RAO UES Group
IFRS Consolidated Financial Statements
For the year ended 31 December 2007

ZAO PricewaterhouseCoopers Audit
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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of the Russian Open Joint Stock Company for Energy and Electrification Unified System of Russia ("RAO UES"):

We have audited the accompanying consolidated financial statements of RAO UES and its subsidiaries (the "Group") which comprise the consolidated balance sheet as of 31 December 2007 and the consolidated statement of operations, consolidated cash flow statement and consolidated statement of changes in equity for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

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

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

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2007, 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 your attention to Notes 4 and 8 to the accompanying consolidated financial statements. Starting from 1 January 2007 the Group changed its accounting policy for property, plant and equipment which are now stated at revalued cost. Prior to 1 January 2007 property, plant and equipment were stated at depreciated cost less impairment. As a result of the revaluation, property, plant and equipment of the Group increased by RR 521 952 million; and

- we draw your attention to Notes 1, 3 and 7 to the accompanying consolidated financial statements. The Government of the Russian Federation has a controlling interest in the Group and Governmental economic and social policies affect the Group's financial position, results of operations and cash flows.

  Based on the decisions made by the Government of the Russian Federation, the Russian electric utilities industry in general and the Group in particular are presently undergoing a reform process. As a result of the reorganisation, the RAO UES assets will be distributed to the shareholders in proportion to their stakes in the RAO UES share capital; all the businesses and assets of the Group will continue to be operated until they are either sold or distributed to the shareholders. RAO UES is expected to be liquidated by 30 June 2008.

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
17 June 2008

RAO UES Group

Consolidated Balance Sheet as at 31 December 2007
(in millions of Russian Roubles)

	Notes	31 December 2007	31 December 2006
ASSETS			
Non-current assets			
Property, plant and equipment	8	1,562,241	1,217,526
Investments in associates and jointly controlled entities	9	83,827	3,338
Deferred profit tax assets	17	740	3,988
Available-for-sale investments	15	48,851	15,302
Other non-current assets	10	43,539	18,863
Total non-current assets		**1,739,198**	**1,259,017**
Current assets			
Cash and cash equivalents	11	125,369	54,101
Accounts receivable and prepayments	12	252,672	134,282
Inventories	13	44,038	60,973
Available-for-sale investments	15	12,848	3,934
Other current assets	14	41,585	26,246
Total current assets		**476,512**	**279,536**
Non-current assets and disposal groups classified as held for sale	28	**124,849**	**4,883**
TOTAL ASSETS		**2,340,559**	**1,543,436**
EQUITY AND LIABILITIES			
Equity	16		
Share capital			
Ordinary shares (nominal value RR 20,521 million)		147,439	147,439
Preference shares (nominal value RR 1,038 million)		7,667	7,667
Treasury shares		(49,807)	(3,707)
Retained earnings and other reserves		1,050,357	566,132
Total equity attributable to the shareholders of RAO UES		**1,155,656**	**717,531**
Minority interest		379,101	309,219
Total equity		**1,534,757**	**1,026,750**
Non-current liabilities			
Deferred profit tax liabilities	17	232,186	136,496
Non-current debt	18	92,687	107,777
Other non-current liabilities	19	18,516	15,755
Total non-current liabilities		**343,389**	**260,028**
Current liabilities			
Current debt and current portion of non-current debt	20	166,690	101,935
Accounts payable and accrued charges	21	197,497	112,128
Taxes payable	22	68,822	41,965
Total current liabilities		**433,009**	**256,028**
Liabilities directly associated with non-current assets and disposal groups classified as held for sale	28	**29,404**	**630**
Total liabilities		**805,802**	**516,686**
TOTAL EQUITY AND LIABILITIES		**2,340,559**	**1,543,436**

Chairman of the Management Board — Chubais A.B.

Financial Director — Dubinin S.K.

17 June 2008

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

RAO UES Group

Consolidated Statement of Operations for the year ended 31 December 2007

(in millions of Russian Roubles)

	Notes	Year ended 31 December 2007	Year ended 31 December 2006
Continuing operations			
Revenues	24	821,693	697,593
(Charge)/reversal of impairment of property, plant and equipment	8	(5,532)	121,407
Reversal of tariff imbalance	21	-	5,360
Gain on disposal of subsidiaries and equity investments	5	13,903	6,592
Operating expenses	25	(739,493)	(622,987)
Operating profit		**90,571**	**207,965**
Finance costs	26	(13,837)	(12,117)
Share of profit/ (loss) of associates and jointly controlled entities	9	551	(556)
Profit before profit tax		**77,285**	**195,292**
Profit tax charge	17	(36,577)	(78,556)
Profit for the year from continuing operations		**40,708**	**116,736**
Discontinued operations			
Profit for the year from discontinued operations	28	124,704	32,782
Profit for the year		**165,412**	**149,518**
Attributable to:			
Shareholders of RAO UES		146,579	83,371
Minority interest		18,833	66,147
Earnings per ordinary share for profit from continuing operations attributable to the shareholders of RAO UES – basic and diluted (in Russian Roubles)	27	0.72	1.69
Earnings per ordinary share for profit from discontinued operations attributable to the shareholders of RAO UES – basic and diluted (in Russian Roubles)	27	2.71	0.25
Earnings per preference share for profit from continuing operations attributable to the shareholders of RAO UES – basic and diluted (in Russian Roubles)	27	0.72	1.83
Earnings per preference share for profit from discontinued operations attributable to the shareholders of RAO UES – basic and diluted (in Russian Roubles)	27	2.71	0.25

Chairman of the Management Board — Chubais A.B.

Financial Director — Dubinin S.K.

17 June 2008

RAO UES Group

Consolidated Cash Flow Statement for the year ended 31 December 2007
(in millions of Russian Roubles)

	Notes	Year ended 31 December 2007	Year ended 31 December 2006
CASH FLOW FROM OPERATING ACTIVITIES:			
Profit before profit tax		**278,711**	**266,080**
Profit before profit tax from discontinued operations	28	**(201,426)**	**(70,788)**
Adjustments to reconcile profit before profit tax to net cash provided by operations:			
Depreciation of property, plant and equipment	25	62,989	55,799
Charge/(reversal) of impairment of property, plant and equipment	8	5,532	(121,407)
Doubtful debtors expenses	25	1,635	3,002
Finance costs	26	13,837	12,117
Share of (profit)/loss of associates and jointly controlled entities	9	(551)	556
Loss on disposal of property, plant and equipment	25	4,025	2,711
Gain on disposal of subsidiaries and equity investments	5	(13,903)	(6,592)
Reversal of tariff imbalance	21	-	(5,360)
Adjustment for other non-cash investing activities		(949)	(459)
Operating cash flows before working capital changes and profit tax paid from continuing operations		**149,900**	**135,659**
Working capital changes:			
Increase in accounts receivable and prepayments	12	(51,583)	(18,797)
Increase in other current assets		(1,522)	(11,311)
Increase in inventories		(5,342)	(9,366)
(Increase)/decrease in other non-current assets		(20,510)	69
Increase in accounts payable and accrued charges		53,952	23,752
(Decrease)/increase in taxes payable, other than profit tax		(13,840)	5,959
Increase/(decrease) in other non-current liabilities		8,768	(67)
Profit tax paid		(30,017)	(43,725)
Net cash generated by operating activities - continuing operations		**89,806**	**82,173**
Net cash used by operating activities - discontinued operations		**(50,477)**	**(7,567)**
CASH FLOW FROM INVESTING ACTIVITIES:			
Additions to property, plant and equipment		(234,291)	(118,371)
Proceeds from sale of property, plant and equipment		5,044	3,414
Proceeds from the sale of subsidiaries (net of cash) and equity investments	5	28,152	11,669
Purchase of associates and equity investments	9	(4,852)	(2,775)
Net cash used for investing activities - continuing operations		**(205,947)**	**(106,063)**
Net cash generated/(used) for investing activities - discontinued operations		**137,040**	**(31,504)**

RAO UES Group

Consolidated Cash Flow Statement for the year ended 31 December 2007
(in millions of Russian Roubles)

	Notes	Year ended 31 December 2007	Year ended 31 December 2006
CASH FLOW FROM FINANCING ACTIVITIES:			
Proceeds from issuance of current debt		329,454	198,565
Proceeds from issuance of non-current debt		95,843	65,821
Repayment of debt		(317,851)	(210,913)
Interest paid		(14,055)	(8,591)
Dividends paid to RAO UES shareholders		(25)	(2,842)
Dividends paid by the Group to minority interest shareholders		(2,456)	(3,170)
Proceeds from share issuance by RAO UES subsidiaries	16	78,492	12,278
Acquisition of RAO UES shares	12,16	(101,853)	-
Proceeds from sale of treasury shares	16	2,759	-
Net cash generated by financing activities - continuing operations		**70,308**	**51,148**
Net cash generated by financing activities - discontinued operations		**32,232**	**28,789**
Cash and cash equivalents at the beginning of the year	11	**54,101**	**37,125**
Increase in cash and cash equivalents		**72,962**	**16,976**
Less cash and cash equivalents in RAO UES subsidiaries classified as held for sale at the end of the year		(1,694)	-
Cash and cash equivalents at the end of the year	11	**125,369**	**54,101**

Chairman of the Management Board — Chubais A.B.

Financial Director — Dubinin S.K.

17 June 2008

RAO UES Group

Consolidated Statement of Changes in Equity for the year ended 31 December 2007

(in millions of Russian Roubles)

	Attributable to the shareholders of RAO UES							
	Ordinary shares	Preference shares	Treasury shares	Retained earnings	Other reserves	Total	Minority interest	Total equity
As at 1 January 2006	**147,439**	**7,667**	**(3,707)**	**468,454**	**290**	**620,143**	**240,044**	**860,187**
Change in fair value of available-for-sale investments	-	-	-	-	5,621	5,621	-	5,621
Translation differences (Note 16)	-	-	-	19	-	19	-	19
Net income recognised directly in equity	-	-	-	19	5,621	5,640	-	5,640
Profit for the year	-	-	-	83,371	-	83,371	66,147	149,518
Total recognised income for the year	-	-	-	83,390	5,621	89,011	66,147	155,158
Dividends (Note 16)	-	-	-	(2,758)	-	(2,758)	(3,808)	(6,566)
Stock option plan (Note 7)	-	-	-	100	-	100	-	100
Changes in Group structure (Note 5)	-	-	-	11,035	-	11,035	6,836	17,871
As at 31 December 2006	**147,439**	**7,667**	**(3,707)**	**560,221**	**5,911**	**717,531**	**309,219**	**1,026,750**
As at 1 January 2007	**147,439**	**7,667**	**(3,707)**	**560,221**	**5,911**	**717,531**	**309,219**	**1,026,750**
Revaluation of property, plant and equipment (Note 8)	-	-	-	-	353,319	353,319	168,633	521,952
Change in fair value of available-for-sale investments (Note 15)	-	-	-	-	13,238	13,238	-	13,238
Translation differences (Note 16)	-	-	-	(20)	-	(20)	-	(20)
Change in equity of associates and jointly controlled entities (Note 9,16)	-	-	-	2,861	-	2,861	-	2,861
Net income recognised directly in equity	-	-	-	2,841	366,557	369,398	168,633	538,031
Profit for the year	-	-	-	146,579	-	146,579	18,833	165,412
Total recognised income for the year	-	-	-	149,420	366,557	515,977	187,466	703,443
Increase of treasury shares (Note 16)	-	-	(46,100)	-	-	(46,100)	-	(46,100)
Stock option plan (Note 7)	-	-	-	604	-	604	-	604
Dividends (Note 16)	-	-	-	-	-	-	(3,620)	(3,620)
Provision for buy out of shares (Note 16)	-	-	-	-	(52,994)	(52,994)	(278)	(53,272)
Spin-off of WGC-5 and TGC-5 (Note 5)	-	-	-	(25,666)	(13,051)	(38,717)	(38,702)	(77,419)
Changes in Group structure (Note 16)	-	-	-	159,733	(100,378)	59,355	(74,984)	(15,629)
As at 31 December 2007	**147,439**	**7,667**	**(49,807)**	**844,312**	**206,045**	**1,155,656**	**379,101**	**1,534,757**

Chairman of the Management Board Chubais A.B.

Financial Director Dubinin S.K.

17 June 2008

Note 1: The Group and its operations

The Russian Open Joint Stock Company for Energy and Electrification Unified Energy System of Russia (RAO UES) was created on 31 December 1992 following the privatisation of certain electricity power generation, transmission and distribution assets formerly under the control of the Ministry of Energy of the Russian Federation. Nuclear generation stations were not transferred to RAO UES.

The RAO UES Group (the "Group") consists of RAO UES and its related subsidiaries, associates and jointly controlled entities. The Group principal subsidiaries as at 31 December 2007 are presented in Note 5. The Group associates and jointly controlled entities are presented in Note 9.

The Group performs the following major activities:

- ***Generation*** – electricity and heat generation;
- ***Transmission*** – high voltage transmission of electricity;
- ***Distribution*** – delivery of electricity through distribution grids;
- ***Retailing*** – sales of electricity.

RAO UES's registered office is located at bld. 3, 101 Vernadskogo prospect, 119526, Moscow, Russia.

Operating environment of the Group. Whilst there have been improvements in economic trends in the Russian Federation, the country continues to display certain characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the Russian Federation and relatively high inflation. The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and changes, which can occur frequently.

Relations with the state and current regulation. As at 31 December 2007, the Government of the Russian Federation owned 52.7 percent of RAO UES, which represents 55.0 percent of the ordinary shares issued. As discussed in Note 16, only ordinary shares have voting rights. The Group's customer base includes a large number of entities controlled by, or related to, the state. Furthermore, the state controls a number of the Group's fuel and other suppliers (see Note 7).

The Government of the Russian Federation affects the Group's operations through:

- participation of its representatives in the Board of Directors of RAO UES;
- its tariff regulation within wholesale and retail electricity and heat markets;
- its control over and approval for the Group companies' investment programs; and
- its antimonopoly regulation.

The Federal Service on Tariffs (FST) regulates electricity and heat tariffs by setting maximum electricity and heat tariff levels for final consumers, wholesale market and infrastructural entities (electricity transmission through the high voltage grids), and the regional services on tariffs (RSTs) set tariffs for electricity and heat for final consumers and tariffs for electricity distribution through the low voltage grids on regional retail markets. Although there is now some free trading of limited volumes of electricity, currently for the great majority of sales the tariffs which Group entities may charge electricity and heat are governed both by regulations specific to the electricity and heat industry and by regulations applicable to natural monopolies. As a condition to privatisation in 1992, the Government of the Russian Federation imposed an obligation on Group entities to provide connection for the supply of electricity and heating to customers in the Russian Federation.

Investment programs of the Group's companies are subject to approval by state regulation bodies. Approval of the investment programs of RAO UES, Federal grid company ("FGC") and System operator-CDU UES is within the competence of the Ministry of Industry and Electricity, the Ministry of Economic Development and Trade of the Russian Federation and FST. The RSTs approve the investment programs of regional distribution and energy sales companies.

As described in Notes 2, 29 and 30 the Government's economic, social and other policies could have material effects on the operations of the Group.

Regulatory issues and sector restructuring. The Russian electric utilities industry in general and the Group in particular are presently undergoing a reform process designed to introduce competition into the electricity sector and to create an environment in which the Group and its successor companies can raise the capital required to maintain and expand current capacity.

During the years of reform the structure of the industry will change, which includes the separation of natural monopoly activities (power transmission, dispatching) from potentially competitive ones (electric power production, supply). The result of the Group reorganisation is that generation and retailing companies will enter the private sector for the most part and will operate in a competitive market. On the contrary, government control will continue, and grow, in natural monopoly areas.

The regulatory framework governing the process of reforming the Russian Federation electric utilities industry and the functioning of the industry, both during the transition period and subsequent to the completion of reforms, is set forth in the following legislation: Federal Law No.35-FZ of 26 March 2003 "On Electric Utilities" and Federal Law No.36-FZ of 26 March 2003 "On the Specifics of the Functioning of Electric Utilities During the Transition Period" and the Introduction of Amendments to Certain Russian Federation Legislative Acts and the Invalidation of Certain Russian Federation Legislative Acts in Connection with the Adoption of the Law "On the Electric Utilities of the Russian Federation" ("Federal Law No.36-FZ").

As at 2 March 2007, the Board of Directors of RAO UES, and as at 26 October 2007 the Extraordinary shareholder meeting, approved the basic structure for the second (final) phase of the Company's reorganisation which assumes that in 2007-2008 the Company will complete the restructuring of RAO UES assets and spin off all companies which will comprise the ultimate sector structure (further referred to as ultimate companies), following which RAO UES will cease its independent activities and be merged into FGC. As a result of the reorganisation the shareholders of RAO UES will ultimately receive shares in the ultimate companies, including FGC. The reorganisation of RAO UES is expected to be completed on 1 July 2008. Consequently, the government will keep control over FGC, System Operator-CDU UES, InterRAO, HydroWGC, Far East Energy Companies and Interregional Distribution Companies.

The Group reorganisation strategy framework sets out three different ways of disposal of RAO UES investments: spin-off, sale of shares and dilution through share issue for the purpose of attracting investments for modernization and improvement.

During the year ended 31 December 2007 two Group generating companies have been spun-off (WGC-5 and TGC-5); the shares of Moskovskaya heat grid company, TGC-9 and 13 Group retailing companies were sold; Mosenergo, WGC-3, TGC-1, TGC-8, Kuzbassenergo (TGC-12) and WGC-4 issued additional shares which were purchased by third parties (see Note 5). Major changes in the Group structure for the year ended 31 December 2007 are presented in Note 5. In addition, TGC-11, TGC-4 Group and 18 retailing companies were classified as assets Held for sale (see Note 28).

As at 6 June 2008 RAO UES shares were stopped trading on the stock exchanges to determine the closing register of RAO UES shareholders. The holders of RAO UES shares from this register will participate in the distribution of RAO UES assets as at 1 July 2008.

All information concerned with the reorganisation of RAO UES, including acts of legislation, results of RAO UES shareholder meetings, RAO UES Board of Directors decisions, etc. is publicly available and located on RAO UES official web-site.

The reorganisation of RAO UES creates conditions for competitive electricity market development. Prices in this market will not be regulated by the government, but will be formed on a demand and supply basis.

As at 1 September 2006, a new liberalized model of the wholesale and retail electricity (power) markets was launched according to the Russian Government's Resolution No. 529 "On Improvement of the Procedure for Functioning of Wholesale Electricity (Power) Market" and No. 530 "On Rules for the Functioning of Retail Electricity Markets". Under the new wholesale market model, the existing electricity and power purchase-and-sale relations in the regulated market sector are to be replaced by a regulated bilateral contract system. From January 2007 the volumes of electricity (power) traded on the wholesale energy market under regulated contracts should be not less than 95% of the basic forecasted volume of electricity (power) , and from 1 July 2007 - not less than 90%. The pace of reduction will be set annually by the Russian Federation Government according to the Rules for the Functioning of Retail Electricity Markets. From 1 January 2011 all electricity will be traded at free prices. The new market model implies two ways of electricity trading at free prices, being free bilateral contracts and a day-ahead market. Under free bilateral contracts market participants have the right to choose contracting parties, prices and supply volumes. The day-ahead market is based on competitive selection of bids submitted by suppliers and buyers a day before the electricity is actually supplied. The competitive selection is performed by the non-commercial partnership "Trade System Administrator of the Wholesale Electricity Market". As a whole, the day-ahead market replaces the free trade sector that was previously operating.

Note 2: Financial condition

As discussed above, the Group is affected by Government policy through control of tariffs and other factors. The RSTs do not always permit tariff increases in line with increases in the Group's costs and thus some tariffs are insufficient to cover all the costs of generation and distribution. Moreover, these tariffs consider costs only on a Russian statutory basis and, accordingly, exclude additional costs recognised under an International Financial Reporting Standards ("IFRS") basis of accounting. As a result, regulated tariffs do not consistently allow for an adequate return on investment and currently do not provide sufficient funds for the full replacement of property, plant and equipment. Furthermore, the Group also experiences difficulties raising finance for necessary investment in generation, transmission and distribution assets.

Although management in recent years has improved the absolute level of settlements for current sales the Group continues to experience problems in obtaining settlement of old accounts receivable. Currently substantially all settlements of accounts receivable are made in cash. Despite this success, there still remains a significant amount of uncollected accounts receivable from earlier periods. Management has continued its collection and restructuring efforts to reduce the outstanding balances. There is legislation enabling the Group to cut off non-payers, but this is only possible to a certain extent due to strategic and political factors. Federal, municipal and other Governmental organisations make up a significant portion of the debtor balance as at 31 December 2007. The Group has provided against doubtful accounts receivable, as further described in Notes 10 and 12.

Group management has been taking the following actions in order to address the issues noted above and improve the Group's financial position:

- introduction of improved financial budgeting procedures; a strong focus on timely cash collection of current and old debtor balances; restructuring of liabilities for repayment over a longer period;
- discussions with strategic investors, and identification and assessment of projects requiring investment funds;
- negotiations with federal and regional Governments and regulators for real increases in tariffs to support adequate long term investment into the Group's generation, transmission and distribution assets; and
- active participation in the restructuring of the Russian electricity utility industry (see Note 1).

Management believes that ultimately a stable regulatory regime and a competitive power market will be put in place such that the Group and its successors will be able to raise needed capital to sustain the business. However, there can be no assurance in this regard (see "Going concern" paragraph in Note 3).

In the period from October to December 2007 the Extraordinary shareholder's meetings of some Group entities approved decisions related to restructuring of those entities (see Note 1). The following requirements are stipulated by the Federal Law "On Joint-stock Companies":

- during 30 days from the date of the Extraordinary shareholder's meeting each Group entity should inform its creditors about a reorganization;

- during 30 days from the date of notification, the creditors have the right to claim the early repayment of its debts.

Therefore as at 31 December 2007 certain Group entities did not have the right to defer repayment of non-current debts and other non-current liabilities for at least twelve months after the reporting date and had to reclassify them to current. As at 31 December 2007 the amount of reclassified non-current debts and other non-current liabilities were RR 44,541 million (see Note 20) and RR 606 million respectively. Subsequent to the reporting date, a number of creditors did claim the early repayment of non-current debts in the total amount of RR 2,385 million (see Note 32).

(in millions of Russian Roubles)

The remaining balances of unclaimed debt and liabilities, being RR 42,156 million and RR 606 million respectively, were consequently subsequent to the balance sheet date re-classified to non-current.

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").

Each enterprise of the Group individually maintains its own books of accounts and prepares its statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation ("RAR") with the exception of foreign companies which prepare their statutory financial statements in accordance with their statutory accounting requirements. The accompanying Financial Statements are based on the statutory records and adjusted and reclassified for the purpose of fair presentation in accordance with IFRS.

Going concern. As discussed in Note 1 the Board of Directors and the Extraordinary shareholders meeting have agreed the final phase of the Group's reorganisation. When the reorganisation is completed, which is envisaged on the 1 July 2008, the RAO UES will cease its activity. The directors consider that it is not appropriate to prepare the financial statements on a going concern basis. However, during the final reorganization the RAO UES assets will be distributed to the shareholders in proportion to their stakes in the RAO UES authorized capital. Furthermore, all businesses and assets of the Group will continue to be operated until they are sold or distributed to shareholders and are expected to be realised at amounts at least equal to their carrying amount and, accordingly, no adjustments to the carrying value of assets and liabilities have been made to reflect the proposed reorganisation.

Reclassifications. Certain reclassifications have been made to prior year data to conform with the current year presentation.

Before 31 December 2006, property, plant and equipment were divided into groups, according to their function, such as electricity and heat generation. This classification was considered appropriate when the Group was comprised of vertically integrated power companies ("Energos") carrying out activities from generation to final consumer sales. Companies, related to different segments, such as generation, transmission and distribution of electric power, and also heating networks, were separated from the Energos during the reorganization. Property, plant and equipment transferred to newly formed companies from the Energos during the reorganization generally relate to one function, from which the entity generates income. Dividing of property, pant and equipment according to their functional area no longer provides useful information. Management considers that classifying property, plant and equipment by their nature rather than by their function provides more useful information and is more representative of the new structure of RAO UES Group. Comparative information for 2006 and 2005 has been restated in line with the new classification.

PPE groups for IFRS purposes (in accordance with previously adopted classification)	As at 31 December 2006	As at 31 December 2005
Electricity and heat generation	462,780	318,759
Electricity transmission	140,045	111,967
Electricity distribution	250,577	225,847
Heating networks	54,581	40,373
Construction in progress	221,276	182,697
Other	88,267	75,489
Total	**1,217,526**	**955,132**

(in millions of Russian Roubles)

PPE groups for IFRS purposes (in accordance with newly adopted classification)	As at 31 December 2006	As at 31 December 2005
Production buildings	207,567	149,402
Hydrotechnical buildings	66,104	49,353
Equipment and assembling units	143,289	93,267
Substations & power equipment	177,655	134,700
Electricity grids and equipment	249,664	224,097
Heat grids	54,598	40,391
Construction in progress	220,797	182,113
Other	97,852	81,809
Total	**1,217,526**	**955,132**

Functional and presentation currency. The national currency of the Russian Federation is the RR, which is RAO UES's functional currency and the currency in which these Financial Statements are presented. All financial information presented in RR has been rounded to the nearest million.

Accounting of effect of hyperinflation. Prior to 1 January 2003 the adjustments and reclassifications made to the statutory records for the purpose of IFRS presentation included the restatement of balances and transactions for the changes in the general purchasing power of the RR in accordance with International Accounting Standard 29 ("IAS 29") ("Financial Reporting in Hyperinflationary Economies"). IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy should be stated in terms of the measuring unit current at the balance sheet date. As the characteristics of the economic environment of the Russian Federation indicated that hyperinflation ceased, effective from 1 January 2003 the Group no longer applied the provisions of IAS 29. Accordingly, the amounts expressed in the measuring unit current as at 31 December 2002 are treated as the basis for the carrying amounts in these Financial Statements.

New accounting developments. These consolidated financial statements have been prepared by applying the accounting policies consistent with those of the annual financial statements for the year ended 31 December 2006, except for those policies which were changed to comply with the new or amended standards and interpretation that are in force for the year beginning on 1 January 2007.

These new or amended standards and interpretations that are in force for the year beginning on 1 January 2007 and their impact on the current period or any prior period is described below:

- IFRIC 7, "Applying the Restatement Approach under IAS 29", effective for annual periods beginning on or after 1 March 2006. This amendment did not have a material effect on the Group's financial statements;

- IFRIC 8, "Scope of IFRS 2", effective for annual periods beginning on or after 1 May 2006. This amendment did not have a material effect on the Group's financial statements;

- IFRIC 9, "Reassessment of Embedded Derivatives", effective for annual periods beginning on or after 1 June 2006. This amendment did not have a material effect on the Group's financial statements;

- IFRIC 10, "Interim financial reporting and impairment", effective for annual periods beginning on or after 1 November 2006. This amendment did not have a material effect on the Group's financial statements;

- IFRIC 11, "IFRS 2 - Group and Treasury share transactions", effective for annual periods beginning on or after 1 March 2007. This amendment did not have a material effect on the Group's financial statements; and

- IFRS 7, "Financial instruments: Disclosures", effective for annual periods beginning on or after 1 January 2007. IAS 1, "Amendments to capital disclosures", effective for annual periods beginning on or after 1 January 2007. New IFRS 7 introduces new disclosures to improve the information about financial instruments. The Amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group has adopted IFRS 7 and the amendment to IAS 1 starting from 1 January 2007.

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2007 and have not been early adopted:

- IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). 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 and specifies how an entity should report such information;

- Amendment to IAS 23 "Borrowing Cost" effective for borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after 1 January 2009. The main change from the previous version is the removal of the option of immediately recognizing as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale;

- Amendment to IAS 1 "Presentation of Financial Statements" (revised September 2007; effective for annual periods beginning on or after 1 January 2009). The main change in IAS 1 is the replacement of the statement of operations by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate statement of operations and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Group expects the revised IAS 1 to affect the presentation of its financial statements but to have no impact on the recognition or measurement of specific transactions and balances;

- Amendment to IAS 32 and IAS 1, "Puttable financial instruments and obligations arising on liquidation" (effective for annual periods beginning on or after 1 January 2009). The objective of the Amendment is to improve the financial reporting of particular types of financial instruments that represent a residual interest in the entity but are, at present, classified as financial liabilities. The amendments classify the following types of financial instruments as equity, provided they have particular features and meet specific conditions - puttable financial instruments; instruments, or components of instruments, that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation;

- Amendments to IFRS 2, Share-based Payment Vesting Conditions and Cancellations (effective for annual periods beginning on or after 1 January 2009). The amendment deals with two matters. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. It also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment;

- IAS 27 (Revised), Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 1 July 2009);

- IFRS 3 (Revised), Business Combinations (effective for annual periods beginning on or after 1 July 2009);

- IFRIC 12, "Service concession agreements", effective for annual periods beginning on or after 1 January 2008;

- IFRIC 13 "Customer Loyalty Programs", which is effective for annual periods beginning on or after 1 July 2008;

- IFRIC 14, IAS 19 "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction", which is effective for annual periods beginning on or after 1 January 2008.

Unless otherwise described above, the analysis in respect of these new standards and interpretations has been carried out by the Group, and they are not expected to significantly affect the Group or its successor entities financial statements.

Critical accounting estimates and assumptions. The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgements 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 judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised 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:

Revaluation of property, plant and equipment

Fair value of property, plant and equipment and the remaining useful life of property, plant and equipment of the Group companies have been determined by independent appraisers as at 1 January 2007. The carrying value and depreciation of property, plant and equipment are affected by the estimates of replacement cost, depreciated replacement cost and remaining useful lives. Changes in these assumptions could have a material impact to the fair value of property, plant and equipment (see Note 8).

Impairment provision for accounts receivable

The impairment provision for accounts receivable is based on the Group's assessment of the collectibility of specific customer accounts. If there is deterioration in a major customer's creditworthiness or actual defaults are higher than the estimates, the actual accounts receivable could differ from these estimates (see Note 12).

If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed accounts receivable, whether significant or not, it includes the account receivable in a group of accounts receivable with similar credit risk characteristics and collectively assesses them for impairment.

For the purposes of a collective evaluation of impairment accounts receivable are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of accounts receivable that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

Impairment of other assets and accounting for provisions

At each balance sheet date the Group assesses whether there is any indication that the recoverable amount of the Group's assets has declined below the carrying value. The recoverable amount 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 statement of operations in the period in which the reduction is identified. If conditions change and management determines that the assets' value has increased, the impairment provision will be fully or partially reversed.

Accounting for impairment includes provisions against property, plant and equipment, investments, other non-current assets and inventory obsolescence. The provisions for liabilities and charges primarily include provisions for pension liabilities and legal proceedings. The Group records impairment or accrues these provisions when its assessments indicate that it is probable that a liability has been incurred or an asset will not be recovered and an amount can be reasonably estimated. The Group's estimates for provisions for liabilities and charges are based on currently available facts and the Group's estimates of the ultimate outcome or resolution of the liability in the future.

As a result of changes in the market conditions (see Note 1) in the year ended 31 December 2006 the Group identified that the recoverable amount of the Group's property, plant and equipment had significantly changed. Consequently, the previously recognised impairment in the net amount of RR 189,629 million was reversed as at 31 December 2006 (see Note 8). In consolidated statement of operations that reversal at the amount of RR 121,407 million was presented within continuing operations, at the amount of RR 68,222 million - within discontinued operations.

Further reversal of impairment as at 1 January 2007 in net amount of RR 3,514 mln was recognised as consequence of recognising the results of the property, plant and equipment revaluation (see Note 8). In consolidated statement of operations impairment charge of RR 5,532 million was presented within continuing operations, reversal of RR 9,046 million - within discontinued operations.

Provisions for pension obligations are periodically adjusted based on updated actuarial assumptions (see Note 23).

Actual results may differ from the estimates and the Group's estimates can be revised in the future, either negatively or positively, depending upon the outcome or expectations based on the facts surrounding each exposure.

Tax contingencies

Russian tax legislation is subject to varying interpretations and changes, which can occur frequently (see Note 30). 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 the IFRS financial information.

Useful lives of property, plant and equipment

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

Deferred tax

Before 31 December 2006 the Group did not recognize a deferred tax liability in respect of temporary differences associated with investments in almost all of its subsidiaries. Before that date the reversal of the temporary differences was within the control of the Group and it was not probable that they would reverse, because the Group had made no decision on the manner of the restructuring that could trigger a taxable event.

At a meeting of the RAO UES Board of Directors held on 2 March 2007, the Board of Directors considered and approved a plan that envisages that the Group or successor entities raise funds for future capital expenditures by selling existing shares in the share capital of all the WGCs and TGCs, except for HydroWGC, WGC-5 and TGC-5. Management considered this decision as a triggering event for the recognition as an adjusting post balance sheet of an element of the previously unrecognised deferred tax liability and RR 36,712 million was recognised in respect of such taxable event as at 31 December 2006. The calculation of deferred tax was performed on the basis of the effective ownership percentage of the Russian Federation in RAO UES as at the reporting date.

During the year ended 31 December 2007, generally due to changes in the Group structure, the Group's deferred tax liability was decreased by RR 12,084 million to RR 24,628 million as at 31 December 2007 (see Note 17).

As at 31 December 2007 not all of the potential the deferred tax liability in respect of temporary differences associated with investments was recognised (see Note 17). Management considers that reversal of the unrecognised temporary differences associated with the investments in subsidiaries is not likely in the foreseeable future based upon its knowledge of the methods of sector reform and its decisions adopted concerning further utilisation of investments.

Tariff imbalance

As at 31 December 2006 the Group has de-recognised the tariff imbalance (see Note 21). Due to the inherent uncertainties in the operation of the previous wholesale electricity market and the fact that the change in legislation for the new market was prospective, judgement was involved in deciding that a liability no longer exists. Management has concluded, based on all the available evidence that a liability for the tariff imbalance no longer exists. Management has also concluded that there is still a possible obligation that could become a liability if the Government of the Russian Federation were to change its regulatory policy and seek to recover past tariff imbalances from the Group (see Note 30).

Non-current assets held for sale and discontinued operations

In accordance with IFRS 5 the Group classifies non-current assets as held for sale, together with liabilities directly associated with those assets when, their sale is highly probable.

The Group presents operations as discontinued operations when the requirements of IFRS 5 are met, in particular, when a component of the Group classified as held for sale represents a separate major line of business or is part of a single coordinated plan to dispose of this separate major line of business. Discontinued operations are presented beginning from the moment when the component is classified as held for sale or has already been sold or otherwise disposed of, whichever is the earlier. Due to the reorganization of RAO UES (see Note 1), the Group will cease its entire operations and each part of its operations will be classified as discontinued when it has either been disposed of (spun off) or it meets the conditions to be held for sale.

Held for sale criteria as they apply to RAO UES subsidiaries and associates are:
(1) the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups). Consequently there should be no restrictions on the immediate sale of the shares held in the RAO UES subsidiary or associate.

(2) its sale must be highly probable. As regards the interpretation of what constitutes highly probable, five facts are considered by management. These facts and their application to RAO UES are disclosed below:

- the appropriate level of management must be committed to a plan to sell the asset:

  Generation companies: On 2 March 2007 the RAO UES Board of Directors decided to sell RAO UES share in the share capitals of all the WGCs and TGCs except for HydroWCG, WGC-5 and TGC-5 in the amount not exceeding the effective share of the Russian Federation in RAO UES (52.7%). The RAO UES Board of Directors must take a decision on the specific parameters of sale and additional share issues for each of these RAO UES generating subsidiaries or associate.

  Retailing companies: On 8 December 2006 the RAO UES Board of Directors decided to sell RAO UES share in the share capital of all the retailing companies.

  Other companies: RAO UES Board of Directors must approve the sale of existing shares by each RAO UES subsidiary and associate.

- an active programme to locate a buyer and complete the plan must have been initiated:

  Generation & other companies: A public announcement of intention to sell shares for each RAO UES subsidiary and associate must have been made either through the RAO UES official web-site or newspapers and/or acceptance of offers from potential buyers by RAO UES should take place.

  Retailing companies: A public announcement of an auction for each RAO UES subsidiary must be made.

- the asset (or disposal group) must be actively marketed for sale at a price that is reasonable in relation to its current fair value:

  Generation & other companies: The price should be approved by RAO UES Board of Directors based on price bids from potential buyers and market quotations of RAO UES subsidiaries and associates on the Russian stock exchange. In individual cases it is possible that the price will be determined based on the report of independent valuers.

  Retailing companies: The starting price is determined by the report of independent valuers.

- the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification;

- it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

All above conditions should be met at the reporting date.

Based on above considerations, the Group discontinued operations and assets classified as Held for sale are presented in Note 28.

Note 4: Summary of significant accounting policies

Principles of consolidation. The Financial Statements comprise the financial statements of RAO UES and the financial statements of those entities whose operations are controlled by RAO UES. Control is presumed to exist when RAO UES controls, directly or indirectly through subsidiaries, more than 50 percent of voting rights. The Group consolidates a number of companies in which the Group owns less than 50 percent of the voting shares. In these circumstances, control exists on the basis of a significant shareholding combined with other factors which allow the Group to exercise control, namely: RAO UES has the majority in the Board of Directors, RAO UES is the dominant owner, or RAO UES has major influence over the company operations through its ownership and operation of the Unified Energy System.

The majority of the principal subsidiary companies described in Note 5 were transferred to the Group by the state on and after the incorporation of RAO UES as a joint stock company, or were created as a result of the Group restructuring of such companies. These transfers represent a reorganisation of assets under common control and, accordingly, were accounted for in a manner similar to the uniting of interests method of accounting from the date of privatisation of each Group entity, or from the date of the related restructuring.

All inter-company balances and transactions have been eliminated. The minority interest has been disclosed as part of equity.

Investments in associates and jointly controlled entities. Investments in associated enterprises and jointly controlled entities are accounted for using the equity method of accounting, based upon the percentage of ownership held by the Group. Associated enterprises are entities over which RAO UES exercises significant influence but which it does not control.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Jointly controlled entities are joint ventures that involve the establishment of a corporation, partnership or other entity in which each venturer has an interest. The entities operate in the same way as other entities, except that a contractual arrangement between the venturer establishes joint control over the economic activity of the entities.

The Group discontinues the use of the equity method from the date on which it ceases to have joint control over, or have significant influence in, jointly controlled entities and associates.

Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in the entity.

Business combinations. All business combinations are accounted for by applying the purchase method of accounting. Where the Group obtains control of an entity or a business, it measures the cost of the business combination as the aggregate of:

(a) the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group, in exchange for control of the acquiree and

(b) any costs directly attributable to the business combination.

The acquisition date is the date when the Group effectively obtains control of the acquiree.

Goodwill. Goodwill is recognised on acquisitions of subsidiaries, associates and jointly controlled entities. Goodwill arising on the acquisitions represents any excess of the purchase consideration over the acquirer's interest in the net fair value of identifiable assets, liabilities and contingent liabilities. Goodwill is recognised at cost less impairment losses. The carrying amount of goodwill is assessed for impairment on an annual basis. In respect of associates and jointly controlled entities, the carrying amount of goodwill is included in the carrying amount of the investment.

Any excess of the fair value of the net identifiable assets acquired over the cost of acquisition is recognised immediately in the statement of operations.

Investments. Investments intended to be held for an indefinite period of time are classified as available-for-sale; these are included in other non-current assets unless management has the express intention of holding the investment for less than 12 months from the balance sheet date, they will need to be sold to raise operating capital or they mature within 12 months, in which case they are included in other current assets. Management determines the appropriate categorisation, current or non-current, at the time of the purchase and re-evaluates it based on maturity at each reporting date.

Available-for-sale investments include non-marketable securities, which are not publicly traded or listed on the Russian stock exchange. For these investments, fair value is estimated by reference to a variety of methods including those based on their earnings and those using the discounted value of estimated future cash flows. In assessing the fair value, management makes assumptions that are based on market conditions existing at each balance sheet date. Investments in equity securities that are not quoted on a stock exchange and where fair value cannot be estimated on a reasonable basis by other means, are stated at cost less impairment losses.

Regular way purchases and sales of investments are initially measured at fair value and recognised on the settlement date, which is the date that the investment is delivered to or by the Group. Cost of purchase includes transaction costs. The available-for-sale investments are subsequently carried at fair value. Gains and losses arising from changes in the fair value of these investments are included in the fair value reserve in shareholders' equity in the period in which they arise. Realised gains and losses from the disposal of available-for-sale investments are included in the statement of operations in the period in which they arise.

Impairment losses are recognised in profit or loss 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 removed from equity and recognised in profit or loss. 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.

The Group does not hold any investments held-to-maturity or for trading purposes.

Foreign currency. Monetary assets and liabilities, which are held by the Group entities and denominated in foreign currencies at the balance sheet date, are translated into RR at the exchange rates prevailing at that date. Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). 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 monetary assets and liabilities denominated in foreign currencies are recognised in the statement of operations.

The balance sheets of foreign subsidiaries are translated into RR at the exchange rate prevailing at the reporting date. Statements of operations of foreign entities are translated at the average exchange rate for the year. Exchange differences arising on the translation of the net assets of foreign subsidiaries are recognised as translation differences and included in the translation reserve in equity.

As at 31 December 2007, the official rate of exchange, as determined by the Central Bank of the Russian Federation, between the RR and the US Dollar ("USD") was RR 24.55: USD 1.00 (31 December 2006: RR 26.33: USD 1.00), between the RR and EURO RR 35.93: EURO 1.00 (31 December 2006: RR 34.70: EURO 1.00).

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

Property, plant and equipment. Starting from 1 January 2007 the Group changed its accounting policy for property, plant and equipment which are now stated at revalued cost. Prior to 1 January 2007 property, plant and equipment were 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 were made for additions, disposals and depreciation charges. At each reporting date management assessed whether there is any indication of impairment of property, plant and equipment. If any such indication existed, management estimated the recoverable amount which was determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount was reduced to the recoverable amount and the difference was recognised as an expense (impairment loss) in the statement of operations. An impairment loss recognised in prior years was reversed if there had been a change in the estimates used to determine an asset's recoverable amount.

(in millions of Russian Roubles)

The amounts determined by the third party valuation before 1 January 2007 represented 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 was not a recurring feature since it was intended to determine the initial cost basis of property, plant and equipment and the Group had not adopted a policy of revaluation on subsequent measurement until after 1 January 2007. The change in carrying value arising from this valuation was recorded directly to retained earnings.

Property, plant and equipment are subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair values of the assets being revalued.

Increases in the carrying amount arising on revaluation of property, plant and equipment are credited to revaluation reserves in equity, unless the decrease of the reserve previously recognized in the statement of operations. Decreases that offset previous increases of the same asset are charged against revaluation reserves directly in equity; all other decreases are charged to the statement of operations. Any accumulated depreciation at the date of revaluation is eliminated against the gross amount of the asset, and the net amount is restated to the revalued amount of the asset.

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

Renewals and improvements are 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 statement of operations as incurred.

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

Prior to 31 December 2006 for the property, plant and equipment which were subject to the third party valuation as at 31 December 1997, the depreciation rate applied was based on the estimated remaining useful lives as at the valuation date. The useful lives, in years, of assets by type of facility were as follows:

Type of facility	Acquired prior to 31 December 1997	Acquired subsequent to 31 December 1997
Electricity and heat generation	3 – 50	20 – 50
Electricity transmission	14 – 19	25
Electricity distribution	3 – 40	25
Heating network	3 – 43	20
Other	8 – 24	7 – 10

The useful lives, in years, of assets by type of facility (after reclassification, see Note 3) were as follows:

Type of facility	Acquired prior to 31 December 1997	Acquired subsequent to 31 December 1997
Production buildings	5-40	50
Hydrotechnical buildings	4-65	50
Equipment and assembling units	10-40	20
Substations & power equipment	5-30	25-30
Electricity grids and equipment	5-35	25
Heat grids	3-43	20
Other	8-24	7-10

Beginning from 1 January 2007 the depreciation rate applied is based on the estimated remaining useful lives as at the revaluation date.

Useful lives of property, plant and equipment are subject to annual assessment by management and if expectations differ from previous estimates, the changes of useful lives are accounted for as a change in an accounting estimate prospectively.

The revised useful lives, in years, of revalued assets by type of facility (after reclassification, see Note 3) were as follows:

(in millions of Russian Roubles)

Type of facility	Revised starting from 1 January 2007
Production buildings	15-65
Hydrotechnical buildings	25-95
Equipment and assembling units	5-35
Substations & power equipment	6-30
Electricity grids and equipment	10-35
Heat grids	5-30
Other	5-40

Assets that have an indefinite useful life, for example land, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever 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. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Impairment of property, plant and equipment. Impairments of property, plant and equipment are calculated as the difference between the carrying values of the net assets of cash-generating units, including where appropriate, investments, and their recoverable amounts. Recoverable amount is defined as the higher of net realisable value or estimated value in use at the date the impairment review is undertaken. Net realisable value represents the amount that can be generated through the sale of assets. Value in use represents the present value of expected future cash flows discounted on a pre-tax basis, using the estimated cost of capital of the cash-generating unit.

Impairment reviews are carried out when there is an indication that an impairment may have occurred, or where it is otherwise required to ensure that property, plant and equipment are not carried above their estimated recoverable amounts. Impairments are recognised in the profit and loss account, and, where material, are disclosed as exceptional. Impairment reversals are recognised when there is a change in the estimates that gave rise to an impairment and when, in management's opinion, the reversal is permanent.

Cash and cash equivalents. Cash comprises cash in hand and cash deposited on demand at banks. Cash equivalents comprise certificates of deposit and short-term high liquid investments that are readily convertible into cash and are subject to insignificant changes in value.

Accounts receivable and prepayments. Accounts receivable are recorded inclusive of value added taxes. Trade and other receivables are adjusted for an allowance made for impairment of these receivables. Such an allowance for doubtful debtors is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the allowance is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the original effective rate of interest.

Uncertain tax position. The Group's uncertain tax positions are reassessed by Management at every balance sheet date. Liabilities are recorded for income tax positions that are determined by Management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the balance sheet date and any known Court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on Management's best estimate of the expenditure required to settle the obligations at the balance sheet date.

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

Inventories. Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business, less selling expenses.

Income taxes. Income taxes have been provided for in the consolidated financial statements in accordance with Russian legislation enacted or substantively enacted by the balance sheet date. The income tax charge comprises current tax and deferred tax and is recognised in the consolidated statement of operations unless it relates to transactions that are recognised, in the same or a different period, directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes, other than on income, are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for 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. Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. 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 utilised.

Deferred income tax is provided on post acquisition retained earnings of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

Deferred income tax is provided for the undistributed earnings of associated enterprises.

Accounts payable and accrued charges. Accounts payable are stated inclusive of value added tax. If accounts payable 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, the original liability is derecognised and the restructured liability is recognised at its fair value. The fair value of the restructured payable is measured as the discounted present value of the cash flows under the restructured terms using market interest rates prevailing at the time of restructuring. The gain on derecognition of the original liability is credited to the statement of operations as a gain on restructuring. Non-current portion of the restructured payable, if any, is reclassified to other non-current liabilities. The difference, if any, between the fair value of the restructured payable on its initial recognition and the maturity amount is amortised over the period until maturity as an interest expense.

Debt. Debt is recognised initially at its fair value. Fair value is determined using the prevailing market rate of interest for a similar instrument, if significantly different from the transaction price. In subsequent periods, debt is stated at amortised cost using the effective interest rate method; any difference between the fair value of the proceeds (net of transaction costs) and the redemption amount is recognised in the statement of operations as an interest expense over the period of the debt obligation. All borrowing costs, including those on borrowings used to finance construction of property, plant and equipment are recognised as an expense in the period in which they are incurred.

Minority interest. Minority interest represents the minority shareholders' proportionate share of the equity and results of operations of the Group's subsidiaries. This has been calculated based upon the minority's ownership percentage of these subsidiaries. Specific rights on liquidation for preference shareholders of subsidiaries are included in the calculation of minority interests. The Group uses the 'economic entity' approach, whereby minorities are treated as equity participants. As a consequence, all the gains and losses resulting from the purchases and sales of minority interests are recognised in the statement of changes in equity.

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

A number of Group entities operate defined benefit plans that cover the majority of the Group's employees. Benefit plans define the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognised in the balance sheet in respect of the defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for 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 pension liabilities.

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

Non-current assets classified as held for sale. Non-current assets, disposal groups (which may include both non-current and current assets) and liabilities directly associated with them are classified in the balance sheet as 'Non-current assets and disposal groups classified as held for sale' and "Liabilities directly associated with non-current assets and disposal groups classified as held for sale" if their carrying amount will be recovered principally through a sale transaction within twelve months after the balance sheet date. Reclassification is made Assets are reclassified when all of the criterias specified in Note 3 are met at the reporting date. Non-current assets or disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs to sell.

Non-current assets or disposal groups classified as held for sale in the current period's consolidated balance sheet are not reclassified or re-presented in the comparative consolidated balance sheet to reflect the classification at the end of the current period.

The Group eliminates inter-company balances against non-current assets or disposal groups and liabilities directly associated with them.

Discontinued operations. A discontinued operation is a component of the Group that either has been disposed of, or that is classified as held for sale, and: (a) represents a separate major line of business; (b) is part of a single co-ordinated plan to dispose of a separate major line of; or (c) is a subsidiary acquired exclusively with a view to resale (see Note 3). Earnings and cash flows of discontinued operations, if any, are disclosed separately from continuing operations with comparatives being re-presented.

The Group eliminates inter-company transactions against the discontinued operation.

Operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of operations on a straight-line basis over the period of the lease.

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 statement of operations over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

Share-based payment transactions. The share option programme allows Group employees to acquire shares of the Group companies (see Note 7). 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.

Embedded derivatives. Within the ordinary course of business the Group routinely enters into sale and purchase transactions for commodities. These transactions take the form of contracts that were entered into and continue to be held for the purpose of receipt or delivery of the commodity in accordance with the Group's expected sale, purchase or usage requirements. Such contracts are not within the scope of IAS 39. All other net-settled commodity contracts are measured at fair value with gains and losses taken to statement of operations.

An embedded derivative is one or more implicit or explicit terms in a contract affect the cash flows of the contract in a manner similar to a stand-alone derivative instrument. Any embedded derivative that meets the separation criterion is separated from its host contracts and measured as if it were a stand-alone derivative if its economic characteristics are not closely related to those of the host contract.

(in millions of Russian Roubles)

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

Revenue recognition. Revenue is recognised on the delivery of electricity and heat and on the dispatch of non-utility goods and services during the period. Revenue amounts are presented exclusive of value added tax.

Earnings per share. Preference shares are considered to be participating shares, as their dividend may not be less than that given with respect to ordinary shares. The earnings per share is determined by dividing the profit attributable to ordinary and preference shareholders by the weighted average number of ordinary and preference shares outstanding during the reporting period, excluding the average number of treasury shares held by the Group. Preference shares participate in losses.

Treasury shares. Treasury shares are presented as a deduction from equity at weighted average cost. Any gains or losses arising on the disposal of treasury shares are recorded directly in equity attributable to the shareholders of RAO UES.

Seasonality. Demand for electricity and heat is influenced by both the season of the year and the relative severity of the weather. Revenues from heating are concentrated within the months of October to March. A similar, though less severe, concentration of electricity sales occurs within the same period. The seasonality of electricity and heat production has a corresponding impact on the usage of fuel and the purchase of power.

Furthermore, during the periods of lower production from April to September, there is an increase in the expenditures on repairs and maintenance. This seasonality does not impact the revenue or cost recognition policies of the Group.

Segment reporting. A segment is a distinguishable component of the Group that is engaged in providing products or services (business segment), which is subject to risks and rewards that are different from those of other segments. Segments with a majority of revenue earned from sales to external customers and whose revenue or result are ten percent or more of all the segments are reported separately, except for gain on disposal of subsidiaries and other investments which presented in Note 6 as separate line. The Group operates substantially in one geographical segment – the Russian Federation (export sales and the sales of foreign subsidiaries comprise less than 10 percent of external revenues).

Note 5: Principal subsidiaries

All subsidiaries with the exception of foreign companies are incorporated and operate in the Russian Federation. As described in Note 6, as part of the restructuring of the Group it was organized into six main business segments. The principal subsidiaries are presented below according to their allocation to the business segments as at 31 December 2007.

Energos segment

Prior to 2006 RAO UES had ownership interests in more than 70 Energos responsible for the generation, transmission, distribution and sales of heat and electricity. These ownership interests ranged from 47 percent to 100 percent. During the sector restructuring the Energos are being mainly split into generation, distribution, transmission and retailing companies.

As at 31 December 2007, the Board of Directors of RAO UES had approved plans for the reorganization of 71 Energos, and the reorganization of 67 Energos was completed.

As at 31 December 2007 the most significant remaining Energos were:

Name	Ownership %	Voting %	Name	Ownership %	Voting %
Sahalinenergo	49.0	49.0	Yantarenergo	100.0	100.0
Magadanenergo	49.0	64.4			

(in millions of Russian Roubles)

Generating segment

The wholesale generating companies (WGCs) have been established as subsidiaries of RAO UES with payment for their authorized share capitals by shares in subsidiaries of RAO UES and RAO UES-owned property of power plants. WGCs comprise power plants (generating companies) separated from the Energos in the process of their restructuring. It was planned that the initially separate power plants would merge with and into the corresponding WGCs, which would become their parent companies. As at 31 December 2007 the mergers of the power plants with the WGCs, except for those belonging to HydroWGC, have already been completed.

In April 2007 the Board of Directors of RAO UES approved a plan of HydroWGC restructuring into a single operating company, involving:

- Additional share issue in 2007 for the purpose of financing of investment and share option programms;
- Reorganization of HydroWGC by a fisrt merger with 22 of its subsidiaries and a second merger with State Holding HydroWGC and Minority holding HydroWGC, which will be spun off as a result of the second (final) phase of the RAO UES reorganisation (see Note 1) . In the course of this reorganization the ownership interest of the Russian Federation in HydroWGC will remain at the level not less than 50%+1 share; and
- Additional share issue by HydroWGC in 2008-2010 to the Russian Federation for the purpose of financing the realization of its investment program.

The territorial generating companies (TGCs) were initially established as wholly owned subsidiaries of RAO UES. As a result of the restructuring process the regional generation companies (RGCs), which were originaly spun-off from the Energos, will be mergered with the TGCs.

As at 31 December 2007 the formation of 14 TGC have been completed: TGC-1, TGC-2, Mosenergo (TGC-3), TGC-4, TGC-5, TGC-6, Volzhskaya TGC (TGC-7), YUGC TGC-8, TGC-9, TGC-10, TGC-11, Kuzbassenergo (TGC-12), TGC-13 and TGC-14, which were established as a result of the merger of regional generating companies into the TGC's structure.

A detailed description of the major changes that were planned to take place in the wholesale generating companies (WGCs) and the territorial generating companies (TGCs) during the restructuring process was set out in the Appendixes to the Concept of RAO UES Strategy "Generating companies of the Wholesale Electricity Market" and "Territorial generating companies being created on the basis of assets of Holding Company RAO UES" approved by the Board of Directors of RAO UES in February 2007.

As at 31 December 2007 the significant generating subsidiaries were:

Name	Ownership %	Voting %	Name	Ownership %	Voting %
Wholesale generating company-1	91.7	91.7	Territorial generating company-2	49.4	50.1
Wholesale generating company-2	65.6	65.6	Territorial generating company-4	47.4	50.2
Wholesale generating company-6	77.5	77.5	Territorial generating company-6	50.2	50.2
HydroWGC	98.2	98.2	Volzhskaya territorial generating company	54.7	54.9
Kaliningradskaya TETS	91.5	91.5	Eniseiskaya territorial generating company-13	57.5	58.2
North-West Station	82.8	94.5	Territorial generating company-10	81.5	81.5

TGC-4 Group * has been classified as Held for sale (see Note 28).

* TGC-4 Group comprises OJSC TGC-4 and its subsidiary Novomoskovskaya GRES.

(in millions of Russian Roubles)

Transmission segment

FGC was established in June 2002 as a wholly-owned subsidiary of RAO UES to manage the transmission of electricity through the use of transmission assets received or earmarked for receipt from RAO UES and its subsidiaries.

The formation of the Transmission companies (TCs), which were formed using the transmission businesses of the Energos during reorganization, was completed in 2006.

In December 2007 the Extraordinary meeting of shareholders of FGC took place concerning the proposed merger of that company with RAO UES and with 56 Grid companies and 7 Interregional Grid companies (which will result in the full consolidation of the transmission complex into a single company in accordance with the reorganisation program approved in March 2007 by the Board of Directors of RAO UES). The consolidation process will take place at the same time as the final reorganisation of RAO UES.

System Operator-Central Dispatch Unit of Unified Energy System ("SO-CDU") was established in September 2002 to perform electricity dispatch functions within the Unified Electricity System of the Russian Federation through the use of assets received or earmarked for receipt from RAO UES and its subsidiaries.

As at 31 December 2007 the significant transmission subsidiaries were:

Name	Ownership %	Voting %	Name	Ownership %	Voting %
Magistralnaya grid company	45.9	50.9	Tyumenskaya magistralnaya grid company	90.1	100.0
FGC	90.1	90.1	SO CDU UES	69.7	69.7

Distribution segment

As at 31 December 2007 7 Interregional Distribution Grid Companies (IDGCs) have been established. On 27 April 2007 the Board of Directors approved a plan to increase the number of IDGCs to 11. It is planned that the shares of the distribution companies separated from the Energos as a result of the restructuring process will be exchanged for shares of the IDGCs and the distribution companies will become subsidiaries and then merged with the IDGCs. The merger of the distribution companies with the IDGCs had not begun at 31 December 2007.

As at 31 December 2007 the significant distribution subsidiaries were:

Name	Ownership %	Voting %	Name	Ownership %	Voting %
Orenburgenergo	100.0	100.0	Tyumenenergo	100.0	100.0
Moskovskaya city power grid company	50.9	50.9	Lenenergo	59.3	67.3
Moskovskaya obyedinennaya power grid company	50.9	50.9	Krasnoyarskenergo	52.2	66.7
Permenergo	49.0	64.4	Rostovenergo	48.4	62.8
Sverdlovenergo	49.0	65.3	Stavropolenergo	55.1	71.9
Vologdaenergo	49.0	49.0	Volzhskaya interregional distribution company	49.6	49.7
Kubanenergo	49.0	49.0	Kolenergo	49.3	65.5

(in millions of Russian Roubles)

Retailing segment

As at 31 December 2007 the significant retailing subsidiaries were:

Name	Ownership %	Voting %	Name	Ownership %	Voting %
Krasnoyarskenergosbyt	52.2	66.8	Permskaya energy retail company	49.0	64.4
Mosenergosbyt	50.9	50.9	Chelyabenergosbyt	49.0	58.1
Peterburgskaya retail company	56.4	67.1	Tyumenskaya energy retail company	100.0	100.0
Ulyanovskenergo	49.0	49.0	Energy retail company Rostovenergo	48.4	62.8
Saratovenergo	48.4	48.4	Chuvashskaya energy retail company	100.0	100.0
Samaraenergo	55.5	55.8	Volgogradenergosbyt	49.3	61.6

During the year ended 31 December 2007 the following retailing companies were sold: Kuban Energy Retail Company, Sverdlovenergosbyt, Nizhny Novgorod Retail Company, Kuzbass Energy Retail Company, Belgorod Retail Company, Vologda Retail Company, Orenburgenergosbyt, Omskaya ESC, Lipetskaya ESC, Kurgan Energy Retail Company, Karelia Energy Retail Company, Tver Energy Retail Company and Voronezh Energy Retail Company (see Note 28).

In addition to the sales noted above, 18 retailing subsidiaries, including Energy retail company Rostovenergo and Permskaya energy retail company, were classified as Held for sale at 31 December 2007 (see Note 28).

Unallocated

Others

Name	Ownership %	Voting %
OJSC COR UES	100.0	100.0
Energy Centre	98.6	98.6
Engineering Centre UES	100.0	100.0
Inter RAO UES	60.0	60.0

Foreign subsidiaries

Name	Ownership %	Voting %	Country
RAO Nordic Oy	60.0	100.0	Finland
Interenergo B. V.	40.2	67.0	Netherlands
MEK	54.0	90.0	Armenia
Silk Road Holdings B.V.	60.0	100.0	Netherlands
Gardabani Holdings B.V.	60.0	100.0	Netherlands
ES Georgia Holdings B.V.	60.0	100.0	Netherlands
Telasi	45.0	75.0	Georgia
Mtkvari	60.0	100.0	Georgia
Moldavskaya GRES	30.6	51.0	Republic of Moldova
Saint Guidon Invest N.V	60.0	100.0	Belgium
Electricheskie Seti Armenii	40.2	100.0	Republic of Armenia

The Group also controls the Centre for Assistance in Restructuring the Electricity Sector, a non-commercial partnership.

Differences between the ownership interest and voting interest held in subsidiaries normally represent the effect of preference shares. Typically RAO UES does not hold any preference shares of its subsidiaries. Unless dividends have not been declared fully at the Annual shareholders' meeting, such preference shares do not have any voting rights.

Acquisitions and disposals

2006

In July 2006 the Group conducted tenders for the sale of 100.0 percent of the shares of Taimyrenergo, an Energo, and 47.4 percent of the shares of Yaroslavskaya Retail Company. The gains on the sale of Taimyrenergo (RR 6,146 million) and Yaroslavskaya Retail Company (RR 446 million) were included in the Group's statement of operations for the year ended 31 December 2006.

In October 2006 auctions were held to sell 12.5 percent of the shares of Petersburg Generation Company (PGC), a Group company. The total bid price for the transaction reached RR 4,083 million. The effective interest of the Group in PGC was decreased from 56.0 to 49.0 percent. As a result of the transaction the Group retained control over PGC. In November 2006 PGC was merged with TGC-1.

During 2004 management re-assessed the level of control that the Group had over Kurganenergo and determined that control no longer exists, and that the Group exercises significant influence over Kurganenergo. As at 31 December 2005 the investment in Kurganenergo was accounted for as an investment in an associate. However in February 2006, due to changes in the entity's management, management of the Group obtained control over Kurganenergo.

The carrying value of assets and liabilities arising from obtaining control over Kurganenergo was RR 2,165 million.

Further, as the result of the merger of Heat and Power company with TGC-4 in September 2006, control was obtained over that company, which had previously been recognized as an associate.

The carrying value of the assets and liabilities arising from obtaining control over the Heat and Power company was RR 1,750 million.

2007

Between 21-23 May 2007 several auctions were held to sell 49.0 percent of the shares in Kuban Energy Retail Company, Sverdlovenergosbyt, Nizhny Novgorod Retail Company, Kuzbass Energy Retail Company, Belgorod Retail Company and Vologda Retail Company and 100.0 percent of the shares in Orenburgenergosbyt. All these companies operate in the Retailing segment. The sale of retailing companies is conducted in accordance with the plan approved by the Board of Directors of RAO UES (see Note 3). The bid price for the transactions reached RR 7,470 million. The gains on the sale in the amount of RR 7,031 million were included in the Group's statement of operations for the year ended 31 December 2007.

On 29 March 2007 an auction was held to sell 93.4 percent of the shares of Yuzhno-Kuzbasskaya GRES, 47.5 percent of which belonged to the Group. As at 31 December 2006 this company was classified as held for sale (see Note 28). The bid price for the transaction reached RR 5,394 million. The gain on the sale in the amount of RR 3,546 million was included in the Group's statement of operations for the period ended 31 December 2007.

On 15 March 2007 an auction was held to sell 93.4 percent of the shares of Zapadno-Sibirskaya TETS, 47.5 percent of which belonged to the Group. As at 31 December 2006 this company was classified as held for sale (see Note 28). The bid price for the transaction reached RR 4,651 million. The gain on the sale in the amount of RR 3,224 million was included in the Group's statement of operations for the year ended 31 December 2007.

Between October – November 2007 RAO UES sold 6 retail companies (49 percent of the shares of Kurganskaya ESC, Voronezhskaya ESC, Tverskaya ESC, 100 percent of the shares of Karelskaya ESC). The bid price for the transaction reached RR 1,280 million. The gain on the sale in the amount of RR 3,181 million was included in the Group's statement of operations for the year ended 31 December 2007. In November RAO UES sold 49 percent of the shares of Lipetskaya ESC and Omskaya ESC. The bid price for the transaction reached RR 809 million. The gain on the sale in the amount of RR 754 million was included in the Group's statement of operations for the year ended 31 December 2007.

(in millions of Russian Roubles)

The carrying value of assets and liabilities of the subsidiaries disposed of during the year ended 31 December 2007 were as follows:

	Retailing companies	OJSC Yuzhno-Kuzbasskaya GRES	OJSC Zapadno-Sibirskaya TETS	Other companies	Total
Property, plant and equipment	517	-	-	1,355	1,872
Deferred tax assets	200	-	-	85	285
Other non-current assets	304	-	-	190	494
Trade and other receivables	9,841	-	-	1,056	10,897
Other current assets	184	-	-	-	184
Inventories	23	-	-	319	342
Cash and cash equivalents	1,136	-	-	125	1,261
Non-current assets classified as held for sale	1,920	3,176	1,955	-	7,051
Long term debt due after one year	-	-	-	(60)	(60)
Other long-term liabilities	-	-	-	(152)	(152)
Deferred income tax liability	(38)	-	-	(25)	(63)
Short-term debt	(3,843)	-	-	(76)	(3,919)
Accounts payable and accrued charges	(7,404)	-	-	(911)	(8,315)
Taxes payable	(311)	-	-	(120)	(431)
Liabilities directly associated with non-current assets classified as held for sale	(3,821)	(516)	(214)	-	(4,551)
Net identifiable assets and liabilities	**(1,292)**	**2,660**	**1,741**	**1,786**	**4,895**
Less: Minority interest	115	812	314	1,057	2,298
Net assets of entity	**(1,407)**	**1,848**	**1,427**	**729**	**2,597**
Gain on sale	10,966	3,546	3,224	449	18,185
Total consideration received	**9,559**	**5,394**	**4,651**	**1,178**	**20,782**
Cash disposed of	(1,136)	-	-	(125)	(1,261)
Net cash inflow on the disposal	**8,423**	**5,394**	**4,651**	**1,053**	**19,521**

Disposal of subsidiaries resulting in the Group retaining interests in associates

WGC-3

In March 2007 WGC-3 placed 18 billion ordinary shares, with an offering price of RR 4.54 each share, by way of a public offering. The Group MMC "Norilsk Nikel acquired 17.8 billion ordinary shares. The remaining part of shares were sold to third parties. The effective interest of the Group in WGC-3 was reduced from 59.7 percent to 37.1 percent which resulted into WGC-3 being transferred to an associate company. The respective gain arising from this transaction, RR 24,495 million, was reflected in the Group's statement of operations for the year ended 31 December 2007 (see Note 28).

In September 2007 RAO UES sold a further 11.08 percent of the WGC-3 shares, consequently the effective interest of the Group was reduced to 26.02 percent. The respective gain arising from these sales, RR 12,098 million, was reflected in the Group's statement of operations for the year ended 31 December 2007 (see Note 28).

Kuzbassenergo (TGC-12)

In December 2007 Kuzbassenergo (TGC-12) completed placing an additional 100 million ordinary shares with a par value of RR 1 each. The placing, representing 16.5 percent of the share capital of Kuzbassenegro (TGC-12) before issue, was purchased by third parties. The effective interest of the Group in Kuzbassenergo (TGC-12) reduced from 49.0 to 42.1 percent which resulted in Kuzbassenergo (TGC-12) being transferred from a subsidiary to an associate company. The respective gain arising from this transaction, RR 27 million, was reflected in the Group's statement of operations for the year ended 31 December 2007 (see Note 28).

WGC-4

In October 2007 RAO UES sold 60.75 percent of the authorised capital of WGC-4 to third parties for the amount of RR 100 billion. The Group's effective interest in WGC-4 reduced from 89.67 to 28.92 percent. In October 2007

WGC-4 completed the placing of additional 14 billion ordinary shares with a par value of RR 0.4 each share. The placing, representing 28.26 percent of the share capital of WGC-4 before the issue, was executed with third parties for an amount of RR 46.4 billion. The effective interest of the Group in WGC-4 decreased from 28.92 to 22.55 percent which resulted into WGC-4 being transferred from a subsidiary to an associate company. The respective gain arising from the above transactions, RR 79,638 million, was reflected in the Group's statement of operations for the year ended 31 December 2007 (see Note 28).

Kurganskaya generating company

During 2007 management re-assessed the level of control that the Group had over Kurganskaya generating company and determined that control no longer exists, and that the Group exercises significant influence over Kurganskaya generating company. As at 31 December 2007 Kurganskaya generating company was transferred from a subsidiary to an associate company.

TGC-1 Group *

In October 2007 TGC-1 completed placing an additional 926 billion ordinary shares with offering price of RR 0.035 each share. The issue, representing 31.7 percent of the share capital of TGC-1 before issue, was purchased by third parties. As a result the effective interest of the Group in TGC-1 reduced from 55.7 to 42.32 percent which resulted in TGC-1 Group being transferred from a subsidiary to an associate company classified as held for sale (see Note 28). The respective gain arising from this transaction, RR 4,955 million, was reflected in the Group's statement of operations for the year ended 31 December 2007 (see Note 28).

TGC-8 Group **

In November 2007 TGC-8 completed the placing of additional 686 billion ordinary shares with offering price of RR 0.035 each. The issue, representing 49.8 percent of the share capital of TGC-8 before issue, was purchased by third parties. The effective interest of the Group in TGC-8 decreased from 52.93 to 35.33 percent which resulted in TGC-8 Group being transferred from a subsidiary to an associate company classified as held for sale (see Note 28). The respective gain arising from this transaction, RR 6,619 million, was reflected in the Group's statement of operations for the year ended 31 December 2007 (see Note 28).

Moskovskaya heat grid company

In November 2007 RAO UES sold 22.90 percent of the authorised capital of Moskovskaya heat grid company to third parties for the amount of RR 6,146 million. The Group's effective interest in Moskovskaya heat grid company reduced from 50.90 to 28.00 percent, which resulted into Moskovskaya heat grid company being transferred from a subsidiary to an associate company classified as held for sale (see Note 28). The respective gain arising from this transaction, RR 2,219 million, was reflected in the Group's statement of operations for the year ended 31 December 2007 (see Note 28).

* TGC-1 Group comprises OJSC TGC-1 and its subsidiary Murmanskaya TETS.
** TGC-8 Group comprises OJSC TGC-8 and its subsidiary Kubanskays generating company.

(in millions of Russian Roubles)

The carrying value of assets and liabilities arising from the disposal to associates were as follows:

	WGC-3	Kuzbass-energo (TGC-12)	WGC-4	Group TGC-1	Group TGC-8	Moskov-skaya heat grid company	Kurgans-kaya generating company	Total
Property, plant and equipment	29,331	55,781	-	74,551	21,277	19,627	1,161	198,558
Other non-current assets	597	-	-	312	171	13	1	1,094
Accounts receivable and prepayments	2,570	553	-	5,391	2,824	2,654	253	14,245
Other current assets	505	8	-	5	-	31	-	549
Inventories	2,166	1,598	-	2,234	1,101	433	65	7,597
Cash and cash equivalents	1,491	-	-	9,318	564	452	4	11,829
Non-current assets classified as held for sale	-	-	60,353	-	-	-	-	60,353
Long-term debt	(315)	(681)	-	(5,552)	(3,706)	(850)	-	(11,104)
Deferred profit tax liability	(4,508)	(10,174)	-	(11,245)	(2,744)	(1,107)	(47)	(29,825)
Current debt	(3,601)	-	-	(8,424)	(1,000)	(786)	(75)	(13,886)
Accounts payable and accrued charges	(4,201)	(2,015)	-	(4,661)	(2,380)	(3,092)	(226)	(16,575)
Liabilities directly associated with non-current assets classified as held for sale	-	-	(16,273)	-	-	-	-	(16,273)
Carrying value of net assets	**24,035**	**45,070**	**44,080**	**61,929**	**16,107**	**17,375**	**1,136**	**206,562**

Spin-off WGC-5 and TGC-5

In September 2007 the first stage of reorganisation of the RAO UES was completed. This resulted in the spin-off two generating companies – WGC-5 and TGC-5. As at the date of spinning-off, the Group ownership interest in WGC-5 and TGC-5 was 50.99 and 47.45 percent. For each ordinary share held in RAO UES, RAO UES shareholders received 0.41 (rounded) ordinary share of WGC-5 and 13.59 (rounded) ordinary shares of TGC-5. For each preference share of RAO UES held, the shareholders got 0.37 (rounded) ordinary share of WGC-5 and 12.45 (rounded) ordinary shares of TGC-5.

The carrying value of assets and liabilities de-recognised as a result of the spin-off during the first stage of reorganization of the Parent company – RAO UES were as follows:

	WGC-5	TGC-5
Property, plant and equipment	48,512	18,332
Other non-current assets	99	450
Trade and other receivables	5,229	1,490
Other current assets	10,657	8,113
Inventories	2,194	1,543
Cash and cash equivalents	358	1,983
Long term debt due after one year	(5,153)	(140)
Other long-term liabilities	(297)	(234)
Deferred income tax liability	(9,073)	(3,134)
Short-term debt	-	(148)
Accounts payable and accrued charges	(1,382)	(793)
Taxes payable	(964)	(223)
Net identifiable assets and liabilities	**50,180**	**27,239**
Less: Minority interest	24,459	14,243
Net assets distributed to shareholders	**25,721**	**12,996**

(in millions of Russian Roubles)

Disposal to a jointly controlled entity

In May 2006 RAO UES, HydroWGC and RUSAL signed an agreement on mutual financing, construction and exploitation of Boguchanskaya power plant and Boguchansky Aluminium Smelter. Pursuant to the terms of the agreement and for the purposes of providing financing and controlling construction and exploitation of Boguchanskaya power plant and Boguchansky Aluminium Smelter, HydroWGC and RUSAL have established two limited liability companies in Cyprus (BoGES Ltd. and BALP Ltd.) with an authorized share capital of ten thousand Cypriot Pounds each which are jointly controlled by HydroWGC and RUSAL (see Note 9). In June 2007 HydroWGC transferred its 64.2 percent interest in OJSC Boguchanskaya GES, which currently is constructing the Boguchanskaya power plant, to BoGES Ltd.

According to the agreement, HydroWGC and RUSAL will jointly control Boguchanskaya power plant and Boguchansky Aluminium Smelter. Anticipated total investments to be contributed by HydroWGC and RUSAL jointly amounts to RR 100,619 million (USD 3,821.3 million). The first line of the Boguchanskaya power plant and the Boguchansky Aluminium Smelter is planned to be put into operation in the 4th quarter of 2009.

Management assessed the level of control that the Group has over the Boguchanskaya power plant and the Boguchansky Aluminium Smelter and determined that control did not exist. The Boguchanskaya power plant and the Boguchansky Aluminium Smelter represent jointly controlled entities and the Group applies the equity accounting method to recognize its investments.

The carrying value of assets and liabilities de-recognised as a result of the formation of the jointly controlled entity were as follows:

	Carrying value
Property, plant and equipment	27,908
Other non-current assets	288
Accounts receivable and prepayments	3,229
Inventories	553
Cash and cash equivalents	945
Deferred profit tax liability	(3,185)
Current debt	(12,918)
Accounts payable and accrued charges	(473)
Carrying value of net assets	**16,347**

In March 2007 HydroWGC provided a guarantee with respect to a bridge loan of USD 520 million raised by Boguchansky Aluminium Smelter. The loan bears interest at LIBOR plus 0.825 percent per annum and is scheduled for repayment in December 2010. HydroWGC issued a guarantee to secure 50 percent of the Boguchansky Aluminium Smelter's obligations while the other 50 percent are secured by a guarantee and surety provided by RUSAL.

Disposal to an available-for-sale investment (carried at fair value)

Mosenergo (TGC-3)

In June 2007 Mosenergo placed 11.5 billion ordinary shares, with the par value of RR 1.00 each, by way of a private offering in favour of the Gazprom group. The offering share price was approved by the Board of Directors in the amount of RR 5.28 per share. The effective interest of the Group in Mosenergo was reduced from 50.9 percent to 36.2 percent which resulted in Mosenergo being transferred from a subsidiary to an associate company. The respective gain arising from this transaction, RR 11,199 million, was reflected in the Group's statement of operations for the year ended 31 December 2007 (see Note 28).

In December 2007 RAO UES sold 21.16 percent of the authorised capital of Mosenergo to the Moscow government for the amount of RR 54.67 billion. The Group's effective interest in Mosenergo reduced from 36.17 to 15.01 percent which resulted in the investment in Mosenergo being recognised as an available-for-sale investments at fair value. The respective gain arising from these sale, RR 25,080 million, was reflected in the Group's statement of operations for the year ended 31 December 2007 (see Note 28).

TGC-9

In December 2007 RAO UES sold 33.94 percent of the authorized capital of TGC-9 to third parties for the amount of RR 15,488 million. The Group's effective interest in TGC-9 was reduced from 50.05 to 16.11 percent; the residual investment is recognised as an available-for-sale investments carried at fair value. The respective gain arising from this transaction, RR 3,289 million, was reflected in the Group's statement of operations for the year ended 31 December 2007 (see Note 28).

(in millions of Russian Roubles)

	TGC-9	Mosenergo
Property, plant and equipment	-	110,774
Other non-current assets	-	270
Accounts receivable and prepayments	-	10,433
Other current assets	-	1,007
Inventories	-	4,368
Cash and cash equivalents	-	4,883
Non-current assets classified as held for sale	56,835	-
Long-term debt	-	(26,502)
Deferred profit tax liability	-	(17,339)
Current debt	-	(421)
Accounts payable and accrued charges	-	(8,697)
Liabilities directly associated with non-current assets classified as held for sale	(19,530)	-
Carrying value of net assets	**37,305**	**78,776**

Note 6: Segment information

The Group is organised into six main business segments:

- ***"Generation segment"*** consists of companies responsible for electricity and heat generation. Heat is sold within the regions in which the companies operate at tariffs set by RSTs. The great majority of electricity is sold within the regions and through the Wholesale electricity market based on tariffs set by RSTs and FST. The majority of electricity sales are within the Group;
- ***"Transmission segment"*** this segment comprises SO-CDU, FGC and transmission companies, which maintain and operate the high voltage electricity transmission grid and perform electricity dispatch functions, as well as RAO UES operations related to transmission activity. Transmission fees are set by the FST;
- ***"Distribution segment"*** consists of companies, which are responsible for the delivery of electricity through the low voltage distribution grids at tariffs set by RSTs. The majority of the distribution fees are charged by the distribution segment to the retailing segment;
- ***"Retailing segment"*** consists of companies, which are responsible for sale of electricity to final customers the great majority based on tariffs set by RSTs. The cost of sales of the retailing segment includes power purchased from the generation segment, the transmission fees are charged by the transmission segment (where applicable) and the distribution fees are charged by the distribution segment;
- ***"Energos segment"*** consists of companies, which have not begun or are in the process of restructuring and are responsible for the generation, distribution and sale of heat and electricity. As a result of restructuring, the size of this segment has been greatly reduced in favour of other segments. Energos which have completed their restructuring process and performed only one type of activity during the year ended 31 December 2007, have been included in the respective segments;
- ***"Unallocated"*** consists of numerous insignificant segments including construction, repair, export sales, foreign companies of the Group and RAO UES operations other than transmission activity.

(in millions of Russian Roubles)

Year ended 31 December 2007

	Generation	Transmission	Distribution	Retailing	Energos	Unallocated	Consolidation adjustments	Total
Continuing operations								
Third parties	165,378	20,059	180,055	373,930	36,111	46,160	-	**821,693**
Inter-segment	130,698	71,810	138,320	50,770	2,708	10,827	(405,133)	-
Total revenues	**296,076**	**91,869**	**318,375**	**424,700**	**38,819**	**56,987**	**(405,133)**	**821,693**
Disposal of subsidiaries and equity investments	4,639	-	-	-	-	9,264	-	**13,903**
Reversal of impairment of property, plant and equipment	28,436	23,377	50,135	19	-	11	-	**101,978**
Charge of impairment of property, plant and equipment	(51,582)	(17,129)	(38,366)	(35)	(9)	(389)	-	**(107,510)**
Segment operating (loss)/ profit	**(12,667)**	**35,888**	**49,040**	**3,871**	**3,698**	**10,741**	-	**90,571**
Finance costs	-	-	-	-	-	-	-	**(13,837)**
Share of profit of associates and jointly controlled entities	7	-	-	-	-	544	-	**551**
Profit before profit tax	-	-	-	-	-	-	-	**77,285**
Profit tax charge	-	-	-	-	-	-	-	**(36,577)**
Profit for the year from continuing operations	-	-	-	-	-	-	-	**40,708**
Discontinued operations								
Segment operating profit from discontinued operations	19,701	-	4,521	791	-	180,649		**205,662**
Finance costs	-	-	-	-	-	-	-	**(4,236)**
Profit tax charge	-	-	-	-	-	-	-	**(76,722)**
Profit for the year from discontinued operations	-	-	-	-	-	-	-	**124,704**
Profit for the year	-	-	-	-	-	-	-	**165,412**
Capital expenditures	109,261	71,071	124,551	4,097	2,926	8,000	-	**319,906**
Depreciation of property, plant and equipment	29,195	11,053	20,530	367	1,037	991	-	**63,173**
Doubtful debtors expense/ (release)	1,114	95	(338)	576	(282)	470	-	**1,635**

(in millions of Russian Roubles)

Year ended 31 December 2006

	Generation	Transmission	Distribution	Retailing	Energos	Unallocated	Consolidation adjustments	Total
Continuing operations								
Third parties	121,920	11,645	118,651	314,937	79,464	56,336	-	**702,953**
Inter-segment	98,218	82,020	124,571	31,460	2,300	3,368	(341,937)	-
Total revenues	**220,138**	**93,665**	**243,222**	**346,397**	**81,764**	**59,704**	**(341,937)**	**702,953**
Disposal of subsidiaries and equity investments	-	-	-	-	-	6,592	-	**6,592**
Reversal of impairment of property, plant and equipment	89,398	31,034	270	1,519	30,039	200	-	**152,460**
Charge of impairment of property, plant and equipment	(10,168)	(1,924)	-	-	(18,961)	-	-	**(31,053)**
Segment operating profit/ (loss)	**78,204**	**64,018**	**31,110**	**6,433**	**15,042**	**13,158**	-	**207,965**
Finance costs	-	-	-	-	-	-	-	**(12,117)**
Share of loss of associates and jointly controlled entities	-	-	-	-	-	(556)	-	**(556)**
Profit before profit tax	-	-	-	-	-	-	-	**195,292**
Profit tax charge	-	-	-	-	-	-	-	**(78,556)**
Profit for the year from continuing operations	-	-	-	-	-	-	-	**116,736**
Discontinued operations								
Segment operating profit from discontinued operations	72,685	-	3,396	(1,741)	-	-	-	**74,340**
Finance costs	-	-	-	-	-	-	-	**(3,552)**
Profit tax charge	-	-	-	-	-	-	-	**(38,006)**
Profit for the year from discontinued operations	-	-	-	-	-	-	-	**32,782**
Profit for the year	-	-	-	-	-	-	-	**149,518**
Capital expenditures	69,240	30,285	50,050	1,368	7,358	2,505	-	**160,806**
Depreciation of property, plant and equipment	16,593	14,040	17,870	380	4,466	2,450	-	**55,799**
Doubtful debtors expense/ (release)	553	88	1,470	(2,250)	2,510	631	-	**3,002**

Total revenue of RR 702,953 million consist of revenue amounted to RR 697,593 million and reversal of tariff imbalance amounted to RR 5,360 million.

(in millions of Russian Roubles)

As at 31 December 2007

	Generation	Transmission	Distribution	Retailing	Energos	Unallocated companies	Total
Segment assets	734,926	409,764	522,315	88,819	43,033	801,429	**2,600,286**
Inter-segment balances	(21,030)	(5,793)	(13,946)	(47,508)	(2,902)	(385,884)	**(477,063)**
Total segment assets	**713,896**	**403,971**	**508,369**	**41,311**	**40,131**	**415,545**	**2,123,223**
Investments in associates and jointly controlled entities	82,635	-	-	-	-	1,192	**83,827**
Current and deferred profit tax assets	-	-	-	-	-	-	**8,660**
Non-current assets classified as held for sale	112,380	-	4,833	7,636	-	-	**124,849**
Total assets	-	-	-	-	-	-	**2,340,559**
Segment liabilities	70,583	16,588	95,151	34,787	15,756	87,070	**319,935**
Inter-segment balances	(38,276)	(5,857)	(7,305)	(12,487)	(5,256)	(11,672)	**(80,853)**
Total segment liabilities	**32,307**	**10,731**	**87,846**	**22,300**	**10,500**	**75,398**	**239,082**
Current and deferred profit tax liabilities	-	-	-	-	-	-	277,939
Non-current and current debt	-	-	-	-	-	-	259,377
Liabilities directly associated with non-current assets held for sale	21,806	-	-	7,598	-	-	29,404
Total liabilities	-	-	-	-	-	-	**805,802**

As at 31 December 2006

	Generation	Transmission	Distribution	Retailing	Energos	Unallocated companies	Total
Segment assets	755,601	266,830	311,173	47,237	113,207	404,716	**1,898,764**
Inter-segment balances	(15,681)	(4,571)	(11,302)	(3,104)	(4,962)	(338,254)	**(377,874)**
Total segment assets	**739,920**	**262,259**	**299,871**	**44,133**	**108,245**	**66,462**	**1,520,890**
Investments in associates and jointly controlled entities	534	-	-	-	-	2,804	**3,338**
Current and deferred profit tax assets	-	-	-	-	-	-	**14,325**
Non-current assets classified as held for sale	4,883	-	-	-	-	-	**4,883**
Total assets	-	-	-	-	-	-	**1,543,436**
Segment liabilities	85,751	7,149	50,222	36,193	33,567	23,220	**236,102**
Inter-segment balances	(34,195)	(933)	(6,060)	(12,707)	(7,626)	(10,759)	**(72,280)**
Total segment liabilities	**51,556**	**6,216**	**44,162**	**23,486**	**25,941**	**12,461**	**163,822**
Current and deferred profit tax liabilities	-	-	-	-	-	-	142,522
Non-current and current debt	-	-	-	-	-	-	209,712
Liabilities directly associated with non-current assets held for sale	630	-	-	-	-	-	630
Total liabilities	-	-	-	-	-	-	**516,686**

(in millions of Russian Roubles)

Note 7: Related parties

Associates

During the reporting period the Group made the following significant transactions with associates, the majority of which were based on tariffs set by FST and RST, as follows:

	Year ended 31 December 2007	Year ended 31 December 2006
Electricity and heating revenues		
continued operations	174	1
discontinued operations	4,226	4,792
Transmission fees – income		
continued operations	621	-
discontinued operations	856	-
Purchased power expenses		
continued operations	15,893	-
discontinued operations	2,602	833

For outstanding balances with associates see Note 12 and Note 21.

During the year ended 31 December 2007 the Group purchased equipment from its associate, Power Machines, in the amount of RR 305 million and prepaid future equipment procurements in amount of RR 3,286 million (for the year ended 31 December 2006 – RR 644 million and RR 814 million respectively). In November 2007 RAO UES sold all Group's shares in Power Machines to the third party (see Note 9).

State-controlled entities. In the normal course of business the Group enters into transactions with other entities under Government control, including Gazprom, Russian railways, state-controlled banks and various governmental bodies. Prices for natural gas, electricity and heat are based on tariffs set by FST and RST. Bank loans are provided on the basis of market rates. Taxes are accrued and settled in accordance with Russian tax legislation.

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

	Year ended 31 December 2007	Year ended 31 December 2006
Electricity and heating revenues		
continued operations	166,227	163,027
discontinued operations	144,308	137,054
Transmission fees – income		
continued operations	5,171	4,079
discontinued operations	2,908	2,531
Electricity and heating distribution expenses		
continued operations	13,632	7,805
discontinued operations	4,489	4,511
Fuel expenses		
continued operations	56,897	45,841
discontinued operations	68,295	67,102
Purchased power expenses		
continued operations	35,917	34,155
discontinued operations	32,506	29,695
Interest expense		
continued operations	3,073	2,314
discontinued operations	1,035	1,040

(in millions of Russian Roubles)

	31 December 2007	31 December 2006
Accounts receivable and prepayments	53,866	68,740
Accounts receivable and prepayments: Held for sale*	12,494	-
Non-current and current debt	69,088	30,361
Non-current and current debt : Held for sale **	11,688	-
Accounts payable and accrued charges	15,395	15,938
Accounts payable and accrued charges: Held for sale**	1,399	-

* Included in balance sheet line "Non-current assets classified as held for sale"
** Included in balance sheet line "Liabilities directly associated with non-current assets classified as held for sale"

Tax balances are disclosed in Notes 10, 12, 19, 22 and 28. Tax transactions are disclosed in the Statement of operations and Notes 17, 25 and 28.

During the year ended 31 December 2007 the Federal Government of the Russian Federation and regional governments gave financial assistance to RAO UES Group entities equal to RR 16,592 million, included in discontinued operations in the amount of RR 3,349 million (for the year ended 31 December 2006 - RR 4,929 million, included in discontinued operations in the amount of RR 478 million). The assistance in respect of these periods has been recorded in the statement of operations as electricity revenue (see Note 24).

Directors' compensation. Compensation is paid to members of the Management Board of RAO UES for their services in full time management positions. The compensation is made up of a contractual salary, non-cash benefits, and a performance bonus depending on results for the year according to Russian statutory financial statements. 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 Managing 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. Fees, compensation or allowances to the members of the Board of Directors, being government employees, are not paid.

Members of the Board of Directors and the Management Board of RAO UES received the following remuneration:

	Year ended 31 December 2007	Year ended 31 December 2006
Salaries and bonuses	412	339
Severance benefits	-	3
Other	31	23
Total	**443**	**365**

Employee share option plan. In June 2004, the Board of Directors approved a Share Option Plan for the employees of RAO UES (hereinafter the Plan).

The Plan provided for the granting of share options to the members of the Management Board and other key employees of RAO UES (hereinafter the Plan participants).

The Plan participants were rewarded under the plan for their work in RAO UES over the period of 3 years, starting from 25 June 2004.

In February 2005, the Board of Directors of RAO UES approved a number of changes relating to the list of Plan participants and to the number of shares allocated under the Plan. Key employees from certain Group entities were included into the list.

A total of up to 418,657,600 ordinary shares (or about one percent of the issued ordinary shares of RAO UES) could be allocated under the Plan. 213,671,372 shares were allocated for granting share options to the members of the Management Board, the remainder to the other key employees of RAO UES.

Ordinary shares ultimately allocated under the Plan were allocated from treasury shares purchased by the Group for that purpose on the open market by a special-purpose entity, which is controlled by the Group. The treasury shares held for the purpose of the Plan were not allowed to vote.

(in millions of Russian Roubles)

The Plan participant had a right to exercise the share option at any time over the period from 25 June 2007 to 25 January 2008.

The exercise price of the share option was USD 0.2934 per share, which was the weighted average price of the shares of RAO UES on RTS over the period of 25 June 2003 through 24 June 2004. For Plan participants who joined Group entities after 25 June 2004, the exercise price of the share option was the weighted average price of the shares of RAO UES on RTS for the year before the date of the labour agreement. In addition to the exercise price, the Plan participants, who exercised their options, had to reimburse part of the interest expenses paid on borrowings, which were attracted for the purpose of purchases of the shares.

One of the vesting terms of the share options was the prepayment by the members of the Management Board (in the amount of 10.0 percent of the share option agreement) and by other key employees (in the amount of 0.2 percent of the share option agreement).

In 2004, the Group issued to the members of the Management Board non-interest bearing loans, which are to be used by individuals to make prepayments under the share option agreements. The loans were issued for a period of 5 years. As at 31 December 2007 the amount of loans issued to employees amounted to RR 155 million.

In the course of the Plan implementation the Group purchased 418,657,600 treasury shares. Their purchase cost was RR 3,571 million.

As at 31 December 2006, the number of outstanding share options was 381,436,585. The total amount of ordinary shares acquired during the reporting period was 270,410,215. Consequently as at 31 December 2007 111,026,370 shares were outstanding and had not been acquired by Plan participants. For share options exercised during the period, the weighted average share price was 1.3579 US Dollars. The total cost of acquired shares was RR 1,482 million (see Note 16). Almost all of the Plan participants exercised the share option till 25 January 2008.

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

Share price	0.2770 USD
Exercise price	0.2934 USD
Expected volatility	31%
Option life	1,095 days
Risk-free interest rate	3.16%
Fair value at measurement date	**0.0690 USD**

The measure of volatility used in the option pricing model was the annualised standard deviation of the continuously compounded rates of return on the share over a period of time. Volatility was determined on the basis of the historical volatility of the share price over the most recent period (one year before grant date). For share options outstanding as at 31 December 2007 the weighted average remaining contractual life is 25 days.

Beginning from 2006 Group subsidiaries approved their own Share Option Plans for their employees. In December 2006 a Share Option Plan was adopted by WGC-5, in April 2007 by TGC-6, in September 2007 by HydroWGC and in November 2007 by WGC -2. The Plan participants can exercise the share option till 9 April 2010 in TGC-6, 1 November 2010 in WGC-2, 16 April 2011 in HydroWGC and till 1 December 2009 in WGC-5. The main conditions of these Plans are similar to the Share Option Plan approved by the Board of Directors RAO UES.

For the estimate of the fair value of the services received in return for the share options granted to subsidiaries' employees also used the Black-Scholes model.

During the reporting period the Group recognised an expense related to the fair value of the options as follows:

	Year ended 31 December 2007	Year ended 31 December 2006
RAO UES	75	100
Other Group companies	529	-
Total	**604**	**100**

Expenses related to WGC-5 were recognised within expenses from discontinued operations.

The amount of expenses related to the RAO UES shares includes an adjustment to the fair value of the options. This adjustment was made as a result of the reconsideration of the employee turnover rate.

(in millions of Russian Roubles)

Note 8: Property, plant and equipment

Cost

	Production buildings	Hydrote-chnical buildings	Equipment and assembling units	Substations & power equipment	Electricity grids and equipment	Heat grids	Assets under construc-tion	Other	Total
Opening balance as at 31 December 2006	370,917	115,422	262,753	370,397	698,857	147,927	246,951	361,962	2,575,186
Elimination of accumulated depreciation and impairment	(163,193)	(62,797)	(109,079)	(257,162)	(410,065)	(90,762)	(39,190)	(221,897)	(1,354,145)
Revaluation reserve	203,110	87,444	107,479	48,176	62,482	41,819	39,056	97,357	686,923
Additions	3,203	9,739	4,863	13,390	10,171	296	264,889	13,355	319,906
Transfers	15,545	10,671	13,002	32,796	19,843	10,032	(130,597)	28,708	-
Disposals	(1,944)	(44)	(512)	(2,056)	(1,362)	(205)	(9,909)	(2,573)	(18,605)
Disposals to associates and available-for-sale investments (Note 5)	(129,637)	(42,262)	(84,404)	(16,155)	(1,129)	(60,494)	(71,665)	(50,364)	(456,110)
Disposals of subsidiaries (Note 5)	(905)	(92)	(43)	(10)	(102)	-	(74)	(692)	(1,918)
Reclassified to Held for sale (Note 28)	(16,258)	(2,150)	(9,537)	(1,518)	(68)	(12,078)	(4,645)	(10,589)	(56,843)
Spin-offs WGC-5, TGC-5 (Note 5)	(23,470)	(2,370)	(18,111)	(2,668)	(172)	(2,896)	(6,955)	(12,219)	(68,861)
Closing balance as at 31 December 2007	257,368	113,561	166,411	185,190	378,455	33,639	287,861	203,048	1,625,533
Accumulated depreciation (including impairment)									
Opening balance as at 31 December 2006	(171,637)	(56,753)	(107,252)	(244,153)	(450,300)	(93,841)	(24,308)	(209,416)	(1,357,660)
Reversal of impairment	17,155	8,711	11,727	18,819	49,028	7,347	435	3,958	117,180
Charge of impairment	(8,712)	(14,755)	(13,554)	(31,828)	(8,794)	(4,268)	(15,317)	(16,438)	(113,666)
Elimination of accumulated depreciation and impairment	163,193	62,797	109,079	257,162	410,065	90,762	39,190	221,897	1,354,145
Charge for the period	(10,995)	(3,289)	(14,533)	(10,984)	(18,117)	(6,775)	-	(17,834)	(82,527)
Disposals	120	62	95	117	53	19	-	256	722
Disposals to associates and available-for-sale investments (Note 5)	2,530	644	3,030	553	25	3,612	-	3,222	13,616
Disposals of subsidiaries (Note 5)	15	-	2	-	-	-	-	29	46
Reclassified to Held for sale (Note 28)	646	39	683	82	4	846	-	535	2,835
Spin-offs WGC-5, TGC-5 (Note 5)	491	31	673	141	6	240	-	435	2,017
Closing balance as at 31 December 2007	(7,194)	(2,513)	(10,050)	(10,091)	(18,030)	(2,058)	-	(13,356)	(63,292)
Net book value as at 31 December 2007	250,174	111,048	156,361	175,099	360,425	31,581	287,861	189,692	1,562,241
Net book value as at 31 December 2006	199,280	58,669	155,501	126,244	248,557	54,086	222,643	152,546	1,217,526

(in millions of Russian Roubles)

Cost

	Production buildings	Hydrote-chnical buildings	Equipment and assembling units	Substations & power equipment	Electricity grids and equipment	Heat grids	Assets under construc-tion	Other	Total
Opening balance as at 31 December 2005	379,179	125,323	236,834	395,021	683,324	138,938	208,294	285,844	2,452,757
Transfer to subsidiary (Note 5)	1,614	190	2,407	4,496	3,217	1,829	321	1,743	15,817
Additions	1,020	120	1,520	4,084	3,292	726	139,899	10,145	160,806
Transfers	9,994	1,175	14,902	22,566	14,586	7,653	(89,384)	18,508	-
Disposals	(2,363)	(741)	(962)	(2,596)	(3,243)	(433)	(13,411)	(5,171)	(28,920)
Disposals of subsidiaries	(6,195)	(1,941)	(2,517)	(1,290)	(1,036)	(15)	(289)	(1,717)	(15,000)
Reclassified to Held for sale	(4,045)	(1,268)	(1,644)	(473)	(177)	(259)	(324)	(2,084)	(10,274)
Closing balance as at 31 December 2006	379,204	122,858	250,540	421,808	699,963	148,439	245,106	307,268	2,575,186
Accumulated depreciation (including impairment)									
Opening balance as at 31 December 2005	(229,777)	(75,970)	(143,567)	(260,321)	(459,227)	(98,547)	(26,181)	(204,035)	(1,497,625)
Transfer to subsidiary (Note 5)	(1,651)	(546)	(1,031)	(1,962)	(3,469)	(901)	-	(1,192)	(10,752)
Charge for the period	(9,521)	(3,148)	(5,948)	(10,866)	(19,220)	(4,773)	(1,114)	(18,360)	(72,950)
Transfers	(1,198)	(396)	(748)	(608)	(777)	(241)	4,923	(955)	-
Disposals	1,276	422	797	1,529	2,703	358	1,648	4,768	13,501
Disposals of subsidiaries	5,127	1,694	3,202	1,624	1,216	15	-	1,680	14,558
Charge of impairment	(9,341)	(3,087)	(5,834)	(3,624)	(3,653)	(3,639)	(8,326)	(1,822)	(39,326)
Reversal of impairment loss	70,982	23,462	44,338	29,495	31,978	13,670	4,741	10,290	228,956
Reclassified to Held for sale	2,466	815	1540	580	150	217	-	210	5,978
Closing balance as at 31 December 2006	(171,637)	(56,754)	(107,251)	(244,153)	(450,299)	(93,841)	(24,309)	(209,416)	(1,357,660)
Net book value as at 31 December 2006	207,567	66,104	143,289	177,655	249,664	54,598	220,797	97,852	1,217,526
Net book value as at 31 December 2005	149,402	49,353	93,267	134,700	224,097	40,391	182,113	81,809	955,132

Construction in progress represents the carrying amount of property, plant and equipment that has not yet been put into operation, including generating stations under construction, and advances to construction companies and suppliers of property, plant and equipment. As at 31 December 2007 such advances amounted to RR 50,258 million (as at 31 December 2006 - RR 23,006 million).

Depreciation is charged once an asset is available for service.

The RR 82,527 million depreciation charge for the period includes RR 63,173 million related to continuing operations (Note 25) and RR 19,354 million related to discontinued operations.

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

The assets transferred to the Group upon privatisation did not include the land on which the Group's buildings and facilities are situated. The Group has the option to purchase this land upon application to the state registration body or to formalise the right for rent. According to Russian legislation the expiry date of this option is 1 January 2010 and for the land on which electric power transmission lines are located is 1 January 2013.

As at 31 December 2007, the majority of the Group's companies have not filed any application to exercise the purchase option.

(in millions of Russian Roubles)

Revaluation

Starting from 1 January 2007 the Group has adopted the revaluation model for property, plant and equipment (see Note 4). Property, plant and equipment were revalued as of 1 January 2007. The revaluation was performed by independent appraisers who hold a recognised and relevant professional qualification and who have recent experience in valuation of assets of similar location and category. Fair values were determined by independent appraisers primarily based on the depreciated replacement cost method. The replacement cost of buildings, constructions, machinery and equipment and transfer devices has been estimated based on technical characteristics, unit construction cost and construction estimates. The replacement cost of equipment was estimated based on data of aggregative replacement cost of heat-power station, current purchase contracts and price-list of producers and trading companies. The economic obsolescence was estimated based on profitability test results for each cash-generating unit. The discount rate used in profitability testing varied from 10.5 to 19.1 percent. The forecast period was 19 - 20 years for all Group companies, except for distribution companies for which the forecast period was 10 years. The projected long-term rate of growth in sales volumes was approximately 3 percent per annum for all Group companies.

As a result of the revaluation, the Group's equity increased by RR 521,952 million, comprising an increase in the carrying value of property, plant and equipment of RR 686,923 million, net of a related deferred tax liability of RR 164,971 million. As a consequence of recognizing the results of the revaluation, RR 117,180 million of previously recognized impairment charge was reversed, and an impairment charge of 113,666 million was recognised, in the statements of operations. The impairment charge/reversal on property, plant and equipment amounting to RR 3,514 million is split between continuing operations (net charge in the amount of RR 5,532 million) and discontinued operations (net reversal in the amount of RR 9,046 million, see Note 28).

The remaining effect of the revaluation, RR 686,923 million, was recognized directly in equity as a revaluation reserve.
A revaluation reserve includes RR 5,016 million, net of a deferred tax liability, related to non-current assets held for sale (Note 28).

For each revalued class of property, plant and equipment stated at revalued amount in these financial statements, the carrying amount that would have been recognized had the assets been carried under the cost model is as follows:

	Production buildings	Hydrote-chnical buildings	Equipment and assembling units	Substations & power equipment	Electricity grids and equipment	Heat grids	Assets under constructio n	Other	Total
Net book value as at 31 December 2007	152,657	51,720	92,609	137,785	286,836	20,599	263,290	114,698	1,120,194

Leased property, plant and equipment

The Group leased certain equipment under a number of finance lease agreements. At the end of each of the leases the Group has the option to purchase the equipment at a beneficial price. At 31 December 2007 the net book value of leased property, plant and equipment was RR 35,924 million (as at 31 December 2006 – RR 8,493 million). The leased equipment is pledged as security for the lease obligations.

Operating leases

The Group leases under operating leases a number of land areas owned by local governments. Land lease payments are determined by lease agreements and rates set by authorized government bodies on an annual basis. Therefore operating lease rentals were calculated on the base of actual rates.

Operating lease rentals are payable as follows:

	31 December 2007	31 December 2006
Less than one year	2,762	3,490
Between one year and five years	7,716	9,112
After five years	40,863	58,122
Total	**51,341**	**70,724**

(in millions of Russian Roubles)

Although lease contracts are mainly long-term, some entities may conclude short-term (1 year) contracts as, due to the restructuring process, new legal entities are established on the basis of old ones. Legal successors of these entities will conclude new lease contracts after reorganisation.

Note 9: Investments in associates and jointly controlled entities

The Group has investments in a number of associated enterprises, which are incorporated and operate in the Russian Federation. The Group also has an investment in two jointly controlled entities which operate in Kazakhstan and Cyprus.

	Carrying value as at 31 December 2006	Additions and disposals of associates	Share of change directly recognised in equity	Share of profit/ (loss) of associates and jointly controlled entities	Dividends received from associates	Translation difference	Transfer from associates	Carrying value as at 31 December 2007
Power Machines	2,502	1,751*	1,197	(250)	-	-	(5,200)	-
Norilsko-Taymyrskaya Power Company	94	(94)	-	-	-	-	-	-
Rossiyskie Kommunalnye Sistemy	208	750*	-	234	-	-	-	1,192
Stantsiya Ekibastuzskaya GRES-2	534		2,168	39	-	(97)	-	2,644
Mosenergo	-	20,591	-	(228)	-	-	(20,363)	-
BoGES Ltd.	-	8,864	-	(7)	-	140	-	8,997
Wholesale Generating Company-3	-	27,236	-	745	(327)	-	-	27,654
Wholesale Generating company-4	-	20,744	-	18	-	-	-	20,762
Kuzbassenergo	-	22,138	-	-	-	-	-	22,138
Kurganskaya Generating company	-	440	-	-	-	-	-	440
Total	**3,338**	**102,420**	**3,365****	**551**	**(327)**	**43**	**(25,563)**	**83,827**

* Additions to Power Machines and Rossiyskie Kommunalnye Sistemy, in the amount RR 1,751 million and RR 750 million respectively, present purchases by the Group of additionally issued shares of these entities.

**See Note 16.

The following is summarised financial information, in aggregate, in respect of the associates and the jointly controlled entities:

	Ownership, %	Voting, %	Assets	Liabilities
At 31 December 2006				
Power Machines	23.80	25.00	24,983	(14,981)
Norilsko-Taymyrskaya Power Company	49.00	49.00	2,384	(2,575)
Rossiyskie Kommunalnye Sistemy	25.00	25.00	12,450	(11,618)
Stantsiya Ekibastuzskaya GRES-2	30.00	50.00	1,545	(475)
At 31 December 2007				
Rossiyskie Kommunalnye Sistemy	25.00	25.00	20,237	(15,470)
Stantsiya Ekibastuzskaya GRES-2	30.00	50.00	8,095	(2,808)
BoGES Ltd.	50.00	50.00	37,471	(19,476)

(in millions of Russian Roubles)

	Ownership, %	Voting, %	Assets	Liabilities
Wholesale Generating Company-3	26.02	26.02	114,015	(7,734)
Wholesale Generating Company-4	22.49	22.49	106,281	(13,965)
Kuzbassenergo	42.06	42.06	65,503	(12,869)
Kurganskaya Generating company	39.95	49.00	1,499	(398)

	Revenues	Expenses	Profit / (Loss)
Year ended 31 December 2006			
Power Machines	16,384	(19,437)	(3,053)
Norilsko-Taymyrskaya Power Company	8,553	(8,986)	(433)
Rossiyskie Kommunalnye Sistemy	19,828	(19,259)	569
Stantsiya Ekibastuzskaya GRES-2	1,756	(1,618)	138
Year ended 31 December 2007			
Rossiyskie Kommunalnye Sistemy	23,337	(22,402)	935
Stantsiya Ekibastuzskaya GRES-2	2,111	(2,034)	77
Mosenergo*	40,485	(41,116)	(631)
BoGES Ltd.*	-	(13)	(13)
Wholesale Generating Company-3*	28,174	(26,144)	2,030
Wholesale Generating Company-4*	6,383	(6,302)	81
Kuzbassenergo**	23,759	(21,618)	2,141
Kurganskaya Generating company**	3,437	(924)	2,513

* This information represents income (loss) received by these companies since their transfer from subsidiaries to associates (WGC-3, WGC-4, Mosenergo), jointly controlled entity (BoGES Ltd.) (see Note 5) to 31 December 2007.

** Kuzbassenergo and Kurganskaya Generating company were transferred from subsidiaries to associates in December 2007. Therefore the Group's share of profit of these companies equals zero.

Associates and jointly controlled entities are accounted for using the equity method.

WGC-3, WGC-4 and Kuzbassenergo, previously consolidated as subsidiaries, were reclassified to associates during the period (see Note 5).

Assets and liabilities of OJSC Boguchanskaya GES, previously consolidated as a subsidiary, were reclassified to a jointly controlled entity (BoGES Ltd.) during the period (see Note 5).

In December 2007 RAO UES sold 21.16 percent of the authorised capital of Mosenergo to Moscow government for the amount of RR 54.67 billion. The Group's effective interest in Mosenergo reduced from 36.17 to 15.01 percent. As a result of the sale the Group discontinued recognition of Mosenergo as an associate and transferred its residual interest to available-for-sale investments (see Note 5).

In November 2007 RAO UES sold all the Group's shares in Power Machines to third parties for the amount of RR 11,801 million. The respective gain arising from these sale, RR 7,797 million, was reflected in the Group's statement of operations for the year ended 31 December 2007.

During the year ended 31 December 2007 RAO UES sold its 49.0 percent interest in Norilsko-Taymyrskaya Power Company. A loss on disposal of RR 68 million was recognised in the Group's statement of operations for the year ended 31 December 2007. As a result of the sale the Group discontinued recognition of Norilsko-Taymyrskaya Power Company as an associate.

(in millions of Russian Roubles)

Note 10: Other non-current assets

	31 December 2007	31 December 2006
Restructured trade receivables (Net of allowance for doubtful debtors of RR 1,441 million as at 31 December 2007 and RR 1,922 million as at 31 December 2006)	595	1,426
Non-current portion of value added tax recoverable	1,434	3,293
Other (Net of allowance of RR 348 million as at 31 December 2007 and 220 million as at 31 December 2006)	41,510	14,144
Total	**43,539**	**18,863**

The carrying value of restructured trade receivables approximates to their fair value.

Other non-current assets include bank and other deposits and bills of exchange with maturity of more than 1 year:

Bank deposits	Rating	Rating agency	31 December 2007	31 December 2006
CJSC "Gazenergoprombank"	-	-	8,518	-
OJSC "Investtradebank"	B2	Moody's	-	250
Other	-	-	57	270
Total bank deposits			**8,575**	**520**
Bank and other bills of exchange				
OJSC "VTB Bank"	Baa2	Moody's	16,411	-
OJSC "Nomos bank"	Ba3	Moody's	1,463	-
OJSC "Alfa-Bank"	Ba1	Moody's	446	-
JSB "Evrofinance Mosnarbank"	Ba3	Moody's	426	394
JSCB "Agropromcredit"	-	-	377	55
LLC "Trojka-audit"	-	-	-	761
Other	-	-	954	1,287
Total bank and other bills of exchange			**20,077**	**2,497**
Other receivables	-	-	12,858	11,127
Total other non-current assets			**41,510**	**14,144**

Despite the fact that several banks do not have an international credit rating, management believes it is a reliable counterparties that have stable positions in the financial market of the Russian Federation.

Note 11: Cash and cash equivalents

	31 December 2007	31 December 2006
Cash at bank and in hand	56,132	40,361
Cash equivalents	67,942	13,057
Foreign currency accounts	1,295	683
Total	**125,369**	**54,101**

Cash equivalents comprise short-term investments in bank and certificates of deposit. Cash collected by subsidiaries from the initial public offerings (see Note 16) and cash generated from the sale of subsidiaries was mainly included in cash at bank.

	Rating	Rating agency	31 December 2007	31 December 2006
Bank deposits				
OJSC "VTB Bank"	Baa2	Moody's	33,907	265
OJSC "Alfa-Bank"	Ba1	Moody's	6,118	474
OJSC "Nomos bank"	Ba3	Moody's	5,735	-
JSB "Gazprombank"	BBB-	Standard & Poor's	4,026	56
JSB "Sberbank"	Baa2	Moody's	3,361	-
Otkritie Financial Corporation (OFC)	CCC	Standard & Poor's	2,865	-
JSCB "International Industrial Bank"	B1	Moody's	2,316	1,100

(in millions of Russian Roubles)

	Rating	Rating agency	31 December 2007	31 December 2006
KIT Finance	A3	Moody's	1,800	-
JSCB "Agroimpuls"	Baa3	Moody's	1,618	250
CJSC "Gazbank"	B2	Moody's	1,105	-
OJSC "Uralsib"	B+	Standard & Poor's	1,007	-
OJSC"Alemar Bank"	-	-	500	-
JCSB "International Moscow Bank"	BBB-	Standard & Poor's	-	1,752
OJSC Bank "Petrocommerce"	Ba3	Moody's	-	1,700
CJSC "Promsvyazbank"	Ba3	Moody's	-	1,500
JCB "TransCreditBank"	Ba1	Moody's	-	1,220
JSB "Russian Agricultural Bank"	BBB+	Fitch Ratings	-	1,000
JSCB "Svyaz-Bank"	B2	Moody's	-	800
JSB "Absolut bank"	Aaa	Moody's	-	300
JSCB "International Bank for Reconstruction and Development"	B+	Fitch Ratings	-	230
Other	-	-	3,191	2,193
Total bank deposits			**67,549**	**12,840**
Bank and other bills of exchange				
JSB "Evrofinance Mosnarbank"	Ba3	Moody's	127	3
Other	-	-	266	214
Total bank and other bills of exchange			**393**	**217**
Cash at banks				
JSB "Sberbank"	Baa2	Moody's	9,957	10,576
JSB "Gazprombank"	Baa2	Moody's	6,956	1,932
JSCB "Agroimpuls"	Baa3	Moody's	5,847	4,293
OJSC "Alfa-Bank"	Ba1	Moody's	4,875	1,204
OJSC "Bank Saint Petersburg"	Ba3	Moody's	3,895	1,016
OJSC "Bank Alemar"	-	-	2,651	89
OJSC "VTB Bank"	Baa2	Moody's	2,611	895
JSCB "Agropromcredit"	-	-	2,394	1,053
VBRR	Baa3	Moody's	2,165	-
JSB "Evrofinance Mosnarbank"	Ba3	Moody's	1,660	824
NB CO RTS Settlement Chamber	-	-	884	1,636
OJSC "Nomos bank"	Ba3	Moody's	875	332
OJSC "Kamabank"	-	-	853	640
JSCB "Bank of Moscow"	Baa2	Moody's	737	1,551
LLS "KreditInvest"	-	-	631	-
OJSC "Investtorgbank"	-	-	617	266
JSCB "Rosbank"	Aaa	Moody's	614	158
CJSC "Gazbank"	-	-	502	902
OJSC "Uralsib"	B+	Standard & Poor's	428	138
OJSC "Peresvet"	-	-	380	441
CJSC "NKO MRC"	-	-	326	80
JSCB "Transinvestbank"	-	-	308	1,168
OJSC Bank "Petrocommerce"	Baa2	Moody's	6	3,001
Other			5,960	8,107
Total cash at banks			**56,132**	**40,302**

Despite the fact that several banks do not have an international credit rating, management believes it is a reliable counterparties that have stable positions in the financial market of the Russian Federation.

(in millions of Russian Roubles)

Note 12: Accounts receivable and prepayments

	31 December 2007	31 December 2006
Trade receivables (Net of allowance for doubtful debtors of RR 29,526 as at 31 December 2007 and RR 49,561 million as at 31 December 2006)	43,147	46,164
Value added tax recoverable	20,100	18,254
Advances to suppliers and prepayments (Net of allowance for doubtful debtors of RR 662 million as at 31 December 2007 and RR 451 million as at 31 December 2006)	29,848	22,049
Receivables from associates (Net of allowance for doubtful debtors of RR nil million as at 31 December 2007 and RR 321 million as at 31 December 2006)	4,912	2,165
Other receivables (Net of allowance for doubtful debtors of RR 3,682 million as at 31 December 2007 and RR 6,119 million as at 31 December 2006)	154,665	45,650
Total	**252,672**	**134,282**

Almost all of these balances are denominated in RR.

As at 31 December 2007 and 31 December 2006, the above other receivables balance included RR 29,006 million and RR 23,578 million of tax prepayments, respectively, which are to be settled against future tax liabilities.

Other receivable balances as at 31 December 2007 included prepayments in respect of buying-out of shares amounting to RR 52,994 million (see Note 16). For the purpose of cash flow statement this amount was included in the line "Acquisition of RAO UES shares".

Certain trade receivables have been restructured and as a result are due to be realised more than one year from the balance sheet date (see Note 10). The loss recognised as a result of the restructuring of these receivables is included in doubtful debtors expense.

Note 13: Inventories

	31 December 2007	31 December 2006
Materials and supplies	25,264	29,424
Fuel production stocks	17,083	29,457
Other inventories	1,691	2,092
Total	**44,038**	**60,973**

The above inventory balances are recorded net of an obsolescence provision of RR 872 million and RR 1,498 million as at 31 December 2007 and 31 December 2006, respectively.

As at 31 December 2007 and 31 December 2006, the inventory balance included RR 5,569 million and RR 10,432 million, respectively, of inventory pledged as collateral under loan agreements.

Note 14: Other current assets

Other current assets comprise bank promissory notes and bank deposits, which as at 31 December 2007 were not classified as cash equivalents:

	Rating	Rating agency	31 December 2007	31 December 2006
Bank deposits				
Otkritie Financial Corporation (OFC)	CCC	Standard & Poor's	1,821	-
JSB "Sberbank"	Baa2	Moody's	1,316	-
CJSC "Gazenergoprombank"	-	-	1,100	-
KIT Finance	A3	Moody's	-	3,000
JSB "Gazprombank"	BBB-	Standard & Poor's	-	3,000
JSCB "Agroimpuls"	Baa3	Moody's	-	350
Other	-	-	1,123	1,031
Total bank deposits			**5,360**	**7,381**

(in millions of Russian Roubles)

	Rating	Rating agency	31 December 2007	31 December 2006
Bank bills of exchange				
Otkritie Financial Corporation (OFC)	CCC	Standard & Poor's	10,151	5,258
JSB "Evrofinance Mosnarbank"	Ba3	Moody's	6,958	80
LLC "Trojka-audit"	-	-	845	50
CJSC Globeks	-	-	538	333
JSCB "Agropromcredit"	-	-	227	1,340
KIT Finance	A3	Moody's	-	1,000
JCB "TransCreditBank"	Ba3	Moody's	-	1,000
OJSC "Nomos bank"	Ba3	Moody's	-	234
Other	-	-	2,242	864
Total bank bills of exchange			**20,961**	**10,159**
OJSC "MMC "NORILSK NICKEL"	BBB-	Standard & Poor's	14,000	-
Other	-	-	1,264	8,706
Total other current assets			**41,585**	**26,246**

Despite the fact that several banks do not have an international credit rating, management believes it is a reliable counterparties that have stable positions in the financial market of the Russian Federation.

Note 15: Available-for-sale investments

	31 December 2007	31 December 2006
Non-current available-for-sale investments	**48,851**	**15,302**
Carried at fair value, including shares in	*42,542*	*8,669*
Mosenergo	34,996	-
TGC-9	7,164	-
Bashkirenergo	-	5,847
Novosibirskenergo	-	2,712
Other	382	110
Carried at cost	*6,309*	*6,633*
Current available-for-sale investments (carried at fair value), including shares in	**12,848**	**3,934**
Bashkirenergo	9,886	-
Novosibirskenergo	2,962	-
Other	-	3,934

During 2007 Group lost control over TGC-9 and Mosenergo (see Note 5) and recognised them as available-for-sale investments at fair value. The difference between carrying value of TGC-9 and Mosenergo as at 31 December 2007 and their fair value of RR 15,929 million was recognized in equity statement in line "Change in fair value of available-for-sale investments", net of a related deferred tax liability of RR 3,789 million (see Note 17).

As at 31 December 2007 investments in Novosibirskenergo and Bashkirenergo were reclassified from non-current to current available-for-sale investments as the Group sold them in February 2008 and May 2008 respectively (see Note 32).

The revaluation of investments in Bashkirenergo and Novosibirskenergo as at 31 December 2007 amounted to RR 4,290 million was recognized in equity statement in line "Change in fair value of available-for-sale investments", net of a related deferred tax liability of RR 2,258 million (see Note 17).

Disposal of other available-for-sale investments resulted in gain of RR 867 million included in statement of operation in line "Revenues" and decrease in fair value reserve of RR 934 million included in equity statement in line "Change in fair value of available-for-sale investments".

(in millions of Russian Roubles)

Note 16: Equity

Share Capital

	Number of shares issued and fully paid	31 December 2007	31 December 2006
Ordinary shares	41,041,753,984	147,439	147,439
Preference shares	2,075,149,384	7,667	7,667
Total	**43,116,903,368**	**155,106**	**155,106**

The authorised number of ordinary and preference shares are 47,509,289,488 and 2,075,149,384 respectively, both with a nominal value per share of RR 0.5. The carrying amount of share capital has been adjusted to take into account the effects of hyperinflation that existed in Russian Federation until the end of 2002.

Ordinary shares and preference shares

Preference shares have no right of conversion or redemption, but are entitled to a minimum annual dividend of 10.0 percent of net statutory profit. The dividend is declared entirely at the discretion of the shareholders. In total the preference dividend may not be less than the ordinary dividend and is not cumulative. Preference shares carry no voting rights except when dividends on preference shares have not been declared fully at the Annual Shareholders' meeting, in which case the preference shares acquire voting rights. In liquidation preference shareholders are first paid any declared unpaid dividends and then the nominal value of the shares ("liquidation value"). Following this, preference shareholders participate equally in the distribution of remaining assets with ordinary shareholders.

Treasury shares

Treasury shares as at 31 December 2007 represent 1,642,591,001 (31 December 2006: 450,068,937) ordinary shares and 7,876,974 (31 December 2006: 6,696,727) preference shares.

	Cost as at 31 December 2006	Acquisitions	Cost as at 31 December 2007
Ordinary shares	3,689	46,065	49,754
Preference shares	18	35	53
Total	**3,707**	**46,100**	**49,807**

Translation reserve

The translation reserve, relating to the exchange differences arising on translation of the net assets of foreign subsidiaries, as at 31 December 2007 was a credit of RR 20 million (31 December 2006: a debit of RR 19 million) and is included in retained earnings and other reserves.

Change in equity of associates and jointly controlled entities

The effect of the revaluation of property, plant and equipment of jointly controlled entity Stantsiya Ekibastuzskaya GRES-2 of RR 2,385 million and associated enterprise Power Machines of RR 1,484 was recognised netted of related deferred tax of RR 217 million and RR 287 million respectively in equity (see Note 9).

Dividends

The annual statutory accounts of the parent company, RAO UES, form the basis for the annual profit distribution and other appropriations. The specific Russian legislation identifies the basis of distribution as the net profit. For 2007, the statutory profit for the parent company, RAO UES, as reported in the published statutory reporting forms, was RR 452,827 million (including the result of revaluation of investments in subsidiaries at the amount of RR 424,046 million recognised in the Russian statutory accounts). However this legislation and other statutory laws and regulations dealing with the distribution rights are opened 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 annual general meeting of the parent company held on 28 May 2008 it was decided not to pay dividends for the year 2007 for any category of shares. There were no dividends declared for the year 2006 for any category of shares as well.

Provision for buy out of shares

As described in Note 1, as at 26 October 2007, the Extraordinary shareholder's meeting of RAO UES approved the basic structure for the second (final) phase of the Company's reorganization. Those shareholders who voted against approval of the reorganization or did not participate in that shareholders meeting had the right to demand that RAO UES buy back their shares within 45 days of the shareholders meeting date. The re-purchase price was calculated by an independent appraiser and approved by the RAO UES Board of Directors at the level of RR 32.15 per ordinary share and RR 29.44 per preference share.

As at 14 December 2007 RAO UES Board of Directors approved report on shareholders claims to buy-out its shares, in accordance with which 2,797,296,335 ordinary and 404,885,193 preference shares would be repurchased by RAO UES. The total amount of cash to be paid was RR 101,853 million. These shares had to be re-purchased by RAO UES by 9 January 2008.

As at 31 December 2007 RAO UES completed the repurchase of 1,518,648,793 ordinary and 1,183,014 preference shares from shareholders for the total consideration of RR 48,859 million, which was reflected in the statement of changes in equity in the line "Increase of treasury shares" and in cash flow statement in the line "Acquisition of RAO UES shares" (see also Note 12). Based on requirements of IAS 37 "Provisions, contingent liabilities and contingent assets" as at 31 December 2007 RAO UES accrued a provision for remaining shares to be bought back from the shareholders in the amount of RR 52,994 million in equity in the line "Provision for buy out of shares".

In February 2008 RAO UES started the sales of the repurchased shares on over-the-counter market at prices equal to the weighted average price of RAO UES shares for the last 3 calendar weeks, but not lower than the repurchase price. Since that date RAO UES sold 1,354,510,000 ordinary and zero preference shares.

Following the decision in respect of basic structure for the second (final) phase of the Company's reorganisation adopted by RAO UES Extraordinary Shareholders meeting on 26 October 2007, in accordance with Russian legislation, a majority of Group companies had to hold Extraordinary General Shareholders' meetings to approve the reorganisation of these entities as well. A number of the Group companies held or declared these meetings by 31 December 2007. Those minority shareholders who voted against approval of the reorganization or did not participate in that shareholders meeting have the right to demand that entities buy back its shares within 45 days of the shareholders meeting date. Based on requirements of IAS 37 "Provisions, contingent liabilities and contingent assets" as at 31 December 2007 the Group accrued provision for shares to be bought back from the minority shareholders of the several Group companies who held or declared their shareholders meetings as at 31 December 2007. The provision was recognized in the amount of RR 278 million in equity in line "Provision for buy out of shares".

Change in Group structure

Disposal of reserves. The total amount of revaluation reserve that has been transferred to retained earnings during the year ended 31 December 2007 amounted to RR 100,378 million.

During the year ended 31 December 2007 the Group lost control over WGC-3, WGC-4, Group TGC-1, Group TGC-8, Moskovskaya heat grid company, Kurganskaya generating company and Kuzbassenergo which became associates (see Note 5). Consequently, the Group's share in the revaluation reserve of property, plant and equipment in the amount of RR 2,876 million, RR 20,925 million, RR 11,396 million, RR 1,746 million, RR 173 million and RR 13,702 million for WGC-3, WGC-4, Group TGC-1, Group TGC-8, Kurganskaya generating company and Kuzbassenergo respectively was transferred to retained earnings.

During the year ended 31 December 2007 the Group lost control over OJSC Boguchanskaya GES, which became a jointly controlled entity (see Note 5). Consequently, the Group's share in the revaluation reserve of property, plant and equipment in the amount of RR 6,516 million for OJSC Boguchanskaya GES was transferred to retained earnings.

During the year ended 31 December 2007 the Group lost control over TGC-9 and Mosenergo, which was then recognised as available-for-sale investments at fair value (see Note 5). Consequently, the Group's share in the revaluation reserve of property, plant and equipment in the amount of RR 5,190 million and RR 22,113 million for TGC-9 and Mosenergo respectively was transferred to retained earnings.

Because of the change in Group structure the revaluation reserve in the amount of RR 13,053 million was transferred to minority interest.

Because of the disposal of property, plant and equipment the revaluation reserve in the amount of RR 2,688 million was transferred to retained earnings.

Additional share issue of subsidiaries. In June 2007 TGC-5 placed an additional shares in amount of 330 billion shares. All the shares were sold to third parties. The Group's interest in TGC-5 was diluted from 64.8 to 47.5 percent. As at 30 June 2007 the Group retained control over TGC-5 due to the fact that RAO UES had the majority in the Board of Directors of TGC-5. The increase in minority interest as a result of the offerings amounted to RR 7,441 million and was reflected in the statement of changes in equity as a change in Group structure. The resulting gain of RR 3,741 million increased the Group's retained earnings and was recognised in the line "Changes in Group structure" On the 30 September 2007 the Group lost control over TGC-5 as a result of spin-off (see Note 5).

During the reporting period FGC placed an additional 213 billion shares. Only 45 billion shares from FGC's additional issue were sold to third parties without share premium. The Group's interest in FGC was diluted from 100.0 to 90.1 percent. The increase in minority interest as a result of the offerings amounted to RR 22,480 million and was reflected in the statement of changes in equity in the line "Changes in Group structure".

During the reporting period SO-CDU placed an additional 999 million shares. The issue, representing 42.7 percent of the share capital of SO-CDU post issue, was purchased by third parties for the amount of RR 2,520 million, including share premium of RR 1,810 million, and by RAO UES for the amount of RR 1,028 million, including share premium of RR 739 million. The Group's interest in SO-CDU was diluted from 100.0 to 69.7 percent. The increase in minority interest and Group's retained earnings as a result of the offerings amounted to RR 1,259 million and RR 1,261 million respectively and was reflected in the statement of changes in equity in the line "Changes in Group structure".

During the reporting period HydroWGC placed an additional 15.9 billion shares. 18.2 percent of this issue was purchased by third parties for the amount of RR 5,000 million. The Group's interest in HydroWGC was diluted from 100.0 to 98.2 percent. The increase in minority interest and Group's retained earnings as a result of the offering amounted to RR 3,104 million and RR 1,896 million respectively and was reflected in the statement of changes in equity as a change in Group structure.

During the reporting period WGC-2 placed an additional 6.3 billion shares. The issue, representing 19.1 percent of the share capital of WGC-2 post issue, was purchased by third parties for the amount of RR 24,950 million, including share premium of RR 22,699 million. The Group's interest in WGC-2 was diluted from 80.9 to 65.6 percent. The increase in minority interest and Group's retained earnings as a result of the offerings amounted to RR 10,066 million and RR 14,884 million respectively and was reflected in the statement of changes in equity in the line "Changes in Group structure".

During the reporting period WGC-6 placed an additional 5.5 billion shares. The issue, representing 17.2 percent of the share capital of WGC-6 post issue, was purchased by third parties for the amount of RR 21,020 million, including share premium of RR 18,365 million. The Group's interest in WGC-6 was diluted from 93.5 to 77.5 percent. The increase in minority interest and Group's retained earnings as a result of the offerings amounted to RR 6,796 million and RR 14,224 million respectively and was reflected in the statement of changes in equity in the line "Changes in Group structure".

Change of minority interest. In addition to the changes to minority interest described above under 'Additional share issue of subsidiaries' minority interest was derecognized in respect of the following changes in Group's structure.

In June 2007 RAO UES sold a 25.0 percent stake in WGC-5. The Group's effective interest in WGC-5 was reduced from 76.0 to 50.99 percent and the minority interest increased by RR 7,936 million. The result from sale of shares in WGC-5 increase retained earnings in the amount of RR 31,264 million and was recognised in the line "Changes in Group structure". As at 30 September 2007 the Group lost control over WGC-5 as a result of spin-off (see Note 5).

During the reporting period the Group sold certain subsidiaries (see Note 5). As a result of these disposals minority interest was reduced by RR 3,382 million.

During the reporting period Mosenergo, WGC-3, WGC-4, Kuzbassenergo, Group TGC-1, Group TGC-8, Moskovskaya heat grid company, Kurganskaya generating company and OJSC Boguchanskaya GES, previously consolidated as subsidiaries, were reclassified to associates and jointly controlled entities (see Note 5). As a result minority interest amounting to RR 38,282 million, RR 10,145 million, RR 4,764 million, RR 21,739 million, RR 23,957 million, RR 8,059 million, RR 8,507 million, RR 1,367 million and RR 6,222 million respectively were derecognised.

(in millions of Russian Roubles)

During the reporting period TGC-9, previously consolidated as a subsidiary was reclassified to available-for-sale investments (see Note 5). As a result minority interest amounting to RR 18,704 million was derecognised.

Note 17: Profit tax

Profit tax charge

	Year ended 31 December 2007	Year ended 31 December 2006
Current profit tax charge from continuing operations	(33,302)	(28,890)
Deferred profit tax charge from continuing operations	(3,275)	(49,666)
Total profit tax charge from continuing operations	**(36,577)**	**(78,556)**
Current profit tax charge from discontinued operations	(64,307)	(5,523)
Deferred profit tax charge from discontinued operations	(12,415)	(32,483)
Total profit tax charge from discontinued operations	**(76,722)**	**(38,006)**

During the year ended 31 December 2007 most members of the Group were subject to a profit tax rates of 24.0 percent on taxable profit.

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

	Year ended 31 December 2007	Year ended 31 December 2006
Profit before profit tax from continuing operations	**77,285**	**195,292**
Profit before profit tax from discontinued operations	**201,426**	**70,788**
Theoretical profit tax charge at an average statutory tax rate of 24 percent	(66,891)	(63,859)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Tax interest and penalties release	158	173
Other non-deductible and non-taxable items, net	(29,352)	(12,749)
including non-deductible and non-taxable items related to disposal of subsidiaries	*(12,129)*	*(828)*
Tax losses carried forward	(474)	(48)
Non-recognised deferred tax assets movements	(375)	(5,031)
Deferred tax benefits / (charges) in respect of investments in subsidiaries	8,372	(36,112)
Deferred tax charges in respect of investments in associates and equity investments	(25,129)	(300)
Other	392	1,364
Total profit tax charge	**(113,299)**	**(116,562)**
Less profit tax charge from discontinued operations	(76,722)	(38,006)
Total profit tax charge from continuing operations	**(36,577)**	**(78,556)**

Deferred profit 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 for profit tax purposes. Deferred profit tax assets and liabilities are measured at either 24.0 percent or 9.0 percent, the rates expected to be applicable when the assets or liabilities will reverse.

(in millions of Russian Roubles)

Deferred profit tax liabilities

	31 December 2006	Movement for the period recognised in the statement of operations	Deferred profit tax on Other reserves	Disposal of subsidiaries	Reclassification to liabilities held for sale	Other movements	31 December 2007
Accounts receivable	(2,844)	(88)	-	622	109	-	(2,201)
Property, plant and equipment	103,916	1,057	164,971	(82,663)	(7,144)	-	180,137
Losses carried forward	(638)	(472)	-	-	-	-	(1,110)
Investments in subsidiaries	36,712	(12,084)	-	-	-	-	24,628
Investments in associates	300	18,884	217	-	-	(10)	19,391
Other equity investments	737	6,245	6,047	-	-	-	13,029
Other	(1,687)	(644)	-	549	343	(249)	(1,688)
Total	**136,496**	**12,898**	**171,235**	**(81,492)**	**(6,692)**	**(259)**	**232,186**

As at 31 December 2006 the Group recognised deferred tax liabilities in respect of the temporary differences associated with investments in certain subsidiaries (see Note 3).

During the year ended 31 December 2007 deferred tax liabilities in respect of investments in subsidiaries were decreased by the amount of RR 12,084 million, mainly due to the disposal of subsidiaries to associates and available-for-sale investments. The decrease in deferred tax liabilities was partially compensated by a increase in the recognised liability as a result of the revaluation of property, plant and equipment, which resulted in an increase in subsidiaries' net assets.

The RR 25,129 million deferred tax liability recognised in respect of investments in associates and other equity investments mainly relates to WGC-3, WGC-4, TGC-1, TGC-8 and TGC-12 which were disposed from subsidiaries to associates and Mosenergo and TGC-9 which were disposed from subsidiaries to available-for-sale investments during the twelve months ended 31 December 2007 (see Note 5).

As at 31 December 2007 the total amount of unrecognised deferred tax liability in respect of temporary differences is between zero and approximately RR 205 billion depending on how the difference would reverse (as at 31 December 2006 – zero to RR 101 billion).

Of the RR 12,898 million movement in deferred tax liabilities in 2007 RR 12,522 million related to discontinued operations.

Deferred profit tax assets

	31 December 2006	Movement for the period recognised in the statement of operations	Disposal of subsidiaries	Reclassification to assets held for sale	31 December 2007
Accounts receivable	7,341	(2,580)	(643)	(353)	3,765
Property, plant and equipment	8,516	340	98	(102)	8,852
Losses carried forward	2,225	(620)	-	-	1,605
Other	1,426	442	(445)	(77)	1,346
Deferred profit tax assets	19,508	(2,418)	(990)	(532)	15,568
Less: non-recognized deferred tax assets	(15,520)	(375)	553	514	(14,828)
Total	**3,988**	**(2,793)**	**(437)**	**(18)**	**740**

Temporary differences on property, plant and equipment relate to differences in depreciation rates, adoption of IAS 29, IAS 36 and statutory revaluation (to the extent accepted by relevant tax authorities for tax purposes).

Of the RR 2,793 million movement in deferred tax assets in 2007 RR 107 million related to discontinued operations.

(in millions of Russian Roubles)

Note 18: Non-current debt

	Currency	Effective interest rate	Due	31 December 2007	31 December 2006
Bonds issued by subsidiaries:					
Federal Grid Company	RUR	7.10% - 8.25%	2008-2011	25,000	30,000
MOESK	RUR	8.05%	2011	6,000	6,000
Lenenergo	RUR	8.02% - 8.54%	2012	6,000	3,000
RusHydro MC	RUR	8.10%	2011	5,000	5,000
WGC-6	RUR	7.55%	2012	5,000	-
WGC-2	RUR	7.70%	2010	5,000	-
TGC-10	RUR	7.60%	2010	3,000	-
Energocentr	RUR	9.30%	2010	3,000	-
Kubanenergo	RUR	7.85%	2010	3,000	-
Tumenenergo	RUR	7.70%	2012	2,700	-
TGC-6 INVEST	RUR	7.40%	2012	2,000	-
Kaskad Nigne-Cherekskih	USD	10.50%	2013	1,574	-
Yakutskenergo	RUR	8.59%	2012	1,200	-
Permenegro	RUR	8.15%	2012	1,000	-
Ekaterinburgskaya Grid company	RUR	8.74%	2012	1,000	-
Chelyabenergo	RUR	8.40%	2010	600	-
Mosenergo	RUR	7.54% - 7.65%	2011-2016	-	10,000
WGC-5	RUR	7.50%	2011	-	5,000
WGC-3	RUR	7.00%	2010	-	3,000
Sverdlovenergo	RUR	10.50% - 11.50%	2007	-	500
				71,074	**62,500**
Long-term debts payable to:					
Other Russian banks	RUR	6.97% - 12.50%	2008-2012	18,400	4,855
EBRD	RUR	MosPrime + (2.15% - 3.65%)	2013-2020	11,300	11,300
Sberbank	RUR	8.00% - 11.50%	2009-2012	9,249	6,085
Gazprombank	RUR	7.00% - 11.00%	2009-2012	4,681	1,555
Clovery PLC	USD	7.75%	2008	3,682	3,950
TransCreditBank	RUR	8.45% - 12.00%	2008-2015	3,015	2,453
Morgan Stanley	RUR	9.00%	2013	3,000	3,000
Alfa-Bank	RUR	7.92% - 14.62%	2008-2009	2,329	6,863
Rosbank	RUR	9.00% - 12.00%	2007-2012	1,664	1,638
Morgan Stanley	RUR	MosPrime + 1.50%	2014	1,500	-
Natexis bank	USD	Libor + 2.50%	2009	1,228	-
ING Wholesale Banking	RUR	MosPrime + 1.80%	2012	1,200	-
Municipal authority of Kamchatka region	USD	Libor + 3.00%	2034	1,143	2,236
VTB	RUR	8.50% - 10.00%	2008-2012	1,126	3,478
Commerzbank	RUR	MosPrime + 1.80%	2012	1,000	-
Alfa-Bank	RUR	Mosibor + 3.60%	2009	700	-
Evrofinance Mosnarbank	RUR	9.00% - 12.00%	2008-2010	467	632
EBRD	EUR	7.03% - 7.53%	2012 - 2015	285	276
Bank Credit Suisse First Boston	USD	RF30 + 2.70%	2010	272	731
EBRD	USD	MosPrime + (2.00% - 4.00%)	2012-2018	-	7,200

(in millions of Russian Roubles)

	Currency	Effective interest rate	Due	31 December 2007	31 December 2006
Nomos bank	RUR	10.00% - 11.00%	2008	-	1,197
Nordic Investment Bank	EUR	Euribor + 3.00%	2012	-	1,041
EBRD	EUR	Euribor + 6.858%	2010	-	972
EBRD	USD	Libor + (3.50% - 4.00%)	2007-2009	-	699
Other long-term debts				5,860	7,206
Finance lease liability				17,348	2,997
Total non-current debt				**160,523**	**132,864**
Less: current portion of non-current debt				(67,836)	(25,087)
Total				**92,687**	**107,777**

Except as otherwise noted, the majority 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 and the current market rate for floating rate loans.

The Group has not entered into any hedging arrangements in respect of its foreign currency obligations or interest rate exposures.

The Group had undrawn committed financing facilities of RR 25,038 million (31 December 2006: RR 29,094 million) which may be used for the general purposes of the Group.

As at 31 December 2007, the estimated fair value of total non-current debts (including the current portion) was RR 160,502 million (31 December 2006: RR 132,424 million), which was estimated by discounting the future contractual cash flows at the estimated current market interest rates available to the Group for similar financial instruments as at that date.

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

Finance lease liabilities – minimum lease payments	31 December 2007	31 December 2006
Due for repayment		
Less than one year	10,146	2,072
Between one year and five years	21,818	3,636
After five years	404	35
	32,368	**5,743**
Future finance charges on finance lease	(6,482)	(1,134)
Present value of lease liabilities	**25,886**	**4,609**

Note 19: Other non-current liabilities

	31 December 2007	31 December 2006
Taxes payable	408	1,134
Pension liabilities	4,984	11,084
Other non-current liabilities	15,271	4,031
Total other non-current liabilities	20,663	16,249
Less: current portion of restructured liabilities	(2,147)	(494)
Total	**18,516**	**15,755**

Information about the pension liabilities is disclosed in Note 23.

(in millions of Russian Roubles)

In accordance with Government Resolution No. 1002 dated 3 September 1999, the majority of Group entities have restructured taxes including fines and interest to be repaid over a period of up to 10 years. Non-adherence to certain payment schedules could result in the gross amount of taxes payable including fines and interest becoming due on demand. Additionally, a number of Group entities have restructured trade payables to be repaid over a period of up to five years. Based on the contractual dates of repayment, discount rates of 8.0-24.0 percent were used in the estimation of the fair value of these liabilities at the date of restructuring.

The maturity profile is as follows:

Maturity table	31 December 2007	31 December 2006
Due for repayment		
Between one and two years	2,318	3,421
Between two and five years	11,169	760
After five years	5,029	11,574
Total	**18,516**	**15,755**

Note 20: Current debt and current portion of non-current debt

	Effective interest rate	31 December 2007	31 December 2006
Current debt	5.00% - 20.00%	90,316	75,237
Current portion of non-current debt		67,836	25,087
Current portion of finance lease liability		8,538	1,611
Total		**166,690**	**101,935**

As at 31 December 2007, the Group has made certain reclassification of non-current debts to current debts (Note 2).

Note 21: Accounts payable and accrued charges

	31 December 2007	31 December 2006
Trade payables	60,919	57,945
Accrued liabilities and other creditors	79,491	52,020
Provision for buy out of shares (Note 16)	53,272	-
Bills of exchange payable	299	573
Dividends payable	784	1,300
Current portion of restructured liabilities	2,059	180
Payable to associates	673	110
Total	**197,497**	**112,128**

Almost all of these balances are denominated in RR.

Restructured trade payables which are payable more than one year from the balance sheet date are reflected within other non-current liabilities as described in Note 19. The effect of the restructuring the trade payables is included in Note 26.

The Federal wholesale electricity market (for the period prior to 1 September 2006) had different tariffs for contractors selling, when compared to those purchasing. Consequently, since 1997 an imbalance was generated between the participants. Considerable uncertainty surrounded the operation of the market and the Group considered it probable that an outflow of economic benefits would be required in respect of the tariff imbalance. As a result the Group recorded a liability for the unmatched settlements.

As at 1 September 2006 a new liberalized model of the wholesale and retail electricity (power) markets (NOREM) has been launched (see Note 1). Consequently, management re-assessed the likelihood that the Group might be held responsible to make payments to contractors for the imbalance coming from FOREM. Management concluded that, in the light of the operation of the new market, the Group no longer had an obligation to pay the previously possible but unasserted claims (see Note 3). Consequently, the previously recognised liability in the amount of RR 11,708 million was de-recognised as a liability as at 31 December 2006. The amount of RR 6,348 million of tariff imbalance are reclassified to discontinued operations (see Note 28).

(in millions of Russian Roubles)

As at 25 May 2007, the Board of Directors considered and approved a detailed restructuring budget for 2007-2008, which includes amounts set aside to cover expenses related to the second (final) phase of the Company's reorganization. Those expenses include certain mandatory payments to employees, the anticipated costs of financial and legal consulting services, costs in relation to necessary valuation exercises for assets and other costs. The total amount of the budget approved in respect of costs and other expenditure on restructuring might vary from RR 5,579 million to up to RR 15,463 million. At the reporting date RAO UES recognised RR 3,070 million of expenses from the restructuring budget where the management believes the Group has present or constructive obligations.

Note 22: Taxes payable

	31 December 2007	31 December 2006
Profit tax	45,753	6,026
Fines and interest	8,531	10,082
Value added tax	6,533	14,257
Employee taxes	2,057	3,198
Property tax	2,032	2,394
Other taxes	3,828	5,694
Current portion of taxes restructured to long-term	88	314
Total	**68,822**	**41,965**

VAT payable is recorded inclusive of deferred VAT in the amount of RR 3,346 million, which had been incurred prior to 31 December 2005 due to the time difference between revenue recognition and cash receipt from customers. Starting from 1 January 2006 VAT is payable to the tax authorities on an accruals basis (see Note 4), while VAT originated prior to 1 January 2006 was payable to the tax authorities based on cash receipts from customers or appropriate accounts receivable write-off, but not later than 1 January 2008.

The principal tax liabilities past due, excluding the amounts which have been restructured, accrue interest each day at one three hundredth of the current refinance rate of the Central Bank of the Russian Federation. As at 31 December 2007 and 31 December 2006 the refinance rate was 10.0 and 11.0 percent respectively. Interest does not accrue on tax fines and interest.

Restructured taxes, including fines and interest, which are payable more than one year from the balance sheet date are reflected within other non-current liabilities as described in Note 19.

Note 23: Pension liabilities

The tables below provide information about the liabilities related to pension and other post-employment benefits, plan assets and actuarial assumptions used for the year ended 31 December 2007 and 2006. Amounts recognised in the Consolidated Balance Sheet:

	31 December 2007	31 December 2006
Present value of defined benefit obligations	27,297	34,185
Less: Fair value of plan assets	(7,847)	(4,632)
Deficit in plan	19,450	29,553
Net actuarial loss not recognised in the balance sheet	(13,747)	(17,838)
Unrecognised past service costs	(719)	(631)
Pension liabilities in the balance sheet	**4,984**	**11,084**

(in millions of Russian Roubles)

Amounts recognised in the Consolidated Statement of Operations:

	Year ended 31 December 2007	Year ended 31 December 2006
Current service cost	1,573	3,280
Interest cost	1,902	1,111
Expected return on plan assets	(324)	(418)
Recognised actuarial loss	648	103
Recognised past service cost	401	-
Initial recognition of vested prior service cost	-	1,262
Total	**4,200**	**5,338**
Curtailment and settlement gain	(3,132)	-
Reclass to operating expenses from discontinued operations	(1,420)	(2,151)
Total	**(352)**	**3,187**

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

	Year ended 31 December 2007	Year ended 31 December 2006
Defined benefit obligations		
Present value of defined benefit obligations as at 1 January	34,185	16,807
Current service cost	1,573	3,280
Interest cost	1,902	1,111
Actuarial (gain)/loss	(1,206)	12,040
Past service cost	1,051	1,893
Benefits paid	(1,162)	(946)
Reclass to held-for-sale group	(1,874)	-
Disposal through disposal of subsidiaries	(7,172)	-
Present value of defined benefit obligations as at 31 December	**27,297**	**34,185**
Plan assets		
Fair value of plan assets as at 1 January	4,632	2,898
Expected return on plan assets	324	418
Actuarial losses	(1,824)	(1,245)
Employer contributions	6,862	3,507
Benefits paid	(1,162)	(946)
Disposal to held for sale group	(217)	-
Decrease due to disposal of subsidiaries	(768)	-
Fair value of plan assets as at 31 December	**7,847**	**4,632**

Changes in the pension liabilities are as follows:

	Year ended 31 December 2007	Year ended 31 December 2006
Pension liabilities at start of the year	11,084	9,253
Net expense recognised in the statement of operations	4,200	5,338
Employer contributions	(6,862)	(3,507)
Reclass to held for sale group	(711)	-
Decrease due to disposal of subsidiaries	(2,727)	-
Pension liabilities at end of period	**4,984**	**11,084**

(in millions of Russian Roubles)

The Group with its successor entities expects to contribute RR 5,839 million to the defined benefit plans during the year beginning 1 January 2008.

Principal actuarial assumptions are as follows:

	31 December 2007, %	31 December 2006, %
Discount rate	6.6	6.8
Salary increase	7.0	7.0
Inflation	5.0	5.0
Pension increase	5.0	5.0
Expected return on plan assets for the year ended	7.0	10.0
Average future working life (years)	12.0	12.0
Estimated total service (years)	18.0	18.0

Life expectancies (at standard age of retirement) are as follows:

	31 December 2007	31 December 2006
Male aged 60	14	14
Female aged 55	23	23

The plan assets allocation of the investment portfolio maintained by non-state pension funds was as follows:

Type of assets	31 December 2007, %	31 December 2006, %
Equity securities of Russian issuers	23.4	23.7
Promissory notes of Russian issuers	3.6	14.5
Bank deposits	6.5	3.6
Russian Government and municipal bonds	19.8	26.6
Russian corporate bonds	26.8	18.4
Other	19.9	13.2
Total	**100.0**	**100.0**

Note 24: Revenues

	Year ended 31 December 2007	Year ended 31 December 2006
Electricity	519,221	452,716
Heating	70,707	65,137
Transmission	156,930	119,463
Other	74,835	60,277
Total	**821,693**	**697,593**

(in millions of Russian Roubles)

Note 25: Operating expenses

	Year ended 31 December 2007	Year ended 31 December 2006
Raw materials and consumables used, including	165,892	149,687
Fuel expenses	*142,581*	*129,986*
Other materials	*23,311*	*19,701*
Employee benefit expenses and payroll taxes	139,474	116,835
Third parties services, including	99,937	87,169
Repairs and maintenance	*54,345*	*52,677*
Rent	*9,071*	*6,320*
Consulting, legal and information services	*12,768*	*10,051*
Security services	*4,739*	*3,756*
Insurance expense	*3,960*	*3,980*
Transportation services	*5,777*	*3,758*
Commission fee	*3,476*	*2,381*
Bank services	*3,188*	*2,268*
Telecommunication services	*2,613*	*1,978*
Purchased power	181,606	147,713
Depreciation of property, plant and equipment	63,173	55,799
Other taxes	16,809	14,467
Electricity and heat distribution expenses	27,279	14,348
Water usage expenses	4,143	3,982
Loss on the disposal of property, plant and equipment	4,025	2,711
Doubtful debtors expense	1,635	3,002
Fines and penalties, other than on taxes	2,503	3,130
Social expenses	2,350	1,788
Business trip expenses	2,119	1,618
Charity expenses	2,033	1,287
Labour protection costs	663	516
Expenses related to restructuring process	758	1,109
Work performed by the Group and capitalised	(7,407)	(5,243)
Other expenses	32,501	23,069
Total	**739,493**	**622,987**

Doubtful debtors expenses are presented net of interest income during the year ended 31 December 2007 in the amount of RR 3,566 million (during the year ended 31 December 2006: RR 3,577 million) accrued on trade receivables.

Note 26: Finance costs

	Year ended 31 December 2007	Year ended 31 December 2006
Interest expenses (debts)	(14,161)	(10,273)
Interest income/(expenses) (discounting), net	607	(1,904)
Leasing finance charges	(1,286)	(363)
Foreign exchange gain	1,003	423
Total	**(13,837)**	**(12,117)**

The discounting of restructured payables gives rise to a gain. Subsequent to its initial recognition, the discount is amortized over the period of the restructuring as an interest expense. Further information on the restructuring of accounts payable and taxes payable is contained in Notes 19, 21 and 22.

(in millions of Russian Roubles)

Note 27: Earnings per share

	Year ended 31 December 2007	Year ended 31 December 2006
Weighted average number of ordinary shares issued (thousands)	41,041,754	41,041,754
Weighted average number of preference shares issued (thousands)	2,075,149	2,075,149
Adjustment for weighted average number of treasury shares (thousands)	(344,079)	(456,956)
Weighted average number of ordinary and preference shares outstanding (thousands)	42,772,824	42,659,947
Profit attributable to the shareholders of RAO UES	146,579	83,371
Less profit for the period from discontinued operations attributable to the shareholders of RAO UES	(115,724)	(10,842)
Profit from continuing operations attributable to the shareholders of RAO UES	30,855	72,529
Weighted average earnings from continuing operations per ordinary and preference share – basic and diluted (in RR)	0.72	1.70
Weighted average earnings from discontinued operations per ordinary and preference share – basic and diluted (in RR)	2.71	0.25

Taking into account the effect of the unequal dividends paid in the previous period (for the reporting period - see Note 16), and based on the weighted average numbers of preference and ordinary shares outstanding, the earnings per share for the two classes of shares were as follows:

	Year ended 31 December 2007	Year ended 31 December 2006
Weighted average number of ordinary shares issued (thousands)	41,041,754	41,041,754
Adjustment for weighted average number of ordinary treasury shares (thousands)	(337,380)	(450,260)
Weighted average number of ordinary shares outstanding (thousands)	40,704,374	40,591,494
Weighted average number of preference shares issued (thousands)	2,075,149	2,075,149
Adjustment for weighted average number of preference treasury shares (thousands)	(6,699)	(6,697)
Weighted average number of preference shares outstanding (thousands)	2,068,450	2,068,452
Profit attributable to the shareholders of RAO	146,579	83,371
Less profit for the period from discontinued operations attributable to the shareholders of RAO UES	(115,724)	(10,842)
Less dividends to ordinary shares outstanding	-	(2,356)
Less dividends to preference shares outstanding	-	(402)
Profit from continuing operations attributable to the shareholders of RAO UES less dividends paid	30,855	69,771
- attributable to ordinary shareholders	29,363	66,388
- attributable to preference shareholders	1,492	3,383
Total earnings from continuing operations attributable to the ordinary shareholders	29,363	68,744
Total earnings from continuing operations attributable to the preference shareholders	1,492	3,786
Earnings from continuing operations per ordinary share – basic and diluted (in RR)	0.72	1.69
Earnings from continuing operations per preference share – basic and diluted (in RR)	0.72	1.83
Total Profit from discontinued operations attributable to the shareholders of RAO UES less dividends paid	115,724	10,842
- attributable to ordinary shareholders	110,128	10,316

(in millions of Russian Roubles)

	Year ended 31 December 2007	Year ended 31 December 2006
- attributable to preference shareholders	5,596	526
Total earnings from discontinued operations attributable to the ordinary shareholders	110,128	10,316
Total earnings from discontinued operations attributable to the preference shareholders	5,596	526
Earnings from discontinued operations per ordinary share – basic and diluted (in RR)	2.71	0.25
Earnings from discontinued operations per preference share – basic and diluted (in RR)	2.71	0.25

Note 28: Assets held for sale and discontinued operation

On 29 December 2006 the Group classified Zapadno-Sibirskaya TETS and Yuzhno-Kuzbasskaya GRES as held for sale as all the necessary recognition criteria were met. As at 31 December 2006 the Group owned 47.5 percent in each of the above companies. In March 2007 shares of Zapadno-Sibirskaya TETS and Yuzhno-Kuzbasskaya GRES were sold (see Note 5).

Further to the restructuring of the Group, as described in Note 1, the following entities have been classified as held for sale and discontinued operations in the period, as all the criteria for classification have been met on 31 December 2007:

- 18 retailing subsidiaries: Kolskaya Energy Retail Company, Energy Retail Company Rostovenergo, Stavropolenergosbit, Bryansk Energy Retail Company, Komi Energy Retail Company, Khakassenergosbit, Udmurtskaya Energy Retail Company, Astrakhanskaya Energy Retail Company, Marienergosbyt, Buryatenergosbyt, Tomskaya ESC, Vladimirskaya ESC, Tulskaya ESC, Permskaya ESC, Kirovenergosbyt, Kostromskaya ESC, Novgorodskaya ESC, Orlovskaya ESC;
- Generating subsidiaries: TGC-11, TGC-4 Group;
- Investments in the following associate companies: TGC-1 Group, TGC-8 Group and Moskovskaya heat grid company.

In addition, the following entities were disposed from the Group during the year ended 31 December 2007 (see Note 5) and have been included in discontinued operations:

- retailing subsidiaries: Kuban Energy Retail Company, Sverdlovenergosbyt, Nizhny Novgorod Retail Company, Kuzbass Energy Retail Company, Belgorod Retail Company, Vologda Retail Company, Orenburgenergosbyt, Omskaya ESC, Lipetskaya ESC, Kurgan Energy Retail Company, Karelia Energy Retail Company, Voronezh Energy Retail Company, Tver ESC;
- WGC-5 and TGC-5;
- Moskovskaya heat grid company;
- Mosenergo, TGC-9, WGC-3, WGC-4, Group TGC-1, Group TGC-8 and Kuzbassenergo (TGC-12).

Major classes of assets classified as held for sale and liabilities directly associated with those non-current assets were as following:

	As at 31 December 2007	As at 31 December 2006
Property, plant and equipment	54,008	4,295
Deferred tax assets	18	-
Investments in associates	55,935	-
Accounts receivable, including	9,356	132
tax prepayments	*773*	-
value added tax recoverable	*519*	-
Inventories	2,560	325

(in millions of Russian Roubles)

	As at 31 December 2007	As at 31 December 2006
Available-for-sale investments (carried at cost)	189	-
Other current and non-current assets	1,089	7
Cash and cash equivalents	1,694	124
Total assets	**124,849**	**4,883**
Deferred tax liabilities	6,692	338
Taxes payable	1,050	95
Accounts payable and accrued charges	5,904	197
Current debt and current portion of non-current debt	9,282	-
Long- term debt	5,766	-
Other long-term liabilities	710	-
Total liabilities	**29,404**	**630**

An analysis of the result of discontinued operations, which includes the results of those operations classified as held for sale in the period described above, the result recognised on the remeasurement of assets or disposal groups and the result of spin-off, is as follows:

	Year ended 31 December 2007	Year ended 31 December 2006
Revenues	218,228	197,303
Reversal of impairment of property, plant and equipment	9,046	68,222
Reversal of tariff imbalance	-	6,348
Gain from disposal of subsidiaries and other equity investments	180,647	-
Share of profit of associates	51	36
Operating expenses	(202,310)	(197,569)
Finance costs	(4,236)	(3,552)
Profit before tax of discontinued operations	**201,426**	**70,788**
Profit tax charge	(76,722)	(38,006)
Profit for the period from discontinued operations	**124,704**	**32,782**

An analysis of the cash flows from investing activities of discontinued operations, which among them includes the proceeds from sale of investments in the subsidiaries classified in discontinued operations, and cash flows from financing activity of discontinued operations, is as follows:

CASH FLOW FROM INVESTING ACTIVITIES:	Notes	Year ended 31 December 2007	Year ended 31 December 2006
Additions to property, plant and equipment		(41,350)	(31,812)
Proceeds from sale of property, plant and equipment		270	308
Proceeds from the sale of subsidiaries (net of cash) and equity investments	5	198,014	-
Cash decrease due to disposal of subsidiaries to associates and jointly controlled entity	5	(19,894)	-
Net cash generated/ (used) for investing activities - discontinued operation		**137,040**	**(31,504)**
CASH FLOW FROM FINANCING ACTIVITIES:			
Proceeds from issuance of current debt		205,824	172,868
Proceeds from issuance of non-current debt		26,543	37,854
Repayment of debt		(214,402)	(178,540)
Interest paid		(2,077)	(2,234)
Dividends paid by the Group to minority interest shareholders		(1,159)	(1,159)
Proceeds from share issuance by RAO UES subsidiaries	16	19,844	-
Cash disposed due to spin off WGC-5 and TGC-5	5	(2,341)	-
Net cash generated by financing activities - discontinuing operations		**32,232**	**28,789**

Note 29: Commitments

Sales commitments. The Group has entered into three contracts with TPK Sirious, agreements with CJSC "Energijos realizacios centras" (Lithuania), Scaent AB (Sweden), GAO "Latvenergo" (Latvia), one contract with Fortum Power and Heat Oy (Finland) and one contract with GUGT Mongolii (Mongolia).

Electricity sales under the above mentioned contracts for the year 2008 are expected to be as follows: USD 161 million; EUR 186 million and RUR 1,195 million For further periods sales volumes and prices are subject to further clarification with the Group's clients, but the figures for sales estimated within the frameworks of the above signed contracts will be above: USD 1,571 million and EUR 762 million in 2009.

Purchase commitments. The Group has concluded agreements with its electricity suppliers Ekibastuzskaya GRES-2 (Kazakhstan) and AES Ekibastuz (Kazakhstan).

Electricity purchases under the above mentioned contracts for 2008 are expected to be as follows: USD 34 million and RUR 2,880 million. For further periods purchases volumes and prices are a subject for clarification with the Group's suppliers, but the figures for purchases estimated within the frameworks of the signed contracts will be not be less than: USD 239 million and RUR 25,920 million in 2009.

Fuel commitments. Group entities have numerous fuel contracts. These fuel contracts represent less than the total annual fuel requirement of the Group. Additional fuel requirements are purchased through short-term agreements and on a spot basis from a variety of suppliers. Prices under the Group's natural gas and coal contracts are generally determined by reference to base amounts adjusted to reflect provisions for changes in regulatory prices, published inflation indices and current market prices.

Social commitments. Group entities contribute to the maintenance and upkeep of the local infrastructure and the welfare of their employees, including contributions toward the development and maintenance of housing, hospitals, transport services, recreation and other social needs in the geographical areas in which they operate.

Capital commitments. Future capital expenditures for which contracts have been signed amount to RR 182,552 million as at 31 December 2007 and RR 129,641 million as at 31 December 2006.

According to an agreement HydroWGC and RUSAL will jointly control Boguchanskaya power plant and Boguchansky Aluminium Smelter. Anticipated total investments to be contributed by HydroWGC and RUSAL jointly amounts to RR 100,619 million (USD 3,821.3 million). The first line of the Boguchanskaya power plant and Boguchansky Aluminium Smelter is planned to be put into operation in the fourth quarter of 2009 (see Note 5).

Note 30: Contingencies

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

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

Legal proceedings. Group entities are party to certain legal proceedings arising in the ordinary course of business. In the opinion of management, there are no other current legal proceedings or other claims outstanding, which, upon final disposition, will have a material adverse effect on the financial position of the Group. As at signing date RAO UES is involved in a legal case with Sunflake Ltd concerning the potential invalidation of a purchase agreement of registered ordinary uncertified shares of OJSC Nizhny Novgorod Retail Company. If the agreement as invalidated, RAO UES will have to refund JSC Transneft'servis S RR 2.05 billion and JSC Transneft'servis S will have to return to RAO UES 2.4 million shares of OJSC Nizhny Novgorod Retail Company. The management of RAO UES estimates the risk of occurrence of the current event as possible.

Tax contingency. Russian tax, currency and customs legislation is subject to varying interpretation, 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. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances review may cover longer periods.

Due to the fact, that the tax and other legislation do not fully cover all the aspects of the Group restructuring, there might be respective legal and tax risks.

Based on decisions of the tax authorities some of the Group's companies may incur additional tax liabilities due to the fact that VAT-invoices confirming VAT recovery could be found incorrectly completed. The tax authorities may also challenge the existing way of accounting of VAT and accounting for tax purposes of tariff imbalance, technological expenses, settlement via agents, Water Tax, certain tax property values or challenge the deduction of management expenses, expenses related to maintenance, operations and repair of the equipment, some loses of electricity energy. In addition, certain Group companies transactions with related parties could potentially result in tax risks, in particular, transfer pricing risks.

In addition, tax and other legislation do not address all the specific aspects of the Group's reorganisation 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 reorganisation and reform process.

As at 31 December 2007 management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs 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 Consolidated Financial Statements.

Environmental matters. Group entities and their predecessor entities have operated in the electric power industry in the Russian Federation for many years. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of Government authorities is continually being reconsidered. Group entities periodically evaluate their obligations under environmental regulations.

Potential liabilities might arise as a result of changes in legislation and regulation or civil litigation. The impact of these potential changes cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage, other than any amounts which have been accrued in the accompanying consolidated balance sheet.

Tariff imbalance. As at 31 December 2006 management of the Group decided that the previously recognised tariff imbalance amounting to RR 11,708 million was no longer a liability (see note 21). The Government of the Russian Federation affect the Group's operations through tariff regulation within the wholesale electricity market. Management cannot be certain that the federal government will not change its policies and seek to recover tariff imbalances accumulated under the pre-September 2006 wholesale electricity market. The amount of RR 3,431 million of the tariff imbalance reversal was reclassified to discontinued operations (see Note 28).

Note 31: Financial instruments and financial risks

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

Recent volatility in global financial markets.Since the second half of 2007 there has been a sharp rise in foreclosures in the US subprime mortgage market. The effects have spread beyond the US housing market as global investors have re-evaluated their exposure to risks, resulting in increased volatility and lower liquidity in the fixed income, equity, and derivative markets. The volume of Eurobond issues and similar wholesale financing by Russian companies has significantly reduced since August 2007. Such circumstances may affect the ability of the Group to obtain new borrowings and refinance its existing borrowings at terms and conditions that applied to similar transactions in recent periods. Debtors of the Group may also be affected by the lower liquidity situation which could in turn impact their ability to repay their amounts owed. Management is unable to reliably estimate the effects on the Group's financial position of any further possible deterioration in the liquidity of the financial markets and their increased volatility.

(in millions of Russian Roubles)

Financial instruments by category.

31 December 2007	Loans and receivables	Available-for-sale assets	Other financial liabilities	Total
Assets as per balance sheet				
Other non-current assets	42,105	-	-	42,105
Accounts receivable and prepayments	202,724	-	-	202,724
Other current assets	41,585	-	-	41,585
Available-for-sale investments	-	61,699	-	61,699
Cash and cash equivalents	125,369	-	-	125,369
Total assets	411,783	61,699	-	473,482
Liabilities as per balance sheet				
Non-current debt	-	-	92,687	92,687
Current debt and current portion of non-current debt	-	-	166,690	166,690
Total liabilities	-	-	259,377	259,377
31 December 2006				
Assets as per balance sheet				
Other non-current assets	15,570	-	-	15,570
Accounts receivable and prepayments	93,979	-	-	93,979
Other current assets	26,246	-	-	26,246
Available-for-sale investments	-	19,236	-	19,236
Cash and cash equivalents	54,101	-	-	54,101
Total assets	189,896	19,236	-	209,132
Liabilities as per balance sheet				
Non-current debt	-	-	107,777	107,777
Current debt and current portion of non-current debt	-	-	101,935	101,935
Total liabilities	-	-	209,712	209,712

Credit risk. Financial assets which potentially subject Group entities to concentrations of credit risk consist principally of trade receivables including promissory notes. Credit risks related to trade receivables are systematically monitored only at the Group's subsidiaries level and are considered when the allowance for doubtful debtors is made. The carrying amount of trade receivables, net of the allowance for doubtful debtors, represents the maximum amount exposed to credit risk. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the allowance for doubtful debtors already recorded (see Note 2).

Management has determined the allowance for doubtful debtors based on specific customer identification, customer payment trends, subsequent receipts and settlements and the analysis of expected future cash flows. Based on the expected collection rate, discount rates of 11.0-19.0 percent have been used in the estimate of present value of future cash flows. The management of the Group believes that Group entities will be able to realise the net receivable amount through direct collections and other non-cash settlements, and that therefore, the recorded value approximates their fair value.

(in millions of Russian Roubles)

The movement of the allowance for doubtful debtors is shown in the table below.

	31 December 2006	Change in Group structure	Reclass to assets held for sale	Reversal of the allowance for doubtful debtors	Accounts receivable written off through allowance for bad debts	Charge of additional allowance for doubtful debtors	Discounting effects	31 December 2007
Restructured trade receivables (see Note 10)	(1,922)	-	-	160	-	(248)	569	(1,441)
Other non-current assets (see Note 10)	(220)	-	-	32	-	(160)	-	(348)
Trade receivables (see Note 12)	(49,561)	9,430	3,233	4,684	8,029	(4,240)	(1,101)	(29,526)
Other receivables (see Note 12)	(6,119)	758	278	2,169	607	(1,375)	-	(3,682)
Advances to Suppliers (see Note 12)	(451)	-	-	-	-	(211)	-	(662)
Receivables from associates (see Note 12)	(321)	-	-	321	-	-	-	-
Total	**(58,594)**	**10,188**	**3,511**	**7,366**	**8,636**	**(6,234)**	**(532)**	**(35,659)**

	31 December 2005	Change in Group structure	Reversal of the allowance for doubtful debtors	Accounts receivable written off through allowance for bad debts	Charge of additional allowance for doubtful debtors	Discounting effects	31 December 2006
Restructured trade receivables (see Note 10)	(2,081)	-	116	-	(434)	477	(1,922)
Other non-current assets (see Note 10)	(579)	-	544	-	(185)	-	(220)
Trade receivables (see Note 12)	(50,567)	(1,177)	8,943	2,616	(9,127)	(249)	(49,561)
Other receivables (see Note 12)	(4,793)	-	911	478	(2,715)	-	(6,119)
Advances to Suppliers (see Note 12)	(502)	-	51	-	-	-	(451)
Receivables from associates (see Note 12)	(8)	-	-	-	(313)	-	(321)
Total	**(58,530)**	**(1,177)**	**10,565**	**3,094**	**(12,774)**	**228**	**(58,594)**

As of 31 December 2007, receivables of RR 9,339 million (31 December 2006: RR 12,085 million) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	31 December 2007	31 December 2006
Up to 3 months	5,443	4,885
between 3 months and 6 months	494	1,176
between 6 months and one year	955	3,555
between one year and five years	2,211	2,213
more than five years	236	256
Total	**9,339**	**12,085**

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

(in millions of Russian Roubles)

Despite the fact that certain companies and banks do not have the international credit rating, they are considered as reliable counterparties that have stable positions in the financial market of the Russian Federation and meets to the commonly used criteria of credit status and solvency.

Liquidity risk. Prudent liquidity risk management includes maintaining sufficient cash and the availability of funding from an adequate amount of committed credit facilities.

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 balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant. As at 31 December 2007, the Group has made certain reclassification of non-current debts to current debts (Note 2, 32).

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
At 31 December 2007				
Non-current and current debt	166,688	33,428	50,094	16,120
Current and non-current liabilities	197,497	3,149	15,079	162
At 31 December 2006				
Non-current and current debt	106,613	29,490	88,837	21,120
Current and non-current liabilities	112,128	4,007	468	835

Foreign exchange risk. The Group primarily operates within the Russian Federation, with limited exports of electricity. The majority of the Group's purchases are denominated in RR. The major concentration of foreign exchange risk is in relation to foreign currency denominated sales and purchase commitments (see Note 29) and foreign currency denominated debt (see Note 18).

Sensitivity analysis for foreign exchange risk at the reporting date is shown in the table below.

	The hypothetical effect on income and equity results from changes in the relevant risk variable that were reasonably possible at 31 December 2007	
	-3.93%	**+3.04%**
Foreign exchange risk - USD	(41)	
Foreign exchange risk- Euro		24

The assumption of deviation was based on calculation the prediction rate of exchange as at 30 June 2008 by trend analysis. The actual RR/USD rate was 24.5462 as at 31 December 2007, and the predictive rate is 23.5812 as at 30 June 2008. The actual RR/EUR rate was 35.9332 as at 31 December 2007, and the predictive rate 37.0243 as at 30 June 2008.

Interest rate risk. The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group is exposed to interest rate risk through market value fluctuations of interest-bearing long-term borrowings. The majority of interest rates on long term borrowings are fixed, these are disclosed in Note 18. The Group has no significant interest-bearing assets.

Currently the Group does not operate a formal management program focusing on the unpredictability of financial markets or seeking to minimize potential adverse effects on the financial performance of the Group.

The Group performs sensitivity analysis for interest rate risk. The assumption of deviation was based on the prediction interest rates as at 30 June 2008.

The shift of predictive interest rates is shown in the table below:

	Interest rate	
	30 June 2008	**31 December 2007**
MOSPRIME	5.25%	6.08%
MOSIBOR	5.33%	5.94%
LIBOR	2.40%	4.60%
EURIBOR	4.92%	4.71%

An analysis of Group's interest rate exposure indicates that the impact on profit and loss of defined interest rate shift is insignificant.

Fair values. The fair value of investments and borrowings is discussed in Note 9 and 18 respectively. Management believes that the fair value of other financial assets and financial liabilities is not significantly different from their carrying amounts.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to the short-term nature of trade receivables.

The Group's deposits in banks are short-term and their carrying amount approximates fair value.

The maximum exposure for each risk is limited to the fair value of each class of financial instrument.

Capital management. Management regards as capital all of the net assets of the Group as presented in the group's balance sheet. The group's objectives when managing capital are to safeguard the group's ability to continue a restructuring process (see Note 1). The exact capital structure is managed on the level of each Group company.

Note 32: Subsequent events

Issues and sales of shares

The following entities of Group which were classified as Held for sale and in discontinued operations as at 31 December 2007 (Note 28) were disposed after the period end:

- In January 2008 TGC-9 issued an additional 2,127 billion shares with offering price of RR 0.008 each. Additional shares were purchased by third parties for the amount of RR 17 billion. The Group's effective interest in TGC-9 reduced from 16.1 to 11.7 percent.
- In March RAO UES completed sale transaction of 492.8 billion shares of TGC-8 to the third parties for the amount of RR 17.2 billion. The effective interest of the Group in TGC-8 decreased from 35.3 to 11.4 percent.
- In May 2008 TGC-4 issued an additional 586 billion ordinary shares with offering price of RR 0.027 RR each. Additional shares were purchased by the third parties for the amount of RR 16 billion. The effective interest of the Group in TGC-4 decreased from 47.4 to 33.4 percent.

  In April 2008 RAO UES held an auction to sell 32 percent of the authorised capital of TGC-4 to the third parties for the amount of RR 12 billion. On the finalizasion of this transaction, the Group's effective interest in TGC-4 will be reduced from 33.4 to 11 percent.
- In April 2008 RAO UES held an auction to sell 28.47 percent of the authorised capital of TGC-11 to the third parties for the amount of RR 5.9 billion. On the finalizasion of this transaction, the Group's effective interest in TGC-11 will be reduced from 50.5 to 22.0 percent.
- RAO UES sold 13 retail companies (100% of Khakasenergosbyt, 64.4% of Marienergosbyt, 52% of Tomskaya ESC, 49% of Udmurtskaya ESC, 49% of Kolskaya ESC, 49% of Astrakhanskaya ESC, 49% of Kostromskaya ESC, 49% of Novgorodskaya ESC, 49% of Vladimirskaya ESC, 49% of Permskaya ESC, 49% of Tul'skaya SC, 48.2% of Kirovenergosbyt, 46.8% of Buryatenergosbyt) for the total amount of RR 4.8 billion.
- The RAO UES held auctions to sell 5 retail companies (48.4% of Rostovenergosbyt, 55% of Stavropolenergosbyt, 49% Bryanskaya ESC, 50% Komi ESC and 49% of Orlovskaya ESC). The transactions of sale of interest in retail companies are not finalised at the signing date of these RAO UES Group IFRS Consolidated Financial Statements.

As a results of the following transactions which were occurred after the period end the Group lost control over subsidiaries which did not meet conditions to be classified as Held for sale as at 31 December 2007 and were included in continuing operations:

- In March 2008 RAO UES sold 55.3 percent of the authorised capital of TGC-10 to the third parties for the amount of RR 28.6 billion. The effective interest of the Group in TGC-10 decreased from 81.5 to 26.3 percent.

In March 2008 TGC-10 issued an additional 417 million ordinary shares with offering price of RR 111.8 each. Additional shares were purchased by third parties for the amount of RR 47 billion. The Group's effective interest in TGC-10 decreased from 26.3 to 13.8 percent.

- In April 2008 TGC-6 issued an additional 570 billion ordinary shares with offering price of RR 0.025 each. Additional shares were purchased by third parties for the amount of RR 14.3 billion. The effective interest of the Group in TGC-6 decreased from 50.2 to 34.8 percent.

  In March 2008 RAO UES held an auction to sell 34 percent of the authorised capital of TGC-6 to the third parties for the amount of RR 11 billion. On the finalization of this transaction, the Group's effective interest in TGC-6 will be reduced from 34.8 to 11.2 percent.

- In April 2008 TGC-2 issued an additional 360 billion ordinary shares with offering price of RR 0.025 each. Additional shares were purchased by third parties for the amount of RR 9 billion. The effective interest of the Group in TGC-2 decreased from 49.4 to 37.3 percent.

  In March 2008 RAO UES held an auction to sell 33.5 percent of the authorised capital of TGC-2 to the third parties for the amount of RR 9.3 billion. On the finalization of this transaction, the Group's effective interest in TGC-2 will be reduced from 37.3 to 12 percent.

- In March 2008 TGC-7 issued an additional 3.9 billion ordinary shares with offering price of RR 2.848 each. Additional shares were purchased by third parties for the amount of RR 11 billion. The effective interest of the Group in TGC-7 decreased from 54.7 to 47.7 percent.

  In May 2008 RAO UES held an auction to sell 9.7 billion ordinary shares of TGC-7. The final purchase price for these shares amounted to RR 27.5 billion. On the finalization of this transaction, the Group's effective interest in TGC-7 will be reduced from 47.7 to 15.4 percent.

- In April 2008 TGC-13 issued an additional 30 billion ordinary shares with offering price of RR 0.21 each. Additional shares were purchased by third parties for the amount of RR 6.3 billion. The Group's effective interest in TGC-13 reduced from 57.5 to 46.6 percent.

  In April 2008 RAO UES held an auction to sell 23 billion ordinary shares of TGC-13 to the third parties for the amount of RR 4.8 billion. On the finalization of this transaction, the Group's effective interest in TGC-13 will be reduced from 46.6 to 32.3 percent.

- RAO UES sold 7 retail companies (49% Kurskaya ESC, 52% of Kaluzhskaya SC, 49% of Ryazanskaya ESC, 51% of Smolenskenergosbyt, 49% of Chitinskaya ESC, 100% of Chuvashskaya ESC, 52% of Krasnoyarskenergocbyt) for the total amount of RR 4.1 billion.

- RAO UES held auctions to sell 8 retail companies (53% of Mordovskaya ESC, 49% of Volgogradenergosbyt, 49.7% of Ivanovskaya ESC, 55.5% of Samaraenergo, 49% of Ulyanovskenergo, 49% of Chelyabenergosbyt, 49% of Pensenskaya ESC, 49% of Archangel'skaya SC) for the total amount of RR 4.7 billion. At the signing date of these RAO UES Group IFRS Consolidated Financial Statements the transactions are not finalised.

- In May 2008 RAO UES held an auction to sell 50.9 percent of the authorised capital of Mosenergosbyt for the amount of RR 11.3 billion to the third parties. On the finalization of this transaction, the Group's effective interest in Mosenergosbyt will be reduced from 50.9 to 0 percent.

- In April 2008 RAO UES held an auction to sell 75 percent minus 1 share of Bureyagesstroy for the amount of RR 1.1 billion to the third parties. As a result the effective interest of the Group in Bureyagesstroy decreased from 100 to 25 percent.

RAO UES announced of auctions to sell 100% of Tumenskaya ESC, 56.4% of Peterburgskaya SC, 49% of Tambovskaya ESC, 48.4% of Saratovenergo. At the signing date of these Financial Statements auctions were not held.

In February 2008 RAO UES sold 14.2 percent of the authorised capital of Novosibirskenergo for the amount of RR 3.4 billion to the third parties. The effective interest of the Group in Novosibirskenergo decreased from 14.2 to 0 percent.

In May 2008 RAO UES held an auction to sell 21.3 percent of the authorised capital of Bashkirenergo for the amount of RR 11 billion to the third parties. On the finalization of this transaction, the Group's effective interest in Bashkirenergo will be reduced from 21.3 to 0 percent.

In May 2008 RAO UES held an auction to sell 25 percent of the authorised capital of Rossiyskie Kommunalnye Sistemy for the amount of RR 3.1 billion to the third parties. On the finalization of this transaction, the Group's effective interest in Russian communal systems will be reduced from 25 to 0 percent.

In March-May 2008 RAO UES held auctions to sell engineering, design and other service companies for the total amount of RR 20.6 billion. At the signing date of these RAO UES Group IFRS Consolidated Financial Statements the transactions are not finalised.

Bonds issue and loan agreements

In February 2008 TGC-10 issued 5 million Russian ruble-denominated coupon bonds with a nominal value of RR 1,000 each for the period of five years.

In March 2008 Far Eastern Generating Company issued 5 million Russian ruble-denominated coupon bonds with a nominal value of RR 1,000 each for the period of five years with 10.5 percent of coupon yield.

In March 2008 INTER RAO UES received a loan from VTB Bank Europe on the amount RR 3.1 billion for the period of one year at the rate of 1.25 percent plus LIBOR.

Kyoto Protocol

In May 2007 the Resolution on Practical Implementation of the Kyoto Protocol Mechanisms in Russia was signed by the Chairman of the Russian Federation Government. The Group entities will now be able to go ahead with about 96 Joint Implementation projects designed to improve energy efficiency and cut CO2 emissions. According to experts, these projects may generate more then 30 million CO2 of Certified Emission Reductions. Generated funds will be used to help modernize the existing generation capacity and build new generation capacity using the most advanced power equipment. As at 31 December 2007 only several preliminary contracts were signed by the Group companies. As of now there are no Joint Implementation agreements registered by authorised government body of the Russian Federation and the United Nations, three RAO UES Joint Implementation projects are ready for such registration.

Reclassification of non-current debt

The Extraordinary General Shareholders' meetings held by a number of Group entities in the period from October to December 2007 approved reorganisation of these entities, as a result in accordance with the Russian legislation creditors of these Group entities could claim debts for early redemption within 30 days from the date of their notification (see Note 2). As a consequence, as at 31 December 2007 certain non-current debts and other non-current liabilities of the Company were reclassified to current (see Note 18 and 20). Subsequent to the reporting date RR 2,385 million of these debts were reclaimed for early redemption; the remaining RR 42,156 million and RR 606 million were, consequently, on expiry of the notification period reclassified back to non-current debts and other non-current liabilities respectively.

Other

In February 2008 there was a fire at the Ulan-Ude thermal power station-1, a branch of TGC-14, as a result of which the equipment has damaged significantly. Determination of the size of damage is in progress.