity recognised for the Group is based on the historic carrying value of the net assets of the businesses contributed as recorded in the IFRS financial records of the predecessor enterprises, rather than the fair values of those net assets. To account for mergers of the subsidiaries transferred under common control the equity statement reflects additions to share capital in the amount equal to the statutory nominal value of the shares issued and share premium which is based on the fair value of the net assets of the businesses contributed. In accordance with the predecessor basis of accounting any difference between the carrying amount of net assets and the nominal value of share capital contributed and share premium is accounted for in these consolidated financial statements as a merger reserve.

Foreign currency. Monetary assets and liabilities, held by the Group and denominated in foreign currencies at the reporting date, are translated into RR at the exchange rates prevailing at that date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Gains and losses resulting from the settlement of such transactions and from the translation of the monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

The official Russian Rouble to US dollar exchange rates as determined by the Central Bank of the Russian Federation were 30.2442 and 29.3804 as of 31 December 2009 and 31 December 2008, respectively. The official RR to EURO exchange rates as determined by the Central Bank of the Russian Federation were 43.3883 and 41.4411 as of 31 December 2009 and 31 December 2008, respectively.

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

Property, plant and equipment. Following predecessor basis of accounting property, plant and equipment were recognized at the carrying value determined in accordance with IFRS by the predecessors.

Property, plant and equipment are stated at depreciated cost less impairment. Deemed cost was initially determined by a third party valuation as at 31 December 1997 and restated for the impact of inflation until 31 December 2002. Adjustments are made for additions, disposals and depreciation charges. At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the difference is recognised as an expense (impairment loss) in the income statement. An impairment loss recognised in prior years is reversed if there has been an increase in the estimated fair value or value in use used to determine an asset's recoverable amount.

The amounts determined by the third party valuation represent an estimate of depreciated replacement cost. The third party valuation was performed in order to determine a basis for cost, because the historical accounting records for property, plant and equipment were not readily available, in accordance with paragraph 16 of IAS 29. Therefore, this third party valuation is not a recurring feature since it was intended to determine the initial cost basis of property, plant and equipment and the Group has not adopted a policy of revaluation on subsequent measurement.

Renewals and improvements are capitalised and the assets replaced are retired. The cost of repair and maintenance are expensed as incurred. Gains and losses arising from the retirement of property, plant and equipment are included in the income statement as incurred.

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

Land is not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives. Depreciation of property, plant and equipment, evaluated by the independent appraisers at 31 December 1997, was calculated using depreciation rates based on remaining useful lives identified on the date of evaluation.

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

The remaining useful lives, in years, are as follows:

Classes of property, plant and equipment	At 1 January 2009 (min - max)	At 1 January 2009 (about 80% of carrying amount)
Production buildings	3-58	29-39
Constructions	3-38	3-24
Energy machinery and equipment	3-25	5-23
Other machinery and equipment	2-35	2-13
Other	2-21	3-15

Financial instruments - key measurement terms. Depending on their classification financial instruments are carried at fair value, cost, or amortised cost as described below.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. For assets and liabilities with offsetting market risks, the Group may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised

discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Classification of financial assets. The Group classifies its financial assets into the following categories: loans and receivables and available-for-sale investments. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Loans and receivables. Loans and receivables are non-derivarive financial assets with fixed or determinable payments, which are not quoted on an active market. These assets are included into the current assets except when the maturity is greater than 12 months after the reporting date. These assets are classified as non-current assets.

(b) Available-for-sale investments. Available-for-sale financial assets include investment securities which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date.

Initial recognition of financial instruments. All financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Derecognition of financial assets. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Available-for-sale investments. Available-for-sale investments are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in profit or loss for the year as finance income. Dividends on available-for-sale equity instruments are recognised in profit or loss for the year as finance income when the Group's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired at which time the cumulative gain or loss is reclassified from other comprehensive income to finance income in profit or loss for the year.

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of available-for-sale investments. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is reclassified from other comprehensive income to finance costs in profit or loss for the year. Impairment losses on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively

related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through current period's profit or loss.

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

Trade and other receivables. Trade and other receivables are recorded inclusive of value added taxes. Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. In practice, the entity has estimated that the nominal amount of trade and other receivables approximates the fair value at inception. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 90 days overdue) are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate for similar borrowers. The carrying amount of the asset is reduced through the use of an impairment provision account, and the amount of the loss is recognised in the income statement within operating expenses. When a receivable is uncollectible, it is written off against the impairment provision account for receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in the income statement.

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

Share capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Treasury shares. Where the Company or its subsidiaries purchase the Company's equity instruments, the consideration paid, including any directly attributable incremental costs, net of income taxes, is deducted from equity attributable to the Company's owners until the equity instruments are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's owners.

Debt. Debt is recognized initially at its' fair value. In subsequent periods, debt is stated at amortized cost using the effective yield method; any difference between the fair value at initial recognition (net of transaction costs) and the redemption amount is recognized in the income statement as an interest expense over the period of the debt obligation.

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

Value added tax on purchases and sales (VAT). Output VAT related to sales is payable to tax authorities on the earlier of (a) receipt of advance from customers or (b) delivery of goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of goods or services and the respective VAT invoice. Input VAT from advances paid to suppliers after 1 January 2009 is recoverable upon advance payment provided the receipt of respective VAT invoice.

The tax authorities permit the settlement of VAT on net basis. VAT related to sales and purchases is recognized in the statement of financial position at nominal value on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

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

Intangible assets. The Company's intangible assets have definite useful lives and primarily include capitalised computer software, licences. Acquired computer software, licences, are capitalised on the basis of the costs incurred to acquire and bring them to use.

Development costs that are directly associated with identifiable and unique software controlled by the Company are recorded as intangible assets if an inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. Maintenance costs associated with computer software are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives.

Intangible assets are reviewed for impairment whenever the events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

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

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

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

Prepayments/Advances paid. Prepayments/advances paid are carried at cost less provision for impairment. A prepayment/advance paid is classified as non-current when the goods or services relating to the prepayment/advance paid are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments/ advances paid to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Advances paid to capital contractors and to acquire intangible assets are included into carrying amount of construction in progress balance of property, plant and equipment and intangible assets balance, respectively, excluding related input VAT. Input VAT from the advances paid is included into carrying amount of other non-current assets. The input VAT is stated at its nominal. Other prepayments/advances paid offset when the goods or services relating to the prepayments/advance paid are received. If there is an indication that the assets, goods or services relating to a prepayment/advances paid will not be received, the carrying value of the prepayment/ advance paid is written down accordingly and a corresponding impairment loss is recognised in profit or loss.

Borrowing costs. Prior to 1 January 2009, the Group recognised all borrowing costs as an expense in the period in which they are incurred.

Starting from 1 January 2009 the Group adopted revised IAS 23 Borrowing Costs. The main change is the removal of the option of immediately recognising as an expense borrowing costs related to assets that take a substantial period of time to get ready for use or sale.

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale (a qualifying asset) form part of the cost of that asset, if the commencement date for capitalisation is on or after 1 January 2009. Other borrowing costs are recognised as an expense using the effective interest method.

The Group capitalises borrowing costs that would have been avoided if it had not made capital expenditure on qualifying assets. The commencement date for capitalisation is when (i) the Group incurs expenditures for the qualifying asset; (ii) it incurs borrowing costs; and (iii) it undertakes activities that are necessary to prepare the asset for its intended use or sale. Capitalisation ceases when all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

Interest or other investment income is not deducted in arriving at the amount of borrowing costs available for capitalisation, except where the Group obtains specific borrowings for the purpose of acquiring a qualifying asset and has investment income on the temporary investment of funds obtained through such specific borrowings.

During the year ended 31 December 2009 the Group did not acquire any new qualifying assets for which construction would commence on or after 1 January 2009 correspondingly no interest was capitalized in accordance with the new rules effective from 1 January 2009.

Financial guarantees. Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the guarantee. At the end of each reporting period, the guarantees are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the obligation at the end of the reporting period.

Restoration provision. Estimated costs of dismantling and removing an item of property, plant and equipment (asset retirement obligations) are added to the cost of the item either when an item is acquired or as the item is used during a particular period for purposes other than to produce inventories during that period. Changes in the measurement of an existing asset retirement obligation that result from changes in the estimated timing or amount of the outflows, or from changes in the discount rate alter the previously recognised revaluation surplus or deficit for asset carried at valuation or adjust the cost of the related asset in the current period for assets carried under the cost model. The Group has an obligation to restore the surface of ash dumps when they are full.

Finance leases. Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The corresponding rental obligations, net of future finance charges, are included in debts. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest cost is charged to the income statement over the lease period using the effective interest method.

Operating leases. Where the Group is a lessee in a lease which does not transfer substantially all the risk and rewards incidental to ownership from the lessor to the Group, the total lease payments, including those on expected termination, are charged to profit or loss on a straight-line basis over the period of the lease.

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

Pension and post-employment benefits. In the normal course of business the Group contributes to the Russian Federation defined contribution state pension scheme on behalf of its employees. Mandatory contributions to the governmental pension scheme are expensed when incurred and included in employee benefit expenses and payroll taxes in the income statement.

Benefit plans define the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognised in the statement of financial position in respect of defined benefit pension plans operated by the Group is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses. The defined benefit obligations are calculated using the projected unit credit method. The present value of the defined benefit obligations are determined by discounting the estimated future cash outflows using interest rates of

government bonds that are denominated in the currency in which the benefits will be paid associated with the operation of the plans, and that have terms to maturity approximating the terms of the related retirement benefit obligations.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligations are charged or credited to the income statement over the employees' expected average remaining working lives.

The effect of curtailment or settlement of a defined benefit plan is recognised immediately in the income statement.

Share-based payment transactions. The share option plan allows Company's employees to acquire shares of the Company. The fair value of the options is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options is measured based on the Black-Scholes formula, taking into account the terms and conditions upon which the instruments were granted.

Revenue recognition. Revenue is recognized on the delivery of electricity, capacity and heat during the period. Revenues are measured at the fair value of consideration received or receivable. Revenue amounts are represented exclusive of value added tax. Interest income is recognised on a time-proportion basis using the effective interest method.

Segment reporting. Operating segments are defined as types of operations that generate revenue and incur expenses that are covered by separate financial information regularly submitted to the decision-making body which is represented by the Company's Management Board. Primary activity of the Group is production of electric and heat power and capacity which covers 99.7% of the Group revenue. The Group generates its revenues from the generation of electricity and heat in Russian Federation, so the Group holds assets in the same geographical area - the Russian Federation. The technology of electricity and heat production does not allow segregation of electricity and heat segments (see Note 29).

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

Note 5. Related Parties

Information on significant transactions and balances with related parties is presented below. All transactions were made in Russian Federation and in Russian Roubles. Transactions with related parties have been made on the same terms and conditions as similar operations with the parties external to the Group. Prices for natural gas and heat are based on tariffs set by FST, prices for electricity and capacity based on tariffs set by FST and also based on competitive take-off on the wholesale electricity (capacity) market. Bank loans are granted at market rates. Bank deposits are put at market rates.

Transactions with Gazprom Group

Transactions with Gazprom Group were as follows:

	12 months ended 31 December 2009	**6 months ended 31 December 2008**	**6 months ended 30 June 2008***
Sales:			
Sales of electricity and capacity	632,111	314,481	70,476
Sales of heat	330	97	169
Other income	-	5,774	-
Purchases:			
Purchases of gas	12,356,659	6,138,768	5,635,969
Other expenses	19,110	7,212	7,336

* Over the period from 1 January 2008 to 30 June 2008 the Group was not controlled by Gazprom Group.

Balances with Gazprom Group were as follows:

	31 December 2009	31 December 2008
Trade and other receivables	749,247	595,275
Trade and other payables	11,954	251,395

Deposits held in banks related to Gazprom Group were as follows (including interest receivable):

	31 December 2009	31 December 2008
CJSB "Gazenergoprombank"	900,000	502,869

Interest income on bank deposits accrued for the year ended 31 December 2009 was RR 70,858 thousand (for the year ended 31 December 2008: RR 66,187 thousand).

Transactions with state-controlled entities

In the normal course of business the Group enters into transactions with other entities under government control (in addition to transactions with Gazprom Group).

Significant transactions with state-controlled entities were as follows:

	Year ended 31 December 2009	Year ended 31 December 2008*
Sales:		
Sales of electricity, capacity, heat and other utility services	2,632,086	1,553,713
Other sales	8,560	7,087
Other income	-	2,739
Purchases:		
Dispatcher's fees	701,335	285,983
Other purchases	551,870	388,667
Other expenses	36,574	10,920
Charge of provision for impairment of trade and other receivables	1,588	8,237
Reversal of provision for impairment of trade and other receivables	(158)	(7,770)

* Include transactions with state-controlled entities from 1 July 2008 to 31 December 2008, which are ex-RAO UES subsidiaries.

Significant balances with state-controlled entities were as follows:

	31 December 2009	31 December 2008
Trade and other receivables, gross	86,165	75,934
Provision for impairment of trade and other receivables	(61,840)	(60,410)
Available-for-sale investments	51,334	27,182
Trade and other payables	256,839	155,843
Current debt to OJSB "Sberbank"	2,605,602	1,503,553

Interest expense accrued in respect of debt owed to state-controlled banks for the year ended 31 December 2009 was RR 371,650 thousand (for the year ended 31 December 2008: RR 159,954 thousand).

Deposits held in state-controlled banks were as follows (including interest receivable):

	31 December 2009	31 December 2008
OJSB "Sberbank"	-	503,066

Interest income on bank deposits accrued for the year ended 31 December 2009 was RR 47,368 thousand (for the year ended 31 December 2008: RR 43,025 thousand).

Transactions with key management

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

Fees, compensation or allowances to the members of the Board of Directors for their services in that capacity and for attending Board meetings are paid depending on results for the year.

Total remuneration accrued to the members of the Board of Directors and Management Board is presented below:

	Year ended 31 December 2009		Year ended 31 December 2008	
	Expenses	Accrued liabilities	Expenses	Accrued liabilities
Remuneration	48,992	4,766	87,094	2,054
Payroll taxes	1,138	229	4,008	65
Medical insurance	723	-	1,107	-
Termination benefits	4,635	-	332,214	-
Share option plan	5,412	-	(2,783)	-

The Board of Directors decided to terminate the contract with the General Director from 30 May 2008. In addition a number of senior management personnel decided to have their contracts terminated with effect from 29 May 2008. The amount of termination benefits arising from this is RR 510,573 thousand, out of which RR 332,214 thousand relate to former members of the Company's Management Board. This is expensed in 2008.

As at 31 December 2008 the Group has issued a guarantee to a third party in respect of the obligation of one member of the Management Board in amount of RR 5,940 thousand.

Note 6. Property, plant and equipment

Cost	Production buildings	Construc-tions	Energy machinery and equipment	Other machinery and equipment	Other	Construction in progress	Total
Opening balance as at 1 January 2009	10,713,056	4,452,932	11,132,577	2,598,243	462,175	19,049,174	48,408,157
Additions	12,023	19,563	30	23,721	20,645	1,423,759	1,499,741
Transfer	64,475	13,474	110,305	125,429	27,842	(341,525)	-
Disposals	(83,950)	(47,049)	(42,463)	(24,269)	(12,914)	(113,175)	(323,820)
Closing balance as at 31 December 2009	**10,705,604**	**4,438,920**	**11,200,449**	**2,723,124**	**497,748**	**20,018,233**	**49,584,078**
Accumulated depreciation (including impairment)							
Opening balance as at 1 January 2009	(3,257,218)	(2,230,270)	(6,158,336)	(1,158,703)	(267,115)	(551,378)	(13,623,020)
Charge for the period	(231,412)	(249,632)	(530,714)	(214,098)	(56,635)	-	(1,282,491)
Reversal of impairment	-	-	-	-	-	33,277	33,277
Disposals	13,984	415	19,054	15,358	9,234	75,697	133,742
Closing balance as at 31 December 2009	**(3,474,646)**	**(2,479,487)**	**(6,669,996)**	**(1,357,443)**	**(314,516)**	**(442,404)**	**(14,738,492)**
Net book value as at 31 December 2009	**7,230,958**	**1,959,433**	**4,530,453**	**1,365,681**	**183,232**	**19,575,829**	**34,845,586**
Net book value as at 31 December 2008	**7,455,838**	**2,222,662**	**4,974,241**	**1,439,540**	**195,060**	**18,497,796**	**34,785,137**

Cost	Production buildings	Construc-tions	Energy machinery and equipment	Other machinery and equipment	Other	Construction in progress	Total
Opening balance as at 1 January 2008	10,676,052	3,820,845	10,796,868	2,331,812	397,371	2,516,670	30,539,618
Additions	9,311	468,973	51,117	41,440	60,483	17,654,873	18,286,197
Transfer	32,049	167,974	299,472	240,317	19,564	(759,376)	-
Disposals	(4,356)	(4,860)	(14,880)	(15,326)	(15,243)	(362,993)	(417,658)
Closing balance as at 31 December 2008	**10,713,056**	**4,452,932**	**11,132,577**	**2,598,243**	**462,175**	**19,049,174**	**48,408,157**
Accumulated depreciation (including impairment)							
Opening balance as at 1 January 2008	(2,995,140)	(2,029,359)	(5,658,689)	(940,736)	(210,058)	(598,116)	(12,432,098)
Charge for the period	(263,069)	(205,341)	(507,320)	(230,550)	(70,147)	-	(1,276,427)
Impairment loss	-	-	-	-	-	(287,903)	(287,903)
Disposals	991	4,430	7,673	12,583	13,090	334,641	373,408
Closing balance as at 31 December 2008	**(3,257,218)**	**(2,230,270)**	**(6,158,336)**	**(1,158,703)**	**(267,115)**	**(551,378)**	**(13,623,020)**
Net book value as at 31 December 2008	**7,455,838**	**2,222,662**	**4,974,241**	**1,439,540**	**195,060**	**18,497,796**	**34,785,137**
Net book value as at 31 December 2007	**7,680,912**	**1,791,486**	**5,138,179**	**1,391,076**	**187,313**	**1,918,554**	**18,107,520**

The assets received by the Group as a result of the merger with its predecessors did not include the land on which the Group's buildings and facilities are situated. The Group has the right for rent of this land. In accordance with Russian legislation this right should be formalized either into purchase of this land upon application to the state registration body, or into lease of this land prior to 1 January 2012 (in 2009 the date was extended from 1 January 2010 to 1 January 2012).

As at 31 December 2009 the Group owns 0.7 hectares of land plot (included in group "Other") with carrying amount of RR 18,033 thousand purchased in 2007.

Additions to property, plant and equipment in 2008 included capitalization of ash dump restoration costs (see Note 20).

In the framework of investment program implementation (see also Note 26) in 2008 the Group made advance payments to its major contractors OJSC "E4 Group" and CJSC "QUARTZ-Tyumen" (subsequently renamed to CJSC "QUARTZ-Novie Technologii"). As at 31 December 2009 the advances given to above mentioned contractors amounted to RR 17,424,519 thousand (net of VAT) are recognised within construction in progress balance. The respective input VAT is recognised within other non-current assets balance (see Note 8).

In 2009 the Company entered into negotiations with OJSC "E4 Group" with the purpose to receive back outstanding advances due to OJSC "E4 Group" did not fulfil its initial commitments. As a result of the negotiation in 2010 the Company has signed amicable arrangement with OJSC "E4 Group" to change the scope to build a one power unit on site of Serovskaya GRES instead of two power units on site of Stavropolskaya GRES and to replace of the provided security under the outstanding advances. In February 2010 the Company recalled guarantees of Bank of Moscow, initially provided to secure advances given to OJSC "E4 Group" in 2008.

Also, at present the management of the Company negotiates with CJSC "QUARTZ-Novie Technologii" for signing the supplementary agreement and changing the terms of the general contract and reducing the scope to build a one power unit at the site of Troitskaya GRES instead of two power units. It is planned that advances paid earlier to supply equipment for two power units will be considered as advance payments for construction work on assembling a power unit, mentioned above. The management of the Company does not expect that CJSC "QUARTZ-Novie Technologii" would refuse the proposed changes to the contract.

The return of the advance payments made to CJSC "QUARTZ-Novie Technologii" in case the contractor fails to fulfil its obligations prescribed by the general construction contract with the Group as at 31 December 2009 in amount of RR 220,568 thousand (including VAT) was guaranteed to the Group by OJSC "Alfa-bank" and in amount of RR 370,000 thousand (including VAT) was guaranteed to the Group by CSC "Vneshprombank".

Impairment provision for property, plant and equipment

The impairment provision balance included in accumulated depreciation balance as at 31 December 2009 is RR 442,404 thousand (as at 31 December 2008 – RR 551,378 thousand) relates to the assets under construction that have been indefinitely suspended for further construction and are not included in the Group's investment program (see Note 26). In 2008 the management of the Group assessed that additional provision of RR 287,903 thousand is necessary to certain construction in progress objects which is not currently planned for completion. The impairment loss in amount of RR 287,903 thousand was recognised within operating expenses (see Note 22).

In addition to this the management of the Group performed an impairment test for property, plant and equipment to assess if the carrying value of property, plant and equipment is not less than the recoverable amount of property, plant and equipment. For the purposes of the impairment test, each of the Group's power plants was used as the relevant cash-generating unit. The recoverable amount was generally based on value in use, which was assessed based on estimated future cash flows using various assumptions. Based on the results of the test performed taken into account current economic conditions in the Russian Federation the management of the Group has concluded that no impairment provision for cash-generating units is necessary and that the existing provision balance represents the best estimate of impairment for property, plant and equipment balance.

The estimates used by management for cash flows forecast are based on the Company's business-plan for 2010. Assumption and estimates for further period of projections are in accordance with "The Social-economic forecast of the Ministry for economic development of the Russian Federation for 2010-2012" and the "Scenario of Economic Performance of power industry of the Russian Federation till 2030", developed by the Agency for the energy balance forecasts and approved by the Ministry of energy of the Russian Federation. The management used the following assumptions:

- period of projections is from 2010 to 2030, terminal value was assessed using 3.2% growth rate;
- post-tax discount rate of 15.23% was applied for the whole period of projections.

The recoverable amounts assessed for all cash-generating units with the exception of Serovskaya GRES are significantly above their carrying values. As a result, these cash-generating units are not sensitive to variations of the assumptions and, therefore, sensitivity analysis for these cash-generating units is not provided in the financial statements.

Sensitivity analysis for the major assumptions for Serovskaya GRES is provided below. In sensitivity analysis for Serovskaya GRES each assumption was varied other assumptions being constant. Sensitivity analysis proved the following results:

- Should the annual growth rate of the non-regulated electricity tariffs decrease by 1%, the carrying value of the property, plant and equipment would be RR 1,612 million lower;
- Should the annual growth rate of the selling price for electricity on regulated market decrease by 1%, the carrying value of the property, plant and equipment would be RR 489 million lower;
- Should the annual growth rate of the gas purchase price increase by 1%, the carrying value of the property, plant and equipment would be 769 million lower;
- Should the annual growth rate of the coal purchase price increase by 1%, the carrying value of the property, plant and equipment would be 1,495 million lower;
- Should the discount rate increase by 1%, the carrying value of the property, plant and equipment would be RR 407 million lower.

Finance lease of property, plant and equipment

The Group leased certain equipment under a number of finance lease agreements. At the end of the leases the Group has the option to purchase the equipment at a beneficial price. The net book value of leased property, plant and equipment is presented below:

	31 December 2009	31 December 2008
Energy machinery and equipment	59,425	63,352
Other machinery and equipment	51,350	77,130
Other	12,625	17,875
Total	**123,400**	**158,357**

The leased equipment secures lease obligations.

Operating lease

The Group leases a number of land plots owned by local governments and real estate under operating leases. Lease payments are determined by lease agreements. Lease agreements are concluded for the different periods. Part of the lease contracts is concluded for a year with right of future prolongation, maximum lease period is 49 years.

Operating lease rentals are payable as follows:

	31 December 2009	31 December 2008
Not later than one year	399,942	52,724
Later than one year and not later than five years	275,840	109,961
Later than five years and not later than ten years	210,102	104,825
Later than ten years	537,710	230,034
Total	**1,423,594**	**497,544**

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

Note 7. Intangible assets

	SAP R-3 software	System NSI software	Other intangibles	Total intangible assets
Cost				
Balance as at 1 January 2009	**1,173,670**	**619,050**	**186,057**	**1,978,777**
Additions	7,137	-	17,661	24,798
Disposals	(12,747)	-	-	(12,747)
Balance as at 31 December 2009	**1,168,060**	**619,050**	**203,718**	**1,990,828**
Balance as at 1 January 2008	**612,663**	**33,300**	**45,861**	**691,824**
Additions	561,007	585,750	140,197	1,286,954
Disposals	-	-	(1)	(1)
Balance as at 31 December 2008	**1,173,670**	**619,050**	**186,057**	**1,978,777**
Amortisation (including impairment)				
Balance as at 1 January 2009	**(9,870)**	-	**(27,577)**	**(37,447)**
Charge for the period	(5,303)	-	(46,466)	(51,769)
Impairment loss	(391,841)	-	-	(391,841)
Balance as at 31 December 2009	**(407,014)**	-	**(74,043)**	**(481,057)**
Balance as at 1 January 2008	**(4,539)**	-	**(8,843)**	**(13,382)**
Charge for the period	(5,331)	-	(18,734)	(24,065)
Balance as at 31 December 2008	**(9,870)**	-	**(27,577)**	**(37,447)**

Net book value as at 31 December 2009	**761,046**	**619,050**	**129,675**	**1,509,771**
Net book value as at 31 December 2008	**1,163,800**	**619,050**	**158,480**	**1,941,330**

The amount of intangible assets includes advances paid to contractors in amount of RR 538,774 thousand (net of VAT) as at 31 December 2009 (as at 31 December 2008: RR 591,499 thousand (net of VAT).

The impairment provision for intangible assets included in accumulated amortisation balance as at 31 December 2009 is RR 391,841 thousand (as at 31 December 2008: nil) relates to the three modules of SAP R-3 software, which development is suspended for indefinite period. The impairment loss in amount of RR 391,841 thousand was recognised within operating expenses (see Note 22).

Note 8. Other non-current assets

	31 December 2009	31 December 2008
Long-term restructured trade and other receivables (net of provision for impairment of trade and other receivables of RR 221,120 thousand as at 31 December 2009 and RR 199,721 thousand as at 31 December 2008)	727,818	416,680
Long-term promissory notes (nominal value of promissory notes is RR 2,190,524 thousand as at 31 December 2009 and RR 2,190,524 thousand as at 31 December 2008)	1,964,355	1,820,500
Long-term input VAT from advances paid	2,765,000	3,024,242
Prepayments / Deposits for pensions	206,684	244,383
Long-term bank deposits	300,000	-
Other	64,606	40,392
Total	**6,028,463**	**5,546,197**

As at 31 December 2009 the Group has long-term non-interest bearing promissory notes of OJSC "NOMOS-Bank" with nominal value of RR 2,116,396 thousand maturing on 31 May 2011, OJSC "Evrofinance Mosnarbank" with nominal value of RR 62,434 thousand maturing on 5 March 2011 and OJSC "Ulaynovskenergo" with nominal value of RR 11,694 thousand maturing during the period from December, 2011 to December, 2020. As at 31 December 2009, promissory notes are stated at amortised cost in amount of RR 1,964,355 thousand (in 2008: RR 1,820,500 thousand). Difference between nominal value and fair value of the long-term non-interest bearing promissory notes at the date of their initial recognition in 2008 in the amount of RR 24,812 thousand was recognised as discounting effect within finance costs (see Note 24). The amortisation of the long-term non-interest bearing promissory notes in 2009 in the amount of RR 143,855 thousand (in 2008: RR 131,179 thousand) was recognised as a release of discounting effect within finance income (Note 23).

Under service agreement with OJSC "NOMOS-Bank" in relation to stock option program, on 30 May 2008 the Group pledged non-interest bearing promissory notes of OJSC "NOMOS-Bank" with total nominal value of RR 1,000,000 thousand.

The long-term input VAT from advances paid is recognised at nominal value.

Assets on solidarity accounts and on individual accounts in non-state pension fund in respect of current employees were recognized as "Prepayments / Deposits for pensions". The prepayments are intended to be used for settlement of defined benefit pension obligations.

Credit quality of bank deposits is presented below:

Long-term bank deposits	Interest rate	Credit rating*	31 December 2009	31 December 2008
CJSC "Gazenergoprombank"	12.25%	Ba3	300,000	-

* Long-term rating of foreign currency deposits, determined by Moody's Investors Service.

Other non-current assets mainly includes ordinary shares of JSC "RusHydro" in the total number of 45,227,455 with par value of RR 0.001 thousand amounted to RR 51,334 thousand as at 31 December 2009 (as at 31 December 2008: RR 27,182 thousand) (see also Note 13).

Note 9. Cash and cash equivalents

	Currency	31 December 2009	31 December 2008
Current bank accounts	RR	1,540,916	1,361,303
Current bank accounts	USD	3	-
Current bank accounts	EURO	-	114
Current bank accounts	GBP	3	-
Current bank accounts	KZT	6	-
Bank deposits with maturity of 3 months or less	RR	12,500	1,800,000
Total		**1,553,428**	**3,161,417**

The Group has current bank accounts in the following banks:

Cash in bank	Credit rating on 31 December 2009*	31 December 2009	Credit rating on 31 December 2008*	31 December 2008
OJSC "Sberbank"	D+/Stable	355,899	D+/Stable	63,039
OJSC "Evrofinance Mosnarbank"	E+/Stable	354,706	E+/Stable	187,278
OJSC "NOMOS-bank"	D-/Negative	9	D-/Positive	65,085
OJSC KB "Agroimpuls"	E+/Stable	-	E+/Stable	2,762
CJSC "Mezhdunarodny promyshleny bank"	E+/Negative	324,835	E+/Stable	356,811
CJSC "Gazenergoprombank"	E+/Stable	402,362	E+/Stable	581,635
OJSC "Alfa-bank"	D/Negative	103,109	D+/Stable	104,807
OJSC "Transcreditbank"	D-/Negative	8	-	-
Total cash in bank		**1,540,928**		**1,361,417**

* The bank financial strength rating / the outlook on all of the bank's ratings, determined by Moody's Investor Service.

Credit quality of bank deposits is presented below:

Bank deposits with maturity of 3 months or less	Interest rate	Credit rating on 31 December 2009*	31 December 2009	Interest rate	Credit rating on 31 December 2008*	31 December 2008
CJSC "Mezhdunarodny promyshleny bank"	-	-	-	11.0%	Not-Prime	400,000
OJSC "Sberbank"	-	-	-	10.2%	Prime2	500,000
CSC "Vneshprombank"	-	-	-	13.0%	Not-Prime	400,000
CJSC "Gazenergo-prombank"	-	-	-	10.5%	Not-Prime	500,000
CJSC "Gazbank"	14.0%	Not-Prime	12,500	-	-	-
Total bank deposits with maturity of 3 months or less			**12,500**			**1,800,000**

* Short-term rating of foreign currency deposits, determined by Moody's Investors Service.

According to the contract with CJSC "Gazbank" the deposit could be withdrawn before the maturity date only upon the agreement with the bank.

Note 10. Trade and other receivables

	31 December 2009	31 December 2008
Trade receivables (net of provision for impairment of trade receivables of RR 862,025 thousand as at 31 December 2009 and RR 295,446 thousand as at 31 December 2008)	3,484,778	1,686,381
Interest receivable on deposits	41,960	14,478
Promissory notes (nominal value of promissory notes is RR 2,190,524 thousand as at 31 December 2009 and RR 2,203,897 thousand as at 31 December 2008)	1,964,355	1,833,873
Other receivables (net of provision for impairment of other receivables of RR 89,737 thousand as at 31 December 2009 and RR 89,775 thousand as at 31 December 2008)	118,097	161,220
Financial assets	**5,609,190**	**3,695,952**
Advances to suppliers (net of provision for impairment of advances to suppliers of RR 13,757 thousand as at 31 December 2009 (as at 31December 2008: nil)	1,005,322	730,001
Prepayments	4,218	201,377
Prepaid value-added tax and other tax	10,948	6,895
Input VAT	3,429,356	3,298,000
Total	**10,059,034**	**7,932,225**
Less: Long-term restructured trade and other receivables (net of provision for impairment of trade and other receivables of RR 221,120 thousand as at 31 December 2009 and RR 199,721 thousand as at 31 December 2008)	(727,818)	(416,680)
Long-term promissory notes (nominal value of promissory notes is RR 2,190,524 thousand as at 31 December 2009 and RR 2,190,524 thousand as at 31 December 2008)	(1,964,355)	(1,820,500)
Long-term input VAT from advances paid	(2,765,000)	(3,024,242)
Total	**4,601,861**	**2,670,803**

Note 11. Inventories

	31 December 2009	31 December 2008
Fuel supplies	1,056,493	1,261,252
Materials and supplies	392,662	457,264
Spare parts	796,846	781,953
Total	**2,246,001**	**2,500,469**

The above inventory balances are recorded net of an obsolescence provision of RR 45,224 thousand and RR 25,523 thousand as at 31 December 2009 and 31 December 2008, respectively.

There is no inventory pledged as collateral at 31 December 2009 and at 31 December 2008.

Note 12. Other current assets

	31 December 2009	31 December 2008
Short-term deposits	3,200,000	65,500
Short term loans issued	-	660
Total	**3,200,000**	**66,160**

Credit quality of bank deposits is presented below:

Bank deposits with maturity more than 3 months but within one year	Interest rate	Credit rating on 31 December 2009*	31 December 2009	Credit rating on 31 December 2008*	31 December 2008
CJSC "Gazbank"	11.0%	-	-	Not-Prime	12,500
OJSC KB "Agroimpuls", Branch "Moskovski"	7.5%	-	-	Not-Prime	53,000
CJSC "Mezhdunarodny promyshleny bank"	12.4%/ 13.1%	Not-Prime	1,100,000	-	-
CSC "Vneshprombank"	13.1%	Not-Prime	1,500,000	-	-
OJSC "Gazenergoprombank"	10.75%	Not-Prime	600,000	-	-
Total bank deposits with maturity more than 3 months but within one year			**3,200,000**		**65,500**

* Short-term rating of foreign currency deposits, determined by Moody's Investors Service.

In accordance with terms specified in the contracts with CJSC "Mezhdunarodny promyshleny bank", CSC "Vneshprombank" and OJSC "Gazenergoprombank" the deposits may be withdrawn before the maturity date.

Note 13. Equity

The share capital is RR 11,872,828 thousand and consists of ordinary shares with nominal value RR 0.3627 each.

Share capital

	Ordinary shares 31 December 2009	Ordinary shares 31 December 2008
Issued shares	32,734,568,382	32,734,568,382
Treasury shares	(1,100,000)	(1,100,000)
Total outstanding shares	32,733,468,382	32,733,468,382

The total number of authorised ordinary shares is 44,757,822,542 thousand shares (2008: 44,757,822,542 thousand shares) with a par value of RR 0.3627 per share (2008: RR 0.3627 per share). All issued ordinary shares are fully paid. Each ordinary share carries one vote.

Reorganisation of the Company / Exchange of shares transaction

In October 2007 the Extraordinary shareholders meeting approved a decision to reorganize the Company in a form of a merger with OJSC "OGK-2 Holding", which was subject to spun-off from RAO UES as part of RAO UES reorganisation.

Also, it was agreed at the meeting to increase the share capital of the Company by issue of additional shares in total amount of 24,900,629 shares with par value of RR 0.3627.

The merger with OJSC "OGK-2 Holding" was executed on 1 July 2008. To proceed with the merger the Company has issued 1,646,469 shares with total nominal value of RR 597 thousand and used some

treasury shares (see below). The merger did not have significant effect on the financial statements of the Group.

Treasury shares

The Group has satisfied claims to repurchase Company's shares from shareholders, who voted against the reorganization of the Company. Total claims received were equal to 6,973,231 shares with total value of RR 21,918 thousand. Total amount of repurchased shares as at 31 December 2007 was equal to 5,591,898 shares at RR 3.1431 per share totalling to RR 17,576 thousand. In January 2008 the Group has repurchased 1,381,333 shares for total amount of RR 4,341 thousand.

Company has received claims to repurchase own shares from shareholders who voted against approval of agreements with CJSC "QUARTS-Tyumen" for construction of two power generating units at Troitskaya GRES and OJSC "E4 Group" for construction of two power generating units at Stavropolskaya GRES. Total amount of shares claimed to be repurchased equal to 16,001,974 shares at RR 3.0006 per share for total amount of RR 48,016 thousand. Group has repurchased claimed shares in full in March 2008.

On 1 July 2008 22,639,432 of treasury shares for the total amount of RR 68,878 thousand were placed to the shareholders of OJSC "OGK-2 Holding" to proceed with the merger via exchange of shares of OJSC "OGK-2 Holding" into the Company's shares.

In September 2008, 335,773 of treasury shares were sold for the total amount of RR 1,055 thousand.

Dividends

The Company's annual statutory accounts form the basis for the annual profit distribution and other appropriations. The specific Russian legislation identifies the basis of distribution as the net profit. However, this legislation and other statutory laws and regulations dealing with the distribution rights are open to legal interpretation and, accordingly, management believes at present it would not be appropriate to disclose an amount for the distributable reserves in these financial statements.

At the General Shareholders Meeting held on 25 June 2009, the decision was made not to pay 2008 annual dividends.

There were no dividends proposed or declared before the financial statements were authorized.

Employee share option plan

In December 2006, the Board of Directors has approved the policy for OJSC "OGK-2" management and employees remuneration – stock option program (hereinafter the "Program"). The Program provides stock options to management and employees of OJSC "OGK-2" (hereinafter the "Participants").

The options are granted to the Participants for their work at OJSC "OGK-2" during 3 – 3.5 years starting from 1 November 2007.

In March 2007, the Board of Directors of OJSC "OGK-2" has approved number of shares, which are subject for distribution as part of the Program. The approved number equals to 529,617,916 ordinary shares, which equals to 1.6% of total quantity of issued ordinary shares of OJSC "OGK-2" as at 31 December 2007.

As part of realization of approved stock option program Company has entered into service agreement with OJSC "NOMOS-Bank". Under this agreement the Group has transferred all liabilities for conclusion and fulfilment of share purchase agreements with Company's employees for total amount of 529,617,916 shares at fixed price of RR 3.94 per share and maturity of 3 years.

In accordance with the agreement with OJSC "NOMOS-Bank" in 2007 the Company paid to OJSC "NOMOS-Bank" a premium of RR 709,688 thousand to secure delivery of shares to employees in settlement of share-based payment arrangement. The premium was accounted as equity transaction by debiting of retained earnings for the amount of RR 709,688 thousand.

In 2009 the Company started litigation in order to cancel the service agreement with OJSC "NOMOS-Bank" and claim back funds transferred to bank in 2007 in amount of RR 709,688 thousand. In January 2010 the Supreme Arbitration Court of the Russian Federation agreed to cancel the agreement and ordered OJSC "NOMOS-Bank" to return to the Company cash transferred in 2007. In March 2010 the Company received cash in the full amount.

The stock option exercise price is identified at the date of decision for participation in the Program and is calculated as weighted average price of ordinary shares for the period of 365 days before date of such decision, based on RTS quotations.

The quantity of shares, which could be acquired by the Participants who resigned the Group, shall be calculated proportionally to quantity of days, during which the Participant was working for OJSC "OGK-2". However, at the discretion of the General Director the number of shares to be purchased by the Participant can be remained unchanged. In case of breach of certain requirements of labour agreement resulted in labour relations ceased by the Company, such Participants lose their rights for purchase of shares.

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

	Options, granted as at 1 November 2007
Share price (in Russian Roubles)	3.28
Exercise price (in Russian Roubles)	3.94
Expected volatility	30%
Option life (years)	3.5
Risk-free interest rate	5.83%
Fair value at measurement date (in Russian Roubles)	**0.71**

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

During 2008 a number of the Participants, including key management personnel terminated their employment contracts. The number of share options allocated to these Participants was assessed on the pro rata basis of the days they have worked for the Group. The service cost in respect of those options was assessed as if they became vested at the date of the termination. As the result of this, the number of active options under the program has decreased to 219,665,262. During 2009 the Group recognized a service cost in amount of RR 10,259 thousand with corresponding increase in retained earnings (2008: RR 61,863 thousand).

Fair value revaluation reserve

As a result of the merger of OJSC "OGK-2 Holding" with OJSC "OGK-2" in July 2008 the ordinary shares of JSC "RusHydro" in the total amount of 45,227,455 with par value of RR 0.001 thousand was transferred to the Group and were recognised as available-for-sale investments as at 31 December 2008 (see Note 8).

The movements in fair value of available-for-sale investments, which recognized through other comprehensive income are presented below:

As at 1 January 2008	-
Net change in fair value of available-for-sale investments for the period	(61,982)
As at 31 December 2008	**(61,982)**
Net change in fair value of available-for-sale investments for the period	24,152
As at 31 December 2009	**(37,830)**

Note 14. Income tax

Income tax charge

	Year ended 31 December 2009	**Year ended 31 December 2008**
Current income tax charge	652,341	187,054
Income tax refund under amended returns for 2005-2007	-	(464,246)
(Reversal) / accrual of provision for current income tax	(53,332)	113,896
Deferred income tax benefit	(290,975)	(150,191)
Total income tax charge / (reversal)	**308,034**	**(313,487)**

During the year ended 31 December 2008 the Group was subject to a 24% income tax rate on taxable profits. An income tax rate of 20% has been enacted in November 2008 which becomes effective starting from 1 January 2009. As this tax rate was enacted by 31 December 2008, the effect of the change on closing deferred tax liabilities (assets) amounted to RR 482,358 thousand has been recognized in these financial statements.

In April 2009 the Group received adverse decision of tax authorities on deductibility for profit tax due to change of property, plant and equipment tax base for depreciable assets of Serovskaya GRES and OJSC Surgutskaya GRES-1, that were spun off from OJSC "Sverdlovenergo" and OJSC "Tyumenenergo", respectively, based on the net book value of these assets for statutory accounting purposes rather than the predecessor's tax accounting data and subsequent recalculation of tax depreciation for 2005-2007 using new tax base. As the result of above decision the previously recognized tax provision was partly utilized for the total amount of RR 60,564 thousand, the unused part of provision for the amount of RR 53,332 thousand was reversed through profit and losses as a change in income tax charge.

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

	Year ended 31 December 2009	Year ended 31 December 2008
Profit / (loss) before tax	**1,402,158**	**(698,572)**
Theoretical tax charge at the statutory tax rate of 20% 2009 (2008: 24%)	(280,432)	167,657
Non-deductible expenses:		
Termination benefits	(1,653)	(122,844)
Social payments	(17,985)	(24,395)
Change in tax base for impaired construction in progress	-	(31,038)
Share option plan	(2,052)	(14,847)
Other	(5,912)	(143,404)
Effect of reduction in tax rate to 20%	-	482,358
Total income tax (charge) / reversal	**(308,034)**	**313,487**

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

Deferred income tax liabilities

	31 December 2008	Movement for the period recognized in the income statement	31 December 2009
Property, plant and equipment	(2,553,030)	325,984	(2,227,046)
Intangible assets	(85,788)	20,907	(64,881)
Prepayments / deposits	(48,877)	7,540	(41,337)
Provision for impairment of trade and other receivables	(31,222)	24,671	(6,551)
Other	(1,358)	902	(456)
Total	**(2,720,275)**	**380,004**	**(2,340,271)**

Deferred income tax assets

	31 December 2008	Movement for the period recognized in the income statement	31 December 2009
Restoration provision	93,548	(15,541)	78,007
Retirement benefit obligations	40,050	8,297	48,347
Other non-current assets	74,005	(28,771)	45,234
Trade and other payables	24,512	2,184	26,696
Inventory	4,285	3,961	8,246
Unused tax losses	57,942	(56,541)	1,401
Finance lease liabilities	3,645	(3,405)	240
Other	10,500	787	11,287
Total	**308,487**	**(89,029)**	**219,458**

	31 December 2008	Movement for the period recognized in the income statement	31 December 2009
Total deferred income tax liabilities	(2,720,275)	380,004	(2,340,271)
Total deferred income tax assets	308,487	(89,029)	219,458
Deferred income tax liabilities, net	**(2,411,788)**	**290,975**	**(2,120,813)**

Deferred income tax liabilities

	31 December 2007	Movement for the period recognized in the income statement	31 December 2008
Property, plant and equipment	(2,748,366)	195,336	(2,553,030)
Intangible assets	(101,930)	16,142	(85,788)
Prepayments / deposits	(32,250)	(16,627)	(48,877)
Provision for impairment of trade and other receivables	-	(31,222)	(31,222)
Other	(2,710)	1,352	(1,358)
Total	**(2,885,256)**	**164,981**	**(2,720,275)**

Deferred income tax assets

	31 December 2007	Movement for the period recognized in the income statement	31 December 2008
Other non-current assets	114,470	(40,465)	74,005
Restoration provision	-	93,548	93,548
Provision for impairment of trade and other receivables	45,839	(45,839)	-
Trade and other payables	64,362	(39,850)	24,512
Retirement benefit obligations	47,978	(7,928)	40,050
Finance lease liabilities	19,329	(15,684)	3,645
Unused tax losses	12,766	45,176	57,942

Inventory	3,311	974	4,285
Other	15,222	(4,722)	10,500
Total	**323,277**	**(14,790)**	**308,487**

	31 December 2007	Movement for the period recognized in the income statement	31 December 2008
Total deferred income tax liabilities	(2,885,256)	164,981	(2,720,275)
Total deferred income tax assets	323,277	(14,790)	308,487
Deferred income tax liabilities, net	**(2,561,979)**	**150,191**	**(2,411,788)**

Note 15. Non-current debt

	Currency	Effective interest rate	Due	31 December 2009	31 December 2008
Bonds	RR	7.7%-10.65%	2010	-	4,907,781
Finance lease liability	RR	21.3%-27.3%*	2011-2012	68	1,197
Total				**68**	**4,908,978**

*The effective interest rate in the range from 21.3% to 27.3% relates to more than 75% of finance lease liability.

Maturity table

	31 December 2009	31 December 2008
Due for repayment		
Between one and two years	65	4,908,910
Between two and three years	3	65
Between three and four years	-	3
Between four and five years	-	-
Total	**68**	**4,908,978**

The total amount of earlier demands for redemption of bonds received from bonds' holders equalled to RR 2,384,968 thousand, accumulated coupon income – RR 48,318 thousand. These demands for redemption of bonds were redeemed by the Company in March-April 2008. All these bonds were issued again at the end of April 2008 at 94.80% of nominal value with effective interest rate of 10.65%. Bonds are redeemable on 5 July 2010.

As at 31 December 2009 the Company has re-classified bonds related liability amounting to RR 4,968,721 thousand as a short-term due to the fact that repayment of these bonds for the period of less than 12 months after this date.

Leasing. The lease liabilities are effectively secured as the rights for the leased asset revert to the lessor in the event of default.

Finance lease liabilities – minimum lease payments	31 December 2009	31 December 2008
Due for repayment		
Less than one year	1,297	19,485
Between one year and five years	80	1,373
Future finance charges on finance lease	(178)	(2,635)
Present value of lease liabilities	**1,199**	**18,223**

Management believes that the total current value of non-current debt approximates its fair value since actual interest rates approximate current market interest rates available to the Group for similar financial instruments.

Note 16. Current debt and current portion of non-current debt

	Currency	Effective interest rate	31 December 2009	31 December 2008
OJSC "Evrofinance Mosnarbank"	RR	11.5%	1,500,000	-
OJSC "Sberbank "	RR	12.8%-14.8%	2,600,000	1,500,000
CJSC "Mezhdunarodny promyshleny bank"	RR	13.9%-17%	500,000	1,000,000
Bonds	RR	7.7%-10.65%	4,968,721	-
Current portion of finance lease liability	RR	21.3% - 27.3%	1,131	17,026
Interest payable		7.7%-17%	6,657	195,503
Total			**9,576,509**	**2,712,529**

All of the above bank debt is obtained at fixed interest rates.

The effective interest rate is the market interest rate applicable to the loan at the date of origination for fixed rate loans.

The Group has no collateral under loan agreements with OJSC "Sberbank", CJSC "Mezhdunarodny promyshleny bank" and OJSC "Evrofinance Mosnarbank".

The effective interest rate varying from 21.3% to 27.3% relate to more than 75% of current portion of finance lease liability.

Note 17. Trade and other payables

	31 December 2009	31 December 2008
Trade payables	2,622,575	3,035,324
Accrued liabilities and other payables	459,058	301,522
Promissory note payable	-	97,384
Financial liabilities	**3,081,633**	**3,434,230**
Salaries and wages payable	243,163	231,028
Advances from customers	18,891	16,764
Dividend payable	-	150
Total	**3,343,687**	**3,682,172**

Trade payables, promissory note payable, accrued liabilities and other payables are classified as financial liabilities. At 31 December 2009 total amount of financial liabilities amounted to RR 12,673,579 thousand (at 31 December 2008: RR 11,055,737 thousand) and includes trade payables, promissory notes payable and other payables, non-current debt (Note 15), current debt and current portion of non-current debt (Note 16) and other long-term liabilities. The Group's management believes that the majority of suppliers, which balances are included in trade and other payables balance, relate to one class with similar characteristics.

Note 18. Other taxes payable

	31 December 2009	31 December 2008
Water usage tax	143,187	176,403
Value added tax	369,521	115,840
Property tax	46,685	48,735
Social tax	34,547	26,941
Personal income tax	22,974	21,425
Environment pollution payments	48,510	59,006
Other taxes	1,085	427
Total	**666,509**	**448,777**

Note 19. Retirement benefit obligations

The post employment and post retirement program of the company consists of the occupational pension plan and various post employment, long-term and jubilee benefits. This is a defined benefit plan, under which the participants accrue pension entitlements on the basis of a formula or defined rule. The occupational pension program comprises the main part of the program. According to the pension formula, the pension benefit is dependent on the past service of participants and their final salary. Employees born before 1967 are entitled to the occupational pension benefits.

The defined benefit pension plan provides old age retirement pension and disability pension. The plan's old age retirement pension is conditional on the member qualifying for the State old age pension.

The company also provides various long-term and post employment benefits including death in service and death in occupational pension benefit, lump sum payments upon retirement and jubilee benefits to active employees.

Additionally the Company provides financial support payments of a defined benefit nature to its former employees, who have reached the age of the State old age pension. Such benefits are paid to both those who qualify for the occupational pension plan and those who do not. The Company also provides jubilee benefits to its retired former employees.

As at 31 December 2009, there were 4,777 active employees eligible to participate in the post retirement defined benefit program of the company and 2,689 recipients of the financial support benefits.

The last independent actuarial valuation of pension and other post employment and long-term benefits in accordance with the provisions of IAS 19 was performed in February 2010, with valuation date of 31 December 2009 using individual members' census data as at the valuation date.

Amounts recognised in the statement of financial position are as follows:

	31 December 2009	31 December 2008
Present value of defined benefit obligations (DBO)	650,419	583,642
Fair value of plan assets	-	-
Present value of unfunded obligations	650,419	583,642
Unrecognised actuarial (loss) / gain	(10,831)	12,954
Unrecognised past service cost	(85,022)	(94,570)
Net liability at the end of year	**554,566**	**502,026**
Employees' average remaining working life (years)	10	10

Amounts recognised in the income statement are as follows:

	Year ended 31 December 2009	Year ended 31 December 2008
Current service cost	31,478	30,500
Interest cost	53,195	29,857
Expected return on plan assets	-	-
Net actuarial losses recognised in year	6,447	1,228
Amortisation of past service cost	9,548	911
Immediate recognition of vested past service cost	-	128,011
Net expense recognised in the income statement	**100,668**	**190,507**

Movements in the net liability recognised in the statement of financial position are as follows:

	31 December 2009	31 December 2008
Net liability at the beginning of year	502,026	355,820
Net expense recognised in the income statement	100,668	190,507
Benefits paid	(48,128)	(44,301)
Net liability at the end of year	**554,566**	**502,026**

The key actuarial assumptions used were as follows:

	31 December 2009	31 December 2008	31 December 2007
Discount rate at 31 December	9.00% p.a.	9.00% p.a.	6.60% p.a.
Future salary increases	9.72% p.a.	7.06% p.a.	9.20% p.a.
Future pension increases	n/a	n/a	n/a
Future financial support benefits increases	5.50% p.a.	6.00% p.a.	5.00% p.a.
Staff turnover	5% p.a.	5% p.a.	5% p.a.
Mortality	Russia 1998	Russia 1998	Russia 1998

Reconciliation of opening and closing balances of the present value of the defined benefit obligation (DBO):

	31 December 2009	31 December 2008
Present value of defined benefit obligations (DBO) at the beginning of year	583,642	444,040
Service cost	31,478	30,500
Interest cost	53,195	29,857
Plan participants' contributions	-	-
Actuarial loss / (gain)	30,232	(90,840)
Past service cost	-	214,386
Benefits paid	(48,128)	(44,301)
Present value of defined benefit obligations (DBO) at the end of year	**650,419**	**583,642**

Funded status of the pension and other post employment and long-term obligations as well as gains/losses arising of experience adjustments is as follows:

	31 December 2009	31 December 2008
Present value of defined benefit obligations (DBO)	650,419	583,642
Fair value of plan assets	-	-
Deficit in plan	650,419	583,642
Gains / (losses) arising of experience adjustments on plan liabilities	11,203	(47,804)

Note 20. Restoration provision

The Group owns an ash dump on the territory of the Republic of Kazakhstan, and the Group has an obligation to restore the surface of this ash dump when it is full. The main assumptions used in the calculation of the provision are as following:

- Average inflation per annum – 6.2%;
- Pre-tax discount rate – 13.88%;
- Projected restoration period – 10 years.

	Notes	Landfill site restoration
Total carrying amount at 1 January 2009		**467,740**
Less current portion		57,254
Non-current portion at 1 January 2009		**410,486**
Unwinding of the present value discount	24	64,929
Changes in estimates adjusted against property, plant and equipment		(46,595)
Utilisation		(96,038)
Total carrying amount at 31 December 2009		**390,036**
Less current portion		34,454
Non-current portion at 31 December 2009		**355, 582**

Note 21. Revenues

	Year ended 31 December 2009	Year ended 31 December 2008
Electricity and capacity	39,881,726	39,809,889
Heating	758,778	656,099
Other	129,454	90,317
Total	**40,769,958**	**40,556,305**

Note 22. Operating expenses

	Notes	Year ended 31 December 2009	Year ended 31 December 2008
Fuel		24,304,686	23,831,285
Purchased electricity, capacity and heat		3,369,105	5,891,139
Employee benefits		2,799,290	3,409,318
Repairs and maintenance		1,942,620	2,090,243
Depreciation of property, plant, equipment and intangible assets	6, 7	1,334,260	1,300,492
Taxes other than income tax		859,896	981,388
Raw materials and supplies		739,607	1,001,146
Dispatcher's fees		701,335	571,967
Charge / (reversal) of provision for impairment of trade and other receivables		597,077	(55,780)
Impairment for intangible assets	7	391,841	-
Ecological payments		252,898	295,017
Rent		193,898	224,100
Loss on disposal of assets		128,172	22,079
Consulting, legal and audit services		112,179	177,844
Transport		54,143	125,732
Insurance		40,851	25,824
Provision for inventory obsolescence	11	19,701	4,869
(Reversal) / charge of property, plant and equipment impairment	6	(33,277)	287,903
Other expenses		1,037,391	1,011,746
Total operating expenses		**38,845,673**	**41,196,312**

Employee benefits expenses comprise the following:

	Year ended 31 December 2009	Year ended 31 December 2008
Salaries and wages	2,153,700	2,104,579
Termination benefits	-	511,850
Employee share option plan expenses (Note 13)	10,259	61,863
Payroll taxes	377,571	376,172
Non-state pensions and other long-term benefits (Note 19)	100,668	190,507
Financial aid to employees and pensioners	157,092	164,347
Employee benefits	**2,799,290**	**3,409,318**
Number of personnel at the end of the period	4,794	4,928

Included in payroll taxes are statutory pension contributions of RR 294,315 thousand (2008: RR 296,231 thousand).

Note 23. Finance income

	Year ended 31 December 2009	Year ended 31 December 2008
Interest income on bank deposits and current bank account balances	323,478	546,545
Release of discounting effect of long-term promissory notes received (Note 8)	143,855	131,179
Release of discounting effect of short-term promissory notes received	-	567
Foreign exchange differences	-	30,624
Other finance income	2,831	-
Total finance income	**470,164**	**708,915**

Note 24. Finance cost

	Year ended 31 December 2009	Year ended 31 December 2008
Interest expense on debt	(890,838)	(670,846)
Unwinding of the present value discount for provision for ash dump (Note 20)	(64,929)	-
Effect of discounting of long-term promissory notes received (Note 8)	-	(24,812)
Foreign exchange differences	(7,926)	-
Interest expense under finance lease agreements	(2,413)	(13,260)
Other finance cost	-	(1,466)
Total finance cost	**(966,106)**	**(710,384)**

Note 25. Earnings per share

	Year ended 31 December 2009	Year ended 31 December 2008
Weighted average number of ordinary shares issued	32,733,468,382	32,723,918,104
Profit / (loss) attributable to the shareholders of OJSC "OGK-2" (thousands of RR)	1,094,124	(385,085)
Earning / (loss) per ordinary share for profit / (loss) attributable to the shareholders of OJSC "OGK-2" – basic and diluted (in RR)	**0.03**	**(0.01)**

Note 26. Capital commitments

At the beginning of the year 2008 the Company has signed a three-party long-term contract for supply of capacity to the wholesale market with CJSC "Center for Finance Settlements" (hereinafter CFS) and NP Administrator of the Trade System of the Wholesale Electricity Market of the Unified Energy System (hereinafter NP ATS). Under this contract the Group is obliged to provide (supply) and CFS is obliged to accept capacity produced by generation equipment put into operations after 2008. Cummulative power to be supplied to the wholesales market amounts to 2,580 MWt. Location, maximum technical characteristics of generating equipment and time schedule of electricity power supply are defined in the contract. In case of breach of the contract the Group will be obliged to compensate losses incurred by CFS resulting from purchase of missing capacity. Total amount of compensation can not exceed RR 29,850,200 thousand. Cummulative amount of electricity power proposed to supply to CFS, equals to minimum installed capacity of generation equipment, which will be built in line with the Company's investment programme. Date of cease of the liability for electricity power supply is the date when one year period of appropriate fullfilment by the Group of obligation to supply electricity power from respective power generating eqipment, but not later than 31 December 2021.

Assuming continuing instability on financial markets, which results in reduction in electric power and capacity consumption, the management considers optimization of investment program including changes in deadlines for putting into operation of new facilities.

Besides that, NP Council Market in cooperation with electricity wholesales market participants developed a new contractual basis for the sales of capacity of generating units, which are being constructed in accordance with investment programs of suppliers, approved by the Government of Russian Federation within Investment Program of RAO UES (hereinafter investment capacity).

In accordance with new rules, instead of one agreement on provision of investment capacity with NP ATS and CFS suppliers will sign agency agreement with CFS, OJSC "ATS", NP Council Market и SO UES for sales of investment capacity. In accordance with this agreement CFS for and on behalf of the supplier will sign contracts on capacity provision with all wholesale electricity (capacity) market customers.

In accordance with the Russian Federation Government Resolution №89 dated 24 February 2010 "Certain organizational aspects of long-term capacity take-off on a competitive basis on the wholesale electricity (capacity) market" and Government Resolution №238 dated 13 April 2010 "Pricing strategy of capacity trading on the wholesale electricity (capacity) market during the transition period", the management believes that terms of the previously signed three party agreement on provision of capacity on the wholesale market would be amended by 1 September 2010 in terms of volume, date of capacity delivery and the list of generating equipment used in the process of capacity delivery to the wholesale market.

In the framework of the investment programme implementation the Group has capital commitments (including VAT) of RR 66,716,054 thousand and RR 82,342,775 thousand as of 31 December 2009 and as of 31 December 2008, respectively. Within the amount of capital commitments disclosed above the Group provided guarantees to OJSC "Bank of Moscow" in amount of EURO 85,942 thousand (RR 3,728,869 thousands at EURO/RR exchange rate as at 31 December 2009) for OJSC "E4 Group" fulfilling its obligations under the agreement to open a letter of credit entered into between the bank and OJSC "E4 Group" in the framework of the general construction contract with the Group.

As at 31 December 2009 the Group has commitments of RR 233,710 thousand in respect of software implementation costs (as at 31 December 2008 - RR 227,932 thousand).

Note 27. Contingencies

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

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

Legal proceedings. 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, will have a material adverse effect on the position of the Group.

Tax contingency. Russian tax and currency legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities, in particular, the way of accounting of water tax, deductibility of certain expenses.

As at 31 December 2009 management believes that its interpretation of the relevant legislation is appropriate and the Group's tax and currency positions will be sustained. Where management believes it is probable that a position cannot be sustained, an appropriate amount has been accrued for in these financial statements.

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

Environmental matters. Group and its 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 periodically evaluates their obligations under environmental regulations.

The Group owns an ash dump on the territory of the Republic of Kazakhstan which is a foreign country. Therefore, the Group is subject to the environmental regulation of the country in respect of the usage of

the ash dump. The Group is also periodically evaluates its obligations under Kazakhstan environmental regulations.

Potential liabilities might arise as a result of changes in legislation and regulation or civil litigation. The impact of these potential changes cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental remediation in excess of those amounts for which provision has been recognised by the Group in these financial statements.

Note 28. Financial instruments and financial risks factors

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

Bank covenants. Credit facilities of OJSC "Sberbank", OJSC "Evrofinance Mosnarbank" (the Lender) (see Note 16) were restricted by covenants (transfer of revenue proceeds to current account). In case of breach of covenants the Lender had the option to call these loans earlier. In respect of loans payable recognised at the reporting date the Group complied with all covenants.

Guarantees. As at 31 December 2009 the Group guaranteed to some banks the repayment of loans taken by the Group employees in these banks in the amount of RR 74,793 thousand.

Credit risk. Group's financial assets, which are exposed to credit risk, are follows:

	31 December 2009	31 December 2008
Cash and cash equivalents (see Note 9)	1,553,428	3,161,417
Long-term bank deposits (see Note 8)	300,000	-
Trade receivables (see Note 10)	3,484,778	1,686,381
Interest receivable on bank deposits (see Note 10)	41,960	14,478
Promissory notes (see Note 10)	1,964,355	1,833,873
Other receivables (see Note 10)	118,097	161,220
Other current assets (see Note 12)	3,200,000	66,160
Total financial assets	**10,662,618**	**6,923,529**

Group's exposure to credit risk mainly depends on each particular counterparty characteristics. Due to absence of independent credit ratings for whole sales electricity market and other buyers, Group assesses their solvency based on past experience and other factors. While evaluation of credit risk, buyers are grouped into following classes: A – buyers with stable solvency; B – buyers with low solvency. Also each class includes following subclasses:

A1 – buyers with exceptional solvency, which always fulfil their obligations on time, there were no cases of delays in fulfilment of obligations, risk of full or partial non-fulfilment of obligations - minimal;

A2 – buyers with excellent solvency, which regularly fulfil their obligations, cases with delay in fulfilment of obligations are short-term, risk of full or partial non-fulfilment of obligations - low;

A3 – buyers with adequate solvency, which fulfil their financial obligations, in case of delay with fulfilment additional agreements are signed, risk of full or partial non-fulfilment of obligations - acceptable;

B1 – buyers with low solvency, which breach fulfilment of their finance obligations, risk of full or partial non-fulfilment of obligations - moderate;

B2 – buyers with doubtful solvency, which do not fulfilment of their finance obligations, risk of full or partial non-fulfilment of obligations – high.

31 December 2009	Nominal value	Not due, not impaired	Due, not impaired	Impaired			Carrying amount
				Gross book value	Provision	Net book value	
Class A	4,225,716	1,915,866	208,401	2,101,449	(740,786)	1,360,663	3,484,930
A1	190,733	190,733	-	-	-	-	190,733
A2	2,199,869	1,527,653	123,517	548,699	(187,217)	361,482	2,012,652
A3	1,835,114	197,480	84,884	1,552,750	(553,569)	999,181	1,281,545
Class B	312,161	41,690	66,405	204,066	(204,066)	-	108,095
B1	22,863	4,230	18,423	210	(210)	-	22,653
B2	289,298	37,460	47,982	203,856	(203,856)	-	85,442
Non-interest bearing promissory notes	2,190,524	-	-	2,190,524	(226,169)	1,964,355	1,964,355
Interest receivable on deposits	41,960	41,960	-	-	-	-	41,960
Loans issued to employees	16,760	-	-	16,760	(6,910)	9,850	9,850
Total	**6,787,121**	**1,999,516**	**274,806**	**4,512,799**	**(1,177,931)**	**3,334,868**	**5,609,190**

31 December 2008	Nominal value	Not due, not impaired	Due, not impaired	Impaired			Carrying amount
				Gross book value	Provision	Net book value	
Class A	1,898,867	949,351	246,422	703,094	(213,481)	489,613	1,685,386
A1	707,922	707,922	-	-	-	-	707,922
A2	269,463	70,665	167,362	31,436	(3,348)	28,088	266,115
A3	921,482	170,764	79,060	671,658	(210,133)	461,525	711,349
Class B	317,227	58,477	91,689	167,061	(167,061)	-	150,166
B1	145,672	55,283	89,054	1,335	(1,335)	-	144,337
B2	171,555	3,194	2,635	165,726	(165,726)	-	5,829
Non-interest bearing promissory notes	2,203,897	13,373	-	2,190,524	(370,024)	1,820,500	1,833,873
Interest receivable on deposits	14,478	14,478	-	-	-	-	14,478
Loans issued to employees	16,728	-	-	16,728	(4,679)	12,049	12,049
Total	**4,451,197**	**1,035,679**	**338,111**	**3,077,407**	**(755,245)**	**2,322,162**	**3,695,952**

As at 31 December 2009 no trade or other receivables were secured by guaranties (as at 31 December 2008 trade and other receivables of some debtors were secured by guaranties provided by third parties for total amount of RR 31,437 thousand). Credit risks related to trade and other receivables are systematically reviewed for possibility of creation of impairment provision against trade and other receivables. Trade and other receivables balance netted with trade and other receivables impairment provision represents maximum exposure to credit risks, relating to receivables. Despite the fact that cash collection is subject to influence of different economic factors, management of the Group believes that there is no significant risk of losses exceeding recognized trade and other receivables impairment provision.

The amount of trade and other receivables impairment provision is assessed by management based on analysis of particular counterparty's solvency, tendencies, possibility of cash collection, and analysis of future cash flows. As at 31 December 2009 identification of present value of future cash flows was done utilizing discount rates of 12.67% p.a. – 28.0% p.a. (as at 31 December 2008: 11.5% p.a. – 28.0% p.a.), calculated based on the original effective interest rate. Discounting effect is recognized as part of trade and other receivables impairment provision expenses. Group estimates that discounted amount of trade

and other receivables less recognized impairment provision can be collected in cash or settled against trade and other payables.

The individually impaired receivables mainly relate to wholesalers, which are located in the Caucasus region and are in unexpected difficult economic situation.

Movements in trade and other receivables impairment provision during 2009 were as follows:

Impairment provision as at 31 December 2008	**385,221**
Accrual of impairment provision	669,666
Write-off of doubtful trade and other receivables	(15,093)
Reversal of impairment provision	(88,032)
Impairment provision as at 31 December 2009	**951,762**

Movements in trade and other receivables impairment provision during 2008 were as follows:

Impairment provision as at 31 December 2007	**457,100**
Accrual of impairment provision	203,943
Write-off of doubtful trade and other receivables	(18,740)
Reversal of impairment provision	(257,082)
Impairment provision as at 31 December 2008	**385,221**

Unprovided bad debts written-off directly to the consolidated income statement for the year ended 31 December 2009 amounted to RR 1,686 thousand, the amount of provision for advances to suppliers was recognised in the current period for the amount of RR 13,757 thousand.

As at 31 December 2009 total amount of overdue trade and other receivables which were not provided for impairment was equal to RR 274,806 thousand (31 December 2008 – RR 338,111 thousand). The reason impairment provision was not created is absence of events of non-payments of respective counterparty in past. Further, these amounts were collectively assessed for impairment within groups of financial assets with similar credit risk. Collective assessment did not change individual assessment.

Analysis of overdue but not impaired trade and other receivables is as follows:

	31 December 2009	31 December 2008
Overdue trade and other receivables		
Less than 1 month	22,263	37,302
From 1 to 3 months	175,834	107,039
From 3 months to 1 year	70,038	165,630
From 1 year to 5 years	6,129	28,140
More than 5 years	542	-
Total	**274,806**	**338,111**

Cash is placed in Russian financial institutions which are considered at the time of deposit to have minimal or low risk of default. Board of Directors of the Company has approved list of the banks, at which deposits could be placed and rules for such placements. Also Group continuously considers finance condition, independent agencies ratings, past experience and other factors. List of the banks with balances and ratings, at which Group has open current bank accounts and deposits at the reporting date, is presented in Notes 8, 9 and 12.

As at reporting date maximum Group's exposure to credit risk equals to carrying amount of each class of financial assets. Group does not hold any collateral.

Liquidity risk. Prudent liquidity risk management includes maintaining sufficient cash and the availability of funding from an adequate amount of committed credit facilities. Group mainly has short-term financial liabilities. To manage the liquidity risk the Group applies a policy of holding financial assets for which there is a liquid market and that are readily convertible to meet liquidity needs. The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

31 December 2009	Less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Total
Bonds including future principal and interest payments	-	-	5,196,200	-	5,196,200
Bank loans including future principal and interest payments	49,838	4,158,142	539,353	-	4,747,333
Finance leasing liability	236	588	473	80	1,377
Trade payables	1,854,635	759,969	7,971	7,663	2,630,238
Other payables (except for advances received and liabilities for employee compensations)	292,009	161,884	5,165	7,706	466,764
Total future payments	**2,196,718**	**5,080,583**	**5,749,162**	**15,449**	**13,041,912**
31 December 2008					
Bonds including future principal and interest payments	191,950	-	191,950	5,388,150	5,772,050
Bank loans including future principal and interest payments	36,846	1,063,214	1,624,077	-	2,724,137
Finance leasing liability	2,523	7,103	9,859	1,373	20,858
Trade payables	2,155,763	678,839	199,816	906	3,035,324
Other payables (except for advances received and liabilities for employee compensations)	259,042	98,647	30,246	10,970	398,905
Total future payments	**2,646,124**	**1,847,803**	**2,055,948**	**5,401,399**	**11,951,274**

Group has following unutilized bank credit lines:

	31 December 2009	31 December 2008
With flexible interest rate:		
- expiring within 1 year from reporting date	-	500,000*
- valid more than 1 year from reporting date	-	-
With fixed interest rate:		
- expiring within 1 year from reporting date	-	500,000
- valid more than 1 year from reporting date	-	-
Total	-	**1,000,000**

* variable or fixed rate is agreed for every tranche withdrawal.

Interest rate changes risk. Profit and cash flows from operating activities of the Group are mainly independent from changes in market interest rates. The Group is exposed to changes in interest rates risk only in respect of changes in market value of interest bearing loans and borrowings and interest bearing deposits. Significant interest bearing assets of the Group are disclosed in Notes 8, 9 and 12. These assets have fixed interest rate and therefore are exposed to risk of difference between fixed interest rate and market interest rate.

Currency risk. The electricity and heat produced by the Group are sold domestically at prices denominated in Russian Rubles, currency of Russian Federation. Due to that fact, the Group has low foreign currency exchange risk exposure. The Group's financial position, liquidity, its sources of financing, financial performance are largely independent of changes in foreign exchange rate because the Group's activity is planned in the way that all its assets and liabilities should be denominated in domestic currency. Due to these facts potential effect of changes in exchange rate of national currency to other currencies is estimated by the Group as insignificant.

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

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

As at 31 December 2009, the Group has been in compliance with the above share capital requirements.

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

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated based on the statutory financial statements as total liabilities divided by total equity. According to the Company's internal regulation the Company's total liabilities/equity ratio should not exceed 1. The Company satisfied to the limit.

The gearing ratios, calculated on the basis of statutory financial statements, prepared in accordance with Russian accounting standards at 31 December 2009 and 31 December 2008 were as follows:

	31 December 2009	31 December 2008
Total liabilities	13,486,413	11,718,735
Equity	34,979,519	33,182,324
Gearing ratio, %	**0.39**	**0.35**

Fair values. Management believes that the fair value of its financial assets and liabilities approximates to their carrying amount, and determines the appropriate level of the financial assets and liabilities using a three – level hierarchy on the basis of the lowest level input that is significant to the fair value measurements. The available for sale investments (see Note 8) are classified as Level 1.

Note 29. Segment information

The Group generates its revenues from the generation of electricity and heat in one geographical segment - Russian Federation (see Note 4). The Group major customers are the regional electricity wholesalers. Management does not believe that the Group is dependent on any particular customer.

The Management Board of the Company controls and allocates economic resources of the Group between segments and evaluates segment's operating efficiency. Primary activity of the Group is production of electric and heat power and capacity which covers 99,7% of the Group revenue. The technology of electricity and heat production does not allow segregation of electricity and heat segments. Due to significant decentralization and distances between Company branches, the Group identifies five primary reporting segments: Surgutskaya GRES-1, Troitskaya GRES, Stavropolskaya GRES, Serovskaya GRES, Pskovskaya GRES. All reporting segments are located on the territory of Russian Federation. In the process of valuation of segments results and allocation of economic resources of the Group the Management Board uses financial information provided below prepared in accordance with RAR. The differences between the above-mentioned financial indicators analyzed by the Management Board and IFRS financial information are caused by different approaches applied in IFRS and RAR. The main difference is the estimation of the value of property, plant and equipment. The Group does not have inter-segment revenue.

Year ended 31 December 2009	Surgutskaya GRES-1	Stavropol-skaya GRES	Troitskaya GRES	Serovskaya GRES	Pskovskaya GRES	**Total operating segments**
Revenue	17,522,715	10,889,539	7,270,212	2,898,084	2,189,408	**40,769,958**
Depreciation of property, plant, equipment	(191,730)	(91,078)	(121,563)	(55,215)	(212,318)	**(671,904)**
Segment operating profit / (loss)	3,424,657	1,102,937	(19,798)	20,365	41,472	**4,569,633**

Year ended 31 December 2008	Surgutskaya GRES-1	Stavropol-skaya GRES	Troitskaya GRES	Serovskaya GRES	Pskovskaya GRES	**Total operating segments**
Revenue	15,776,317	10,973,644	8,756,807	2,988,764	2,060,773	**40,556,305**
Depreciation of property, plant, equipment	(186,290)	(97,655)	(99,242)	(63,741)	(269,823)	**(716,751)**
Segment operating profit / (loss)	1,434,173	844,597	(553,954)	(229,963)	(24,389)	**1,470,464**

A reconciliation of management financial information prepared in accordance with RAR to IFRS figures is provided as follows:

	Year ended 31 December 2009	**Year ended 31 December 2008**
Segment operating profit	4,569,633	1,470,464
Adjustments, arised from different accounting polycy:		
Depreciation adjustment	(662,356)	(583,741)
Impairment of intangible assets	(391,841)	-
Reversal / (charge) of property, plant and equipment impairment	33,277	(287,903)
Provision for impairment of trade and other receivables	(103,428)	141,553
Share option plan	(10,259)	647,825
Bonus reversal	-	86,977
Land rent adjusment	-	75,549
Other adjustments	109,938	277,037
Unallocated expenses:		
Employee benefit	(368,864)	(1,030,614)
Provision for impairment of trade and other receivables	(432,701)	13,189
Consulting, legal and audit services	(92,306)	(139,290)
Rent	(168,503)	(164,199)
Other corporate expenses	(584,490)	(1,203,950)
Operating profit / (loss)	**1,898,100**	**(697,103)**

Segment's assets are disclosed below:

	Surgut-skaya GRES-1	Stavropol-skaya GRES	Troitskaya GRES	Serov-skaya GRES	Pskovskaya GRES	**Total assets**
31 December 2009	3,804,656	2,383,932	13,825,012	8,262,852	2,587,570	**30,864,022**
31 December 2008	3,872,754	9,806,701	12,948,227	1,045,195	2,788,320	**30,461,197**

A reconciliation of management financial information prepared in accordance with RAR to IFRS figures is provided as follows:

	Year ended 31 December 2009	Year ended 31 December 2008
Total assets for reportable segment	30,864,022	30,461,197
Adjustments, arised from different accounting polycy:		
Property, plant and equipment adjustment	6,198,707	6,772,538
Discounting of promissory notes	(226,169)	(370,024)
Impairment of trade and other receivables	(265,694)	(149,517)
Prepayments / deposits for pensions	206,684	244,383
Impairment of intangible assets	(391,841)	-
Provision for inventory obsolescence	(45,224)	(25,523)
Other adjustments	(315,629)	(512,850)
Unallocated assets	18,091,152	15,147,618
Total assets (IFRS)	**54,116,008**	**51,567,822**

The unallocated assets are the assets which can not be directly related to the certain operating segment and also out of the operating segment control for decision making. These assets include intangible assets, shot – term and long - term trade receivables, cash in bank, deposits, inventories and fixed assets which are the subject to headquarter control.

Management of the Group does not review the information in respect of operating segment's liabilities in order to make a decision about allocation of resources, because of centralisation of significant part of payment transactions.

Note 30. Subsequent events

In 2010 the Company has cancelled the service agreement with the OJSC "NOMOS-Bank" and received back cash initially paid to secure delivery of shares to employees in settlement of share-based payment arrangement (see Note 13).

In 2010 the Company agreed to significantly change conditions of construction contracts with its major contractors - OJSC "E4 Group" and CJSC "QUARTZ-Novie Technologii" (see Note 6).

In February and March 2010 Company repaid their current loans for the total amount of RR 4,100,000 thousand ahead of schedule.

In accordance with the Resolution of the Board of Directors the Company terminated from 31 March 2010 the labour agreement with it's General Director, appointed in 2008.