

**Federal
Grid Company**



**Unified
Energy System**

EXPLANATORY NOTE

TO FINANCIAL STATEMENTS OF

OPEN JOINT-STOCK COMPANY

“FEDERAL GRID COMPANY OF

UNIFIED ENERGY SYSTEM”

FOR 2007

I. General information

Open joint-stock company “Federal Grid Company of Unified Energy System” (hereinafter referred to as – Company) is incorporated pursuant to resolutions carried by JSC RAO “UES of Russia” Board of Directors on 25.01.2002 and on 07.05.2002, and pursuant to resolution adopted by JSC RAO “UES of Russia” Management Board on 21.01.2001 in accordance with regulation of RF Government No. 526 “On reforming in electric power industry of the Russian Federation” under date of 11.07.2001.

Articles of association in Company are approved by JSC RAO “UES of Russia” order No. 42p on 18.06.2002, registered in Justice Institution – Leningrad regional registration chamber on 25.06.2002. A revised version of Articles of association is approved by resolution of general meeting of Company shareholders convened on 06.03.2007 and registered in Interdistrict inspectorate of the Federal Revenue Service No. 46 for Moscow.

Company is an affiliated joint-stock company of JSC RAO “UES of Russia” as provided by the Articles of association. During reforming process in electric power industry Company shares will be prorated among shareholders in RAO “UES of Russia”, hereafter, according to the applicable laws a government take in company authorized capital should be increased up 75% plus one share. Data are as of 31.12.2007, government take in Company authorized capital comprises 12.44 %.

Company is incorporated in perpetuity and conducts business in accordance with Civil Code of the Russian Federation, Federal law No. 208-FL “On joint-stock companies” under date of 26.12.1995, Federation, Federal No. 35-FL “On electric power industry” of 26.03.2003, other regulatory legal acts in the Russian Federation and Articles of association in Company.

Company owns a separate property, represented on its independent balance, can in its own name acquire and exercise property and personal non-property rights, incur obligations, bring or defend any action in a court. Company is entitled to open any bank accounts in territory of the Russian Federation and beyond its boundaries in the prescribed. Company bears responsibility for its obligations with all its property.

Company is incorporated for the following purposes:

- provide reliable operation, increase overall performance and develop Unified energy system of the Russian Federation, including isolated energy;
- render services for electric energy transmission on UNEG to the wholesale market participants, as well as to other entities which own either under any other ground provided by

federal laws have electric power industry facilities technologically joined to UNEG in the prescribed manner, on the onerous contract basis;

- arrange conditions for efficient functioning of the wholesale energy market;
- efficient operation and centralized technological control over electric grids included in the

Unified energy system of Russia;

- operation and development of telecommunication infrastructure on the energy market;
- secure profits.

Company has a right to perform the following activities:

- render services for electric energy transmission and distribution;
- render services for connection to electric grids;
- render communication services;
- diagnostics, operation, repair of electric grids and other facilities in the electric grid

economy, and technological control as well;

- diagnostics, operation, repair of communication networks, measuring and accounting tools, equipment for relay protection and emergency automatics and other equipment incident to the electric grid economy performance, as well as equipment designed for UES of Russia administration;

- develop electric grids and other facilities in the electric grid economy including designing, engineering survey, construction, reconstruction, technical re-equipment, assembling and arrangement;

- develop communication networks, measuring and accounting tools, equipment for relay protection and emergency automatics and other process equipment incident to the electric grid economy performance, as well as equipment designed for UES of Russia administration, including designing, engineering survey, construction, reconstruction, technical re-equipment, assembling and arrangement;

- perform foreign economic activity, trade and economic cooperation as well as scientific and technological cooperation with foreign companies with a view to conduct activities as provided in Company Article of association;

- perform any other activities involving achievement of objectives provided by the Articles of association not forbidden by the Russian Federation laws.

Location and registered office of Company: 5a, Akademika Chelomeya str., Moscow, 117630.

Company is registered in the Uniform State Register of Legal Entities on 20.08.2002, No.1024701893336.

Personnel on the Company payroll over a period of 2007 comprises 20 717 employees. Over a period of 2006 personnel on the payroll год comprised 18 103 employees.

Board of Directors in Company includes as follows, data are as of 31.12.2007:

№	Full name	Position
1	Khristenko Victor Borisovich	Minister of Industry and Energy of the Russian Federation
2	Ayuev Boris Ilich	Member in JSC RAO “UES of Russia” Management Board, Chairman of JSC “SO-CDA” Board
3	Voloshin Alexander Staliyevich	Chairman of JSC RAO “UES of Russia” Board of Directors
4	Gref German Oscarovich	President and Chairman of the Board in Sberbank of Russia
5	Medvedev Yuri Mitrofanovich	Deputy Director of the Federal Property Management Agency
6	Rashevsky Vladimir Valeriyevich	Director General of JSC “Siberian Coal Energy Company”
7	Rappoport Andrey Natanovich	Member in Management Board, Managing director of JSC RAO “UES of Russia” (Business-units “Grids”), Chairman of JSC “FGC UES” Management Board
8	Udaltsov Yuri Arkadiyevich	Member in JSC RAO “UES of Russia” Management Board, Manager of Reform Management Centre in JSC RAO “UES of Russia”
9	Chubais Anatoly Borisovich	Chairman of Management Board in JSC RAO “UES of Russia”
10	Askinadze Denis Arkadiyevich	Director of Department in Ministry of Economic Development and Trade of the Russian Federation
11	Dementyev Andrey Vladimirovich	Deputy Minister of Industry and Energy of the Russian Federation

Management Board in Company includes the following Company officials:

№ p/p	Full name	Post
1	Rappoport Andrey Natanovich	Chairman of Management Board
2	Chistyakov Alexander Nikolayevich	Chief Deputy Chairman of Management Board
3	Demin Andrey Alexandrovich	Deputy Chairman of Management Board
4	Kazakov Alexander Ivanovich	Deputy Chairman of Management Board
5	Tuzov Mikhail Yuriuevich	Deputy Chairman of Management Board
6	Vasiliyev Victor Alexeyevich	Deputy Chairman of Management Board
7	Maslov Alexei Victorovich	Director for engineering and construction management, manager of Engineering and Construction Management Centre

Audit Commission in Company includes as follows:

№ p/p	Full name	Position
1	Sidorov Sergey Borisovich	Head of Department of internal audit in Corporate Centre JSC RAO “UES of Russia”
2	Chernyshev Vladimir Vladimirovich	Adviser in Department for Management of commercial sector organizations property in the Federal Property Management Agency
3	Gabov Andrey Vladimirovich	Head of Department for corporate governance and shareholders relationship in JSC RAO “UES of Russia” Corporate Centre
4	Baitov Anatoly Valeriyevich	Manager of Management office for financial control and internal audit in JSC “FGC UES”
5	Lelekova Marina Alexeyevna	Deputy manager of Management office for financial control and internal audit in JSC “FGC UES”

In accordance with the Federal law No. 147-FL “On natural monopolies” of August 17, 1995, Federal Energy Commission of the Russian Federation by its Regulation No. 49-Э/1 of 25.06.2003 included Company in section “Services for electric and (or) thermal energy transmission” of Register of subjects in natural monopolies in fuel and energy complex, to which government regulation and control spread, under registration number 47.1.110.

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JSC PriceWaterhouseCoopers
Audit
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On November 13, 2007 the regular Board of Directors in JSC “FGC UES” was held in absent voting form. Board of Directors adopted a resolution on foundation of the 100% associated companies JSC “Specialized electric grid service company UNEG” (“Elektrosetservice UNEG”), JSC “Main electric grid service company UNEG” (“Glavsetservice UNEG”) and JSC “Engineering and Construction Management Centre UES” (“ECMC UES”). Board of Directors reconciled articles of association for the new associated companies, as well as personnel for management bodies in established subsidiaries.

Joint-stock companies “Glavsetservice UNEG” and “Elektrosetservice UNEG” are formed under reforming of technical maintenance and repair system in FGC on basis of Company affiliates for technical maintenance and repair of the Backbone electric grids (TMR MES) and FGC affiliate - Elektrosetservice. JSC “Elektrosetservice UNEG” will specialize in especially complex accident recovery and repair work, as well as in equipment diagnostics when special experience and qualifications of personnel are required.

Necessity to form “Engineering and Construction Management Centre UES” is caused by increase in FGC medium-term investment program and necessity of a brand new approach to investment projects as a consequence. Company will take up functions of construction customer responsible for engineering and technical support of construction on facilities in electric grid complex.

Transformation of affiliates in market companies attractive as an investment will enable to divide competitive and monopoly activities, create a competitive environment in technical maintenance and repair area around FGC, raise effectiveness in energy company core business owing to enhancement of efficiency in application of funds incidental to repair work and technical re-equipment, engineering, construction and cost-saving for productive activity. Separated companies will be able to increase volumes of work at the outer market, expand nomenclature and geography of rendered services.

Allocation of a part of assets into a separate legal entity and consolidation of a limited list of functions to this entity will increase their productiveness, enable to analyze overall performance and

prospects for company development. Finally improvement of individual assets in company will lead to capitalization increasing and growth of shareholders' benefit.

II. Accounting policy

Financial statements in Company are prepared based on the following policy.

1. Basis for preparation

Financial statements in Company are prepared based on accounting requirements applicable in the Russian Federation, in particular Federal law No. 129-FL "Accounting Law" of 21.11.1996, Provision on business accounting "Accounting policy in organization" Russian Accounting Standards 1/98, decree No. 60 approved on 09.12.1998 by Ministry of Finance of the Russian Federation, Provision on business accounting and financial statements in the Russian Federation approved by decree No. 34H of Ministry of Finance on 29.07.1998, Provision on business accounting "Financial statements in organization" Russian Accounting Standards 4/99, approved by decree No. 43H of Ministry of Finance on 06.07.1999.

2. Assets and liabilities in foreign currency

An official rate of foreign exchange to ruble applicable as of the date of transaction was applied upon accounting of business transaction performed in foreign currency. Cash resources on foreign currency accounts in banks and resources in settlements are provided in financial statements in an amount assessed on basis of the official rates for foreign exchange as in effect on December 31, 2007. Rate of foreign exchange on that date comprised 24.5462 rubles for 1 US dollar (December 31, 2006 – 26.3311 rubles), euro - 35.9332 rubles (December 31, 2006 – 34.6965 rubles).

Difference in rates occurred within a year on transactions for assets and liabilities in foreign currency, as well as upon their translation as of reporting date are referred to financial results as other income and expenditures.

3. Short-term and long-term assets and liabilities

Financial investment, receivables and payables, including indebtedness under credits and loans are referred to the short-term in accounting balance-sheet, if their circulation (repayment)

period does not exceed 12 months. The rest classes of the above mentioned assets and liabilities are presented as the long-term.

4. Fixed assets

Composition of fixed assets includes facilities utilized by Company upon manufacture of products, work execution or rendering services, either used in organization for administrative needs with lifetime more than 12 months.

The fixed assets in financial statements are represented according to acquisition (replacement) cost minus depreciation amounts accumulated during the whole operation time.

Facilities of fixed assets with value not more than 10 000 rubles for a unit are written off for expenses by amortization charge in the amount of their acquisition cost as far as there are applied in production either operation. Such practice is considered as departure from the general rules, but it provides valid representation in business accounting of Company assets and overall control for availability and movement of noncapitalized products in Company.

Acquired books, booklets and other printed matters are not accepted as fixed assets upon entering in accounting records. Expenses connected with acquisition are considered as expenses of that period when they are performed. Company does not form a library stock.

Amortization for fixed assets facilities is executed by a linear method based on useful life. Company applies classification of fixed assets included in amortization groups, approved by regulation No. 1 "On classification of fixed assets included in amortization groups" of the Russian Federation Government of 01.01.2002, when it determines useful life for facilities in the fixed assets.

In absence of individual facilities in the fixed assets, useful life for business accounting purposes is determined in the Classification on basis of expert judgments from Company technical specialists in accordance with technical specifications in the following manner:

- based on expected performance life for that unit according to expected productive efficiency and capacity;
- based on expected physical depreciation, which depends on operating conditions, natural conditions and corrosion environment effect, system of repair;
- regulatory and other use restrictions for that unit.

When previously used facilities of fixed assets are acquired, their useful life is determined as follows:

- based on useful life defined in the above said manner decreased by a number of months when that unit has been used by a previous owner;

- in case when it is impossible to define useful life using above mentioned way, then commission at its own discretion determines useful life for the said fixed asset by taking into account requirements in safety engineering and other factors.

Facilities of fixed assets with rights subject to state registration in accordance with the Russian Federation laws will be included as a part of fixed assets and the relevant amortization group from date when fact of submission for registration of the specified rights is document supported.

Property incompleted, is in fact in operation, for which documents for state registration are not provided, is subject to amortization. Amortization for the specified property is accrued according to a procedure provided for amortization change on fixed assets. Adjustment of earlier accrued depreciation amount will be performed after state registration when these facilities are entered in accounting records as fixed assets.

Annually Company performs reassessment of facilities in fixed assets. Reassessment is executed in accordance with order documents for groups of homogeneous facilities in fixed assets based on present (replacement) value using direct re-costing at document supported market prices. At present the following groups of fixed assets are reassessed: industrial buildings and structures, including buildings of substations, transmission lines, as well as high-voltage equipment on substations.

Fixed asset value with which assets are entered in accounting records are not subject to change, except for cases of fitting-out, completion of equipment, reconstruction, upgrading, technical re-equipment, partial liquidation and under any other identical grounds.

Work caused by change in technological either service assignment of equipment, building, structure or any other facility in depreciable fixed assets, by increased load and (or) other new qualities are referred to fitting-out, completion of equipment, upgrading.

Reconstruction includes rearrangement of existing fixed assets facilities associated with process improvement and increase of its technical-economic indicators, and executed under reconstruction

project for fixed assets with a view to increase in capacity, quality improvement and shifts in product mix.

Technical re-equipment includes package plan designed for improvement in technical-economic indicators of fixed assets either their individual parts based on adoption of up-to-date machinery and advance technology, mechanization and automation of production, upgrading and replacement of morally obsolete and physically worn-out equipment with the new more productive equipment.

Income and expenditure from fixed asset retirement are represented in profit and loss statement as a part of other income and expenditure.

Expenditures connected with routine and heavy repair of facilities in fixed assets are accepted as expenditures incidental to ordinary activities in that accounting period when they are performed.

5. Intangible assets

Amortization of intangible assets is performed by a linear method based on the established useful life for intangible assets.

Amortization charges for intangible assets are represented in business accounting by accumulation on a separate account.

6. Research and development (R&D)

Writing off of expenditures connected with research and development, and technological work is carried out regular by linear method within accepted writing off period. Writing off period for expenditures incidental to research and development, and technological work is determined in Company at its own discretion on basis of expected performance life, results received by research and development, and technological work, within which organization can obtain economic benefits but not exceeding 5 years. R&D, which have positive results and writing off period more than one year, are represented in accounting balance-sheet in section “Noncurrent assets”. In case when R&D do not have positive result, these expenditures are considered as other expenditures of accounting period.

7. Inventories

Inventories are taken into account according to actual cost of their acquisition (storage).

Accounting of inventories is performed using accounts 15 "Storage and acquisition of inventories" and 16 "Inventories cost deviation".

Goods acquired for sale are evaluated according to actual cost of acquisition.

Upon issue of inventories and goods to production and upon other disposal their evaluation is carried out within a subdivision separated on individual balance in manner of average cost applying method of "rolling valuation".

Special clothes, special-purpose tools, special means and special equipment irrespective of useful life are considered as inventories upon entering in accounting records.

Cost of special clothes with useful life according to allowance not exceeding 12 months is written off for expenditures in full amount at the moment of transfer (issue) to Company employees.

Cost of special clothes with useful life according to allowance exceeding 12 months is cancelled by linear method beginning on a month consequent to a month of issue, based on useful life for special clothes as provided by standard industrial norms for free issue of special clothes, special footwear and other personal protective equipment, in Rules for employees provision with special clothes, special footwear and other personal protective equipment approved by Regulation No. 51 of Ministry of Labor of the Russian Federation on December 18, 1998, as well as provided by internal normative documents in Company.

Each article of special clothes in service, useful life of which according to allowance exceeds 12 months, is an individual accounting unit.

8. Accounting of financial investment

Financial investments are entered in accounting records according to acquisition cost.

Financial investments, which fair market value is not determined, are subject to presentation in business accounting and financial statements as of reporting date according to acquisition cost. Company performs audit on depreciation of such financial investments annually as of December 31 of an accounting year in accordance with procedure approved in Company. In case of stable

decline in value of the specified financial investments, Company forms provision for depreciation on amount of difference between their book and assessed value either estimated value. Provision for depreciation of financial investments is formed at the expense of financial results as a part of other expenditures. Cost of financial investments, which market value is not determined and for which provision if formed, is represented in financial statements according to a book value after deduction of provision amount.

Upon retirement of assets entered in accounting records as financial investments, which fair market value is not determined, their cost is defined following acquisition cost of each unit of financial investments in business accounting.

Income and expenditure for financial investments are provided as a part of other income and expenditure.

9. Deferred expenses

Expenses made by organization within accounting period, but relevant to succeeding accounting periods, are represented in accounting balance-sheet in an individual item as deferred expenses and are subject to writing off in manner prescribed by organization (uniformly, in proportion to volume of production and etc.) within a period to which they are related. Writing off period is determined based on a period when economic benefits (income) are drawn.

10. Trade receivables

Trade receivables are determined based on prices established by contract between Company and consumers (customers) with regard to all discounts (additions) and VAT provided by Company.

Provision for doubtful debts is formed in Company in order to give a true and fair view of current receivables in financial statements.

Amount of provision for doubtful debts is defined according to results of inventory check in receivables performed as of the last day of a quarter, and is determined depending on a period of incurring emergence. Expenses incidental to the provision are included as a part of other expenditures.

11. Authorized, additional and reserve capital

Authorized capital in Company is represented amounting to a par value of ordinary shares. Company places ordinary uncertificated shares with a par value 50 (fifty) copecks each in volume of 361 382 207 920 (three hundred sixty-one billion three hundred eighty-two

million two hundred and seven thousand nine hundred twenty) shares totaling 180 691 103 960 (one hundred eighty billion six hundred ninety-one million one hundred and three thousand nine hundred sixty) rubles.

In accordance with the laws Company form a reserve fund in the amount of 5 (five) percent from Company authorized capital. Amount of annual mandatory deductions to the Company reserve fund comprises not less than 5 (five) percent from Company net profit up to achievement of amount specified for the Reserve fund.

12. Credits and loans received

Company performs transfer of long-term debts into the short-term on received credits and loans. Transfer of long-term debts into the short-term on received credits and loans is executed in Company at the moment when under the terms and conditions of loan and (or) credit agreement 365 days remain up to reimbursement of principal of debt.

Extra expenditures made in Company due to obtaining of credits and loans, issue and placement of borrowers' liabilities, are included as a part of other expenditures in accounting period when they are performed.

When Company raises debts by flotation of bonds, issuer indicates payables with regard to interests on bonds falling due at the end of accounting period. Amount of falling due interests is represented as a part of other expenditures in those accounting periods to which these charges relate.

Expenditures incidental to received credits and loans, which directly relate to acquisition and (or) construction of an investment asset, are included by Company in this asset value and redeemed by amortization, except for cases when accounting requirements do not provide amortization of asset.

Expenditures incidental to received loans and credits associated with investment asset formation, on which amortization is not charged according to accounting requirements, are not included in this asset value, but referred to carrying expenses in organization.

13. Income and expenditure in organization

Proceeding of sales of goods, products, work, services is accepted as far as goods, products, executed work, rendered services are disposed. Proceeding is represented in financial statements minus value added tax, customs duties and discounts provided to customers.

Expenditures of separate subdivisions incidental to ordinary activities are fully production expenditures without appropriation of management expenses.

Income and expenditure from property lease are considered in Company as income and expenditure from ordinary activities.

Income and expenditure incidental to granting of rights for a fee, which origin from patents for invention, industrial samples and other intellectual property, are considered as income and expenditure from ordinary activities.

Management expenses in Company are represented in full in accounting period without distribution on activities.

14. Alterations in Company accounting policy

In 2007 alterations of adjusting character connected with transition to accounting in SAP R/3 information system, which did not change assessment of items in financial statements, were introduced in Company accounting policy.

Beginning of statements over a period of 2007 alterations made in Russian Accounting Standards 3/2006 "Accounting of assets and liabilities with a value denominated in foreign exchange" are in force. Change in accounting requirements has influence on some items in financial (accounting) statements of Company. Alterations are provided in p.1 of Section III "Disclosure of essential indicators".

Beginning on 01.01.2008 alterations are made in the evaluation method for outgoing financial investments, for which the fair market value is not determined, their cost is defined according to acquisition cost of the first acquired financial investments (method of appraisal of reserves according to a cost value of the first purchases – FIFO method). Previously upon retirement such financial investments were evaluated according to acquisition cost of each unit in business accounting for financial investments. These alterations are associated with transfer of RAO "UES of Russia" financial investments on Company balance during restructuring process, what will increase number of transactions incident to retirement of financial investments. To date such transactions have had a one-time character.

Beginning on 01.01.2008 cost of facilities in fixed assets, which at a time is written off to expenditures by amortization in the amount of their acquisition cost, is increased from 10 000 to 20 000 rubles. Facilities in fixed assets commissioned prior to 31.12.2007 with an acquisition cost per unit within 10 000 to 20 000 thousand rubles, are written off to production (selling) costs by a straight-line depreciation within their remaining useful life. This alteration is made with a view to conciliate business and tax accounting.

Beginning on 01.01.2008 a revised version of Russian Accounting Standards 14/2007 enters into force. Alterations introduced in Russian Accounting Standards 14/2007 will not have influence on items in Company accounts.

III. Disclosure of essential indicators

1. Financial statements over 2006 and 2007

Indicators as of 31.12.2006 in the explanatory note are provided with regard to adjustment disclosed below.

In financial statements over a period of 2007 some indicators beginnings of reporting year and, consequently, balance-sheet total do not comply with indicators at the reporting year end in financial statements over a period of 2007 according to the following grounds:

For Accounting balance-sheet (Form No.1):

line 120 "Fixed assets": due to reassessment performed as of 01.01.2007, final assessment of fixed assets was executed by 3 958 177 thous. rubles, reduction in adjustment for reassessment of previous years by 1 348 thous. rubles. Total amount of change in item comprised 3 959 525 (3 958 177 + 1 348) thous. rubles;

line 150 "Other noncurrent assets" increased, and line 216 "Deferred expenses" reduced by the amount of 897 362 thous. rubles owing to reclassification of deferred expenses with maturity date exceeding 12 months from short-term assets into the long-term;

line 240 "Receivables" (payments on receivables are expected within 12 months after a reporting date) was reduced by 30 660 thous. rubles due to alterations made in Russian Accounting Standards 3/2006 "Accounting of assets and liabilities with a value denominated in foreign exchange";

line 420 "Additional capital": in connection with reassessment of fixed assets, data were changed by the amount of final assessment in fixed assets 3 958 177 thous. rubles;

line 465 "Undistributed profit of past years": data were reduced by 44 183 thous. rubles due to alterations made in Russian Accounting Standards 3/2006 "Accounting of assets and liabilities with a value denominated in foreign exchange", increased in connection with reassessment in fixed assets by 1 348 thous. rubles, increased to the amount of 1 833 484 thous. rubles owing to reformation in balance-sheet;

line 470 "Undistributed profit of the current fiscal year": owing to reformation in balance-sheet the amount 1 833 484 thous. rubles was transferred in line 465 "Undistributed profit of past years" in full;

line 620 "Payables" increased by 13 523 thous. rubles due to alterations made in Russian Accounting Standards 3/2006 "Accounting of assets and liabilities with a value denominated in foreign exchange".

For Profit and loss statement (Form No.2):

1.1. As a result of reclassification in expenditures, among cost value, management and other expenditures, line 100 "Other expenditures" was reduced to the amount of 256 751 thous. rubles, and line 020 "Cost value of sold goods, products, work, services" was increased by 255 481 thous. rubles and line 040 "Management expenses" – to the amount of 1 270 thous. rubles.

For Report on capital change (Form No.3):

1.1. According to line 200 "Net assets" increase was in the amount of 3 959 525 thous. rubles, caused by final assessment of fixed assets, and decrease by 44 183 thous. rubles owing to alterations made in Russian Accounting Standards 3/2006 "Accounting of assets and liabilities with a value denominated in foreign exchange". Total amount of change was 3915 342 thous. rubles.

2. Authorized capital in Company

Authorized capital in Company is fully paid, data are as of December 31, 2007.

Shares issue report of JSC "FGC UES" was registered on 25.03.2007. Shares to the amount of 59 083 862 thous. rubles were placed in practice. Following results of additional issue of shares after introduction of alterations in Articles of association, the authorized capital in Company was increased from 121 607 242 thous. rubles up to 180 691 104 thous. rubles.

Issue of securities was registered on 23.08.2007: 120 000 000 000 (one hundred and twenty billion) shares of JSC "FGC UES" with a par value of 50 (fifty) copecks each through private offering, purchasers are JSC RAO "UES of Russia" and government represented by the Federal Property Management Agency. Offering price - 59 (fifty-nine) copecks for each registered ordinary share in the issue. 47 404 914 thous. rubles were entered in return for shares as of 31.12.2007 (see p. 10).

Additional capital in Company at the amount of 16 994 046 thous. rubles at the end of accounting period was formed due to final assessments of fixed assets (16 944 520 thous. rubles) and amount of value added tax for the fixed assets accepted as contribution to the authorized capital (49 526 thous. rubles). Reassessment of fixed assets was performed under independent assessor's report.

In 2007 in accordance with resolution under date of 29.06.2007 made at annual general Meeting of shareholders, distribution of profits over a period of 2006 amounting to 1 883 484 thous. rubles was approved. Net profit in 2006 was distributed to dividends at 2006 year-end, which ended on 31.12.2006 at the amount of 587 848 thous. rubles, and to the reserve fund amounting to 1 245 636 thous. rubles.

In accordance with results of work in 2007 distribution of net profit will be performed after financial statements approval at general meeting of shareholders.

3. Intangible assets

Data are as of 31.12.2007, intangible assets include the Information Software Complex Corporate Diffused Sources Control System (ISC CDSCS), its depreciated cost at the end of accounting period comprises 200 791 thous. rubles, and database of ISC CDSCS with depreciated cost at the end of accounting period of 472 565 thous. rubles.

The automated information-measurement system of commercial audit of energy (AIMSCAE) with depreciated cost as of 31.12.2007 comprising 155 158 thous. rubles, and software complex "Automated system for management document control" (ASMDC) with depreciated cost as of 31.12.2007 comprising 22 328 thous. rubles were introduced in intangible assets in the reporting year.

4. Fixed assets

Fixed assets include plots of land, buildings, vehicles, equipment, transport means and other relevant facilities with useful life exceeding 12 months.

As of January 1, 2007 Company reassessed the following groups of fixed assets according to replacement costs: industrial buildings and structures, including buildings of substations, transmission lines, as well as high-voltage equipment on substations. Amounts of increase in acquisition cost of the said facilities and accumulated amortization are related to additional capital and

undistributed profits in total amount of 3 959 525 thous. rubles. Fixed assets are represented in balance-sheet according to depreciated cost.

In 2006 reassessment of the same groups in fixed assets was performed, reassessment amount comprised 3 833 030 thous. rubles in 2006.

Income and losses from fixed asset retirement are represented in profit and loss statement as a part of other income and expenditure.

5. Incompleted construction

Investments in noncurrent assets (line 132, Form No. 1 in balance-sheet) include expenditures connected with acquisition and construction of the fixed assets (61 454 121 thous. rubles as of 31.12.2007 and 38 048 842 31.12.2006), intangible assets (2 191 659 thous. rubles as of 31.12.2007 and 595 813 thous. rubles as of 31.12.2006), as well as expenditures for incompleted R&D (188 493 thous. rubles as of 31.12.2007 and 188 264 thous. rubles as of 31.12.2006).

Incompleted construction and fixed assets not set in operation at the end of accounting period are itemized in the following major subsidiaries of Company:

Affiliate	Incompleted construction and fixed assets not set in operation as of 31. 12.2007, thous. rub.	Incompleted construction and fixed assets not set in operation as of 31.12.2006, thous. rub.
Executive office	464 014	309 971
MES Centre	22 473 711	8 642 804
MES North-West	10 846 155	8 203 420
MES Volga	1 741 526	1 366 669
MES South	4 947 368	3 800 120
MES Ural	4 941 276	3 536 798
MES Western Siberia	3 422 642	589 407
MES Siberia	8 747 819	6 829 412
MES East	3 286 857	4 447 532
Elektrosetservice	495 295	296 566

TMR MES	87 458	26 143
Total	61 454 121	38 048 842

6. Taxes

A long-term part in the amount of value added tax comprises 247 060 thous. rubles, and represents VAT on construction-erection and design-exploration works up to 2005, which will be refunded from the budget when facilities under incompleting construction will be set in operation.

According to data of tax accounting prepared in accordance with requirements of chapter 25 "Profit tax in organizations" in the Internal Revenue Code of the Russian Federation, taxable income for a period of 2007 comprised 5 032 129 thous. rubles. In 2006 the above mentioned indicator was 6 091 446 thous. rubles.

Income before tax is linked to notional earnings for value added tax for accounts (financial statements) purposes as follows:

Indicator	2007 thous.rub.	2006 thous.rub.
Conditional profit	3 899 726	3 553 108
Conditional expenditure for profit tax at rate of 24 %	935 934	852 746
Standing tax liability (asset)	671 864	862 228
Deferred tax asset	3 271	(15 279)
Deferred tax liability	(403 358)	(237 748)
Current profit tax	1 207 711	1 461 947

Difference between book value of assets and liabilities for accounts (financial statements) purposes, on one side, and for taxation on value added tax on the other side, leads to temporary difference. Assets and liabilities for deferred value added tax are determined at rate of 24%, which will be effective at the time of asset divestiture either debt redemption.

Accounting balance-sheet in line 145 "Deferred tax assets" provides consolidated (collapsed) amount of a deferred tax asset and deferred tax liability.

Indicator	2007 thous.rub.	2006 thous.rub.
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Deferred tax asset	671 892	668 621
Deferred tax liability	(673 466)	(270 109)
Total for line 145, form 1 (line 515)	(1 574)	398 512

7. Expenditures incidental to R&D

In 2007 expenditures incidental to R&D, used during day-to-day activities, were written off to ordinary expenses the amount of 100 569 thous. rubles. Total amount of incompleted R&D comprises 188 494 thous. rubles, R&D to amount of 184 993 thous. rubles remain incompleted from the previous accounting periods.

8. Financial investments

In 2007 evaluation of financial investments upon their retirement was performed according to an acquisition cost for each unit in business accounting. Company does not have financial investments with fair market value.

Data are as of 31.12.2007, provision is charged for JSC "Nurenergo" shares, for which the steady decline in value is determined. In 2007 financial standing of JSC "Nurenergo" is deteriorated, according to work results over accounting period negative profit is drawn, and value of net assets has negative value. Provision is formed in JSC "Nurenergo" in amount of 1 972 781 thous. rubles for the total amount of investments .

Provision for financial investments is charged as well for a loan granted to JSC "Nurenergo" in amount of 501 300 thous. rubles, since the loan is overdue as of reporting date, and agreements for contract prolongation are not available. Provision is not formed for any other financial investments.

Hoc anno amounts of provision for financial investments are not related to expenditures.

Long-term financial investments in Company

Name and legal organizational form	Ownership	Location	Kind of activity	Amount (with allowance for reserve) as of 31.12.2007.	Amount (with allowance for reserve) as of 31.12.2006, thous. rubles

JSC "Nurenergo"	77.00%	Grozny	Electric-power production	-	-
JSC "Moscow Communication Centre of electric power"	100.00%	Moscow	Communication services	19 997	19 997
JSC "Arkhangelsk backbone grid company"	49.00%	Arkhangelsk	Services for electric energy transmission	438 463	438 463
JSC "Astrakhan backbone grids"	48.66%	Astrakhan	Services for electric energy transmission	338 693	338 693
JSC "Belgorod backbone grid company"	49.00%	Belgorod	Services for electric energy transmission	47 049	47 049
JSC "Bryansk backbone grid company"	49.00%	Bryansk	Services for electric energy transmission	202 194	202 194
JSC "Buryatia backbone electric grids"	46.797%	Ulan-Ude	Services for electric energy transmission	570 397	-
JSC "Vladimir backbone grids"	49.00%	Vladimir	Services for electric energy transmission	389 551	389 551
JSC "Volgograd backbone grids"	48.99%	Volgograd	Services for electric energy transmission	583 054	583 054
JSC "Vologda backbone grids"	49.00%	Vologda	Services for electric energy transmission	395 920	395 920
JSC "Voronezh backbone grid company"	49.01%	Voronezh	Services for electric energy transmission	176 730	176 730
JSC "Dagestan backbone grids"	51.00%	Makhachkala	Services for electric energy transmission	290 701	290 701
JSC "Ivanovo backbone grids"	49.66%	Ivanovo	Services for electric energy transmission	109 881	109 881
JSC "Kaluga backbone grid company"	52.25%	Kaluga	Services for electric energy transmission	161 456	161 456
JSC "Karelian backbone grids"	100%	Petrozavodsk	Services for electric energy transmission	696 000	696 000
JSC "Kirov backbone electric grids"	48.17%	Kirov	Services for electric energy transmission	193 093	193 093

JSC “Kola backbone grids”	49.21%	the Murmansk Region	Services for electric energy transmission	533 744	533 744
JSC “Kostroma backbone grids”	49.00%	Kostroma	Services for electric energy transmission	167 679	167 679
JSC “Krasnoyarsk backbone grids”	51.75%	Krasnoyarsk	Services for electric energy transmission	1 256 519	1 256 519
JSC “Kuban backbone grids”	49.00%	Krasnodar	Services for electric energy transmission	134 139	-
JSC “Kurgan backbone grid company”	49.000%	Kurgan	Services for electric energy transmission	201 340	-
JSC “Kursk backbone grids”	49.00%	Kursk	Services for electric energy transmission	286 487	286 487
JSC “Lipetsk backbone grids”	49.02%	Lipetsk	Services for electric energy transmission	385 766	385 766
JSC “Backbone grid company Rostovenergo”	48.43%	Rostov-on-Don	Services for electric energy transmission	402 671	402 671
JSC “Backbone electric grids Kuzbasenergo”	49.00%	Kemerovo	Services for electric energy transmission	1 277 009	-
JSC “Backbone electric grids of Komi Republic”	50.11%	Syktvykar	Services for electric energy transmission	685 076	-
JSC “Backbone grid company” (Mosenergo)	50.90%	Moscow	Services for electric energy transmission	1 519 907	1 519 907
JSC “Mari backbone grids”	64.44%	Republic of Mariy-El	Services for electric energy transmission	151 810	151 810
JSC “Mordovian backbone grid company”	53.14%	Republic of Mordovia	Services for electric energy transmission	151 717	151 717
JSC “Nizhni Novgorod backbone grid company”	49.00%	Nizhni Novgorod	Services for electric energy transmission	894 149	894 149
JSC “Omsk backbone grid company”	49.00%	Omsk	Services for electric energy transmission	229 534	229 534

JSC "Orenburg backbone electric grids"	100.00%	Orenburg	Services for electric energy transmission	1 584 500	1 584 500
JSC "Oryol backbone grid company"	49.00%	Oryol	Services for electric energy transmission	132 935	132 935
JSC "Penza backbone grid company"	49.00%	the Penza Region	Services for electric energy transmission	103 792	103 792
JSC "Perm backbone grid company"	49.00%	Perm	Services for electric energy transmission	487 049	487 049
JSC "Ryazan backbone grids"	49.00%	Ryazan	Services for electric energy transmission	290 569	290 569
JSC "Samara backbone company"	55.03%	Samara	Services for electric energy transmission	992 701	-
JSC "Saratov backbone company"	53.13%	Saratov	Services for electric energy transmission	604 059	-
JSC "Sverdlovsk backbone grids"	49.00%	Ekaterinburg	Services for electric energy transmission	912 978	912 978
JSC "Smolensk backbone electric grids"	48.68%	Yartsevo, the Smolensk Region	Services for electric energy transmission	193 245	193 245
JSC "Tambov backbone grid company"	49.01%	Tambov	Services for electric energy transmission	191 202	191202
JSC "Tver backbone grids"	49.00%	Tver	Services for electric energy transmission	134 144	134 144
JSC "Tomsk backbone grids"	52.03%	Tomsk	Services for electric energy transmission	866 424	866 424
JSC "Tula backbone grid company"	49.00%	Tula	Services for electric energy transmission	283 709	283 709
JSC "Tyumen backbone grid company"	100.00%	Tyumen	Services for electric energy transmission	11 264 000	11 264 000
JSC "Udmurt backbone grids"	49.00%	Izhevsk	Services for electric energy transmission	219 942	219 942

JSC “Khakas backbone company”	100.00%	Sayanogorsk	Services for electric energy transmission	502 999	502 999
JSC “Chelyabinsk backbone electric grids”	49.00%	Chelyabinsk	Services for electric energy transmission	429 492	429 492
JSC “Chita backbone grids”	49.00%	Chita	Services for electric energy transmission	1 052 495	-
JSC “Chuvash backbone grids”	100.00%	Chuvash Republic	Services for electric energy transmission	344 500	344 500
JSC “Yaroslavl backbone grids”	47.36%	Yaroslavl	Services for electric energy transmission	403 933	403 933
JSC “Petersburg backbone grids”	49.00%	St. Petersburg	Services for electric energy transmission	1 415 907	1 415 907
JSC “Certifying Centre of Electronic Digital Signatures of electric power industry”	50.00%	Moscow	Activities in area of electronic digital technologies	27 536	27 536
JSC “Sangtudinskaya HHP-1”	21.16%	Republic of Tadjikistan	Electric-power production	3 030 571	3 030 571
GruzRosEnergo	50.00%	Republic of Georgia		763 227	-
JSC “Research and Development Centre of electric power	100.00%	Moscow	Research activities	3 002 320	-
JSC “Energostroysnab- kremlevoe UES”	99.993%	Moscow		206 251	
Investments in other organizations				158	158
Bills of exchange				35 000	35 000
Granted loans				296 462	117 082
Total long-term financial investments				42 662 825	32 994 433

In 2008 takeover of backbone grid companies is planned during reforming process in the electric power industry. Detailed information about restructuring is provided in p. 18 “Events occurring after the balance sheet date” in Section III.

Short-term financial investments include as follows:

- deposit in Sberbank to amount of 3 000 000 thous. rubles,
- loan granted to JSC “Kuban backbone grids” to amount of 887 671 thous. rubles,
- short- term loans granted to IBGC (42 749 thous. rubles as of 31.12.2007 and 41 420 thous. rubles as of 31.12.2006).

9. Receivables (short-term)

Receivables from consumers and customers according to line 241 are represented with regard to provision for doubtful debt, which as of 31.12.2007 comprises 883 464 thous. rubles, and as of 31.12.2006 - 612 996 thous. rubles.

Amount of granted advances (line 243 Form No.1 in balance-sheet) includes advances granted to construction organizations (15 017 340 thous. rubles as of 31.12.2007 and 7 613 753 thous. rubles as of 31.12.2006) and advances granted to service providers (3 092 411 thous. rubles as of 31.12.2007 and 3 516 626 thous. rubles as of 31.12.2006). The following major advances are represented as a part of advances granted to service providers:

- for creation of departmental digital technological mobile radio network of electric power industry in the mid-Volga Region (1 630 372 thous. rubles as of 31.12.2007 and 1 616 337 thous. rubles as of 31.12.2006) granted to JSC “Svyazstroy”;
- adoption of information system SAP R/3 on projects “Automated control system for standard project design”, “Automated control system for technical maintenance and repair” (481 215 thous. rubles as of 31.12.2007 and 223 587 thous. rubles as of 31.12.2006) to LLC “SAP CIS and Baltic states”.

Amount of other receivables (line 244 in balance-sheet) includes receivables amount of associated companies – JSC “Nurenergo”, JSC “Moscow Communication Centre of electric power industry” and backbone grid companies (9 059 366 thous. rubles as of 31.12.2007 and 3 179 874 thous. rubles as of 31.12.2006) and overpayment for payments into budget and extrabudgetary funds (4 742 759 thous. rubles as of 31.12.2007 and 2 950 426 thous. rubles as of 31.12.2006). The short-term receivables also include amount of JSC “Altaienergo” noninterest-bearing notes to the extent of

2 247 184 thous. rubles, these notes will be transferred in February of 2008 in return for UNEG property, which is received from JSC “Altaienergo” under purchase and sale contract, the amount 229 102 thous. rubles on JSC “Tuvaenergo” noninterest-bearing notes, which within the first half of the year 2008 will be transferred to JSC “Tuvaenergo” in return for shares of JSC “Tuva backbone grid company”, as well as noninterest-bearing notes of JSC “Moscow unified electric grid company” to amount of 258 153 thous. rubles with maturity upon presentation, term presentment is not determined by the company management.

The long-term receivables include amount of a noninterest-bearing note of JSC AKB “Rosbank” to the extent of 483 485 thous. rubles, maturity of a note – year 2015. The rest amount – pledge paid by contracting parties under lease agreements for premises.

10. Credits and loans received

Information about issues of bonds as of reporting date are given in the table.

Series	02	03	04	05
Volume of issue, thous. rubles	7 000 000	7 000 000	6 000 000	5 000 000
Amount	7 mio. bonds	7 mio. bonds	6 mio. bonds	5 mio. bonds
Par value, rub.	1000	1000	1000	1000
Rate	8.25%	7.10%	7.30%	7.20%
Date of bond placement	28.06.2005	16.12.2005	12.10.2006	05.12.2006
Date of state registration of bond issue report	23.08.2005	24.01.2006	08.11.2006	26.12.2006
Maturity term	1 820 days	1092 days	1820 days	1092 days
Outpayments for coupon yield, thous. rubles	287 980	247 800	218 400	179 500
Coupon yield for each bond	41.14	35.40	36.40	35.90
Accrued interest in 2007, thous. rubles	577 542	496 962	438 000	359 986

In 2007 bonds in issue 01 were redeemed to the amount of 5 000 000 thous. rubles. Maturity terms of bonds in issue 03 – December in 2008, cost of the abovementioned bonds comprising 7 000 000 thous. rubles is represented in financial statements as a part of short- term loans, the

remaining issues of Bonds are shown as long-term loans. Long-term credits include credit of European Bank for Reconstruction and Development in the aggregate 5 000 000 thous. rubles. Loan is drawn for modernization and reconstruction of the major high-voltage electric substations Centralnaya and Arzamasskaya.

Amount of all expenditures connected with loans and credits in 2007 was introduced in full in other income and expenditures, and comprised 2 692 245 thous. rubles.

11. Payables

Payables to providers and contractors include debt to construction organizations (1 551 271 thous. rubles as of 31.12.2007 and 1 102 067 thous. rubles as of 31.12.2006) and service providers (6 751 961 thous. rubles as of 31.12.2007 and 2 926 991 thous. rubles as of 31.12.2006). Debt to service providers includes as follows:

- debt to JSC "IBGC Centre" for electric grid property lease (494 804 thous. rubles as of 31.12.2007 and 1 065 390 thous. rubles as of 31.12.2006);

- debt to LLC "SAP CIS and Baltic states" for adoption of SAP R/3 system on projects the automated control system "Standard project design Extension", automated control system "Salaries of affiliates", for an exclusive right to use program product SAP (919 527 thous. rubles as of 31.12.2007 and 682 665 thous. rubles as of 31.12.2006).

- debts to CJSC "Financial Arrangement Centre" for purchase of the specified electric energy losses (195 070 thous. rubles as of 31.12.2007 and 197 088 thous. rubles as of 31.12.2006.)

Advances granted include the amount of advances received for electric energy transmission (2 876 529 thous. rubles as of 31.12.2007 and 762 587 thous. rubles as of 31.12.2006).

Other accounts payable include the amount for payment of additional issue shares (47 404 914 thous. rubles as of 31.12.2007 and 34 337 928 thous. rubles as of 31.12.2006), debt to subsidiaries (474 080 thous. rubles as of 31.12.2007 and 336 829 thous. rubles as of 31.12.2006).

12. Deferred expenses

The short-term deferred expenses at the end of accounting year include insurance expenses (191 473 thous. rubles as of 31.12.2007 and 28 677 thous. rubles as of 31.12.2006), software (70 513 thous. rubles as of 31.12.2007 and 53 623 thous. rubles as of 31.12.2006), expenses incidental to holidays in future periods (14 563 thous. rubles as of 31.12.2007 and 11 412 thous. rubles as of

31.12.2006), and other expenses (8 668 thous. rubles as of 31.12.2007 and 8247 thous. rubles as of 31.12.2006) related to future periods. The long-term part of expenses in future periods, including expenses connected with software, is given in line 150 "Other noncurrent assets" of accounting balance-sheet, and it comprises 1 489 158 thous. rubles as of 31.12.2007 and 897 362 thous. rubles as of 31.12.2006.

Maturity term for insurance expenses is determined under insurance agreement, and as a rule it does not exceed one year. Writing off period for software expenses does not exceed five years.

Change in remaining Balance-sheet in line 216 is represented by line 766 of Form No. 5.

13. Income and expenditure

The following are represented as a part of income over a period of 2007:

Income type	Amount, thous. rubles
Income derived from reserve reconstitution in doubtful debts	532 919
Income derived from commodities and materials sale	194 127
Foreign exchange gain	85 012
Emergency income for insured accidents	81 325
Materials entered in the books due to writing off of fixed assets and incomplected construction	66 363
Income as cost of excessive amounts of commodities and materials, other property	51 899
Penalties, fines admitted	21 509
Income derived from fixed assets sale	16 361
Income derived from financial investment retirement	5 746
Compensates court fees and charges	1 166
Income of prior years	3 596
Other income	3 624
Total	1 063 647

Other expenditures over a period of 2007 include as follows:

Expenditure type	Amount, thous. rubles
Provision for doubtful debts	803 387

Depreciated cost of deactivated assets	506 175
Property tax	339 464
Expenses for commodities and materials sale	153 688
Extraordinary expenditures for insured accidents	103 447
Welfare payments	68 956
Bank services	50 191
Expenses for corporate events	47 422
Foreign exchange loss	38 026
Undistributed deficit of prior years	31 936
Other taxes and dues	30 583
Expenses for writing off of commodities and materials	27 875
Expenses for securities servicing	21 072
Compensation of employees	18 089
Depreciated cost of realised fixed assets	17 681
Expenses for cultural events and trip tickets, social sphere maintenance	15 705
Nonrefundable VAT	13 964
Expenses from financial investment retirement	5 746
Make a property over without consideration	2 896
Membership dues	2 803
Law expenses	2 738
Charitable contributions	2 474
Penalties, fines admitted	1 289
Other	63 707
Total	2 369 314

According to line 760 in form No. 5 expenditures represented on line 020 in form No. 2 are worked out for cost elements.

14. Liabilities received and made

Attachment
to the audit report of
JSC PriceWaterhouseCoopers
Audit
Auditor /signature/ page 29 of 29
Date: April 2, 2008

According to line 960 in the balance-sheet “Liabilities made” at accounting year end represent liabilities made by Company to JSC “Gasprombank” a guarantee under credit agreement for JSC “Kubanenergo” in the aggregate 386 609 thous. rubles. Date of liability completion - 20.11.2008. The rest value of liabilities is made under credit agreements of equipment supplier.

According to line 950 “Liabilities received” represent liabilities under contract of property pledging concluded with JSC “Kuban backbone grids” in the aggregate 1 003 247 thous. rubles upon disbursed loan money. The rest value of received liabilities presents bank guarantees given to Company for enterprises participating intenders in order to gain a right to award equipment delivery contracts and construction contracts for facilities in the electric power industry.

15. Earnings per share

Basic earnings per share represent a share of profits within accounting period, which potentially can be distributed among shareholders – owners of ordinary shares. It is calculated as ratio of basic earnings for accounting period to a weighted average volume of outstanding ordinary shares within accounting period.

In the course of year increase in authorized capital is performed, weighted average volume of outstanding ordinary shares comprises 312 145 656 103 shares.

Indicator	2007
Basic profit over accounting period, rub.	2 296 167 365
Weighted average volume of outstanding ordinary shares over accounting period, shares	312 145 656 103
Basic earnings per share, rub.	0.0073

Company does not have converted securities, sales and purchase agreements for ordinary shares from an issuer at the price less than their market value, consequently, diluted earnings per share is equal to the basic earnings per share.

16. Affiliated companies

Company enters into a group of relate organizations engaged in production and sale of electric and thermal energy in the Russian Federation (hereinafter referred to as - Group). Parent organization in Group is JSC RAO “UES of Russia”. Register of enterprises included in Group

is available on web-site of JSC RAO “UES of Russia”: www.rao-ees.ru. Register of affiliated companies in the Company is available on Company web-site: www.fsk-ees.ru. Composition of Board of Directors and Management Board in Company is given in section 1 of this Explanatory note.

In 2007 the overall cost of services for electric energy transmission rendered by affiliated companies for Company comprises 58 082 696 thous. rubles, what is 97.6% from scope of services on the abovementioned activities. In 2006 the said value was 51 652 718 thous. rubles and 98% from scope of services for electric energy transmission. Indebtedness to affiliated companies for the specified services at the end of accounting period comprises 2214 803 thous. rubles, on which provision for doubtful debts is charged the amount of 802 010 thous. rubles, (at 2006 year end - 2 156 124 thous. rubles, amount of provision - 544 823 thous. rubles). Tariff for electric energy transmission is approved on 2007 in accordance with Regulation of the Federal Energy Commission RF No. 49-Э/2 “On inclusion of JSC “FGC UES” in the register of commercial organizations – subjects in the federal (All-Russia) wholesale energy (capacity) market, tariffs for electric energy (amount of service fee) for which are established by Federal Energy Commission of the Russian Federation, and on approval of JSC “FGC UES” amount for electric energy transmission on the unified national electric grid” made on 25.06.2003 and decree of Federal Tariff Service No. 285-Э/4 “ On approval of tariffs on services for electric energy transmission on the unified national electric grid, rendered by JSC “Federal Grid Company of Unified Energy System” issued on 17.11.2006. Services are rendered depending on the established tariffs within the accounting year.

Major deliveries of equipment, commodities and materials for electric grid facilities under construction performed by JSC “Energostroysnabkomplekt UES” entered in Group, scope of comprised 751 129 thous. rubles over a period of 2007 (for 2006 - 713 889 thous. rubles). JSC “Energostroysnabkomplekt UES” also within 2007 performed tenders organization, services rendered in the amount of 12 976 thous. rubles. Balance on settlements with the abovementioned organization for indicated operations as of 31.12.2007 comprised 100 696 thous. rubles (as of 31.12.2006 - 21 193 thous. rubles). Services were rendered to Company at regular market prices.

For the accounting period affiliated companies included in the register rendered to Company services for repair and operating maintenance the amount of 1 664 978 thous. rubles (in 2006 rendered 1 893 033 thous. rubles). Services were rendered to Company at regular market prices.

Within 2007 JSC RAO “UES of Russia” entered property and cash resources the amount of 47 404 914 thous. rubles in return for shares of Company additional issue, registered on 23.08.2007.

Remuneration paid to members in Board of Directors and Management Board for their duties on held positions consisted of salary provided in labour contract, as well as premiums determined in accordance with work results within a year. Total amount of remuneration in money paid to members in Board of Directors and Management Board for a period of 2007 was 93 371 thous. rubles. Supplementary medical insurance of members in Company Management Board and their family members were performed in 2007 as well.

17. Contingency

Russian tax, currency and customs legislation admits divergent interpretation and subject to repeated developments.

Company Management does not exclude that in future disagreements with supervisory bodies are possible with regard to some operations performed within accounting and previous periods (including activities for Company reforming associated with reforming in electric power industry), which can lead to changes in business activity results. In accordance with p. 24 in Provision on business accounting “Contingency” Russian Accounting Standards 8/01 the detailed information about such activities is not disclosed in report.

Latest developments occurred in the Russian Federation point to the fact that taxation authorities may take the more hard-line attitude upon legislation interpretation and audit of tax computations, and conceivably the operations and activity not contested earlier might be disputed. As a consequence, heavy additional taxes, fines and penalties can be charged. Tax inspections may cover three calendar years of activities immediately preceding a year of inspection. Under certain conditions the earlier periods can be subject to the inspection.

According to Company Management, data are as of December 31, 2007, the relevant provisions in legislation are correctly interpreted, and situation in Company in the context of tax, currency and customs legislation will be stable.

18. Events occurring after the balance sheet date

On March 17, 2008 JSC “Federal Grid Company of Unified Energy System” completed placement of additional shares issue. The issue was registered on August 23, 2007 to the amount of 60 bln. rubles. Shares were placed on private offering to the advantage of JSC RAO “UES of Russia” and the Russian Federation.

In practice 114 965254 235 shares were placed with a par value of 50 copecks each either 95.8% from total volume of securities subject to placement. Offering price comprised 59 copecks. Following the results of additional shares issue after registration of the issue report and amendments in Articles of association, the authorized capital in Federal Grid Company would be increased from 180 691 104 thous. rubles up to 238173 731 thous. rubles. JSC RAO “UES of Russia” contributed shares of the eight backbone grid companies, JSC “Research and Development Centre of electric power industry”, JSC “United Energy System GruzRosenergo”, JSC “Energostroysnabcomplekt” and cash resources totaling 49 029 500 thous. rubles in return for additional shares of JSC “FGC UES”. The Russian Federation paid shares of JSC “FGC UES” additional issue by cash resources in the amount of 18 800 000 thous. rubles.

In consequence of additional issue Russian Federation represented by the Federal Property Management Agency (FPMA) provided its participation in JSC “FGC UES” authorized capital in the amount of 16.128% (previously 12.44%). In this regard a share of JSC RAO “UES of Russia” in authorized capital of the Federal Grid Company reduced from 87.56% to 83.87%.

On December 14, 2007 the extraordinary general meeting of JSC “FGC UES” shareholders was held, which made resolution on JSC “FGC UES” restructuring in from of takeover of JSC RAO “UES of Russia”, JSC “State Holding”, JSC “Minority Holding FGC UES”, 56 backbone grid companies (BGC) and 7 interregional backbone grid companies (IBGC) to JSC “FGC UES”. These measures would be completed in accordance with schedule for final restructuring of JSC RAO “UES of Russia” approved by Board of Directors in JSC RAO “UES of Russia” on March 30, 2007.

Concurrently the meeting approved a multilateral agreement on takeover of the abovementioned companies, which includes conditions for takeover to JSC “FGC UES”, in particular, coefficients and conversion procedure for shares in joined companies into JSC “FGC UES” shares. Agreement will be concluded among JSC RAO “UES of Russia”, JSC “FGC UES”, JSC “State Holding”, JSC “Minority Holding FGC UES”, BGC and IBGC. The specified takeover agreement is approved by General meeting of shareholders of all companies participating in signing. Coefficients for shares conversion were approved by Board of Directors in JSC RAO “UES of Russia” on August 31, 2007.

Shareholders arrived at decision to increase authorized capital in JSC “FGC UES” by placement of additional registered ordinary shares in amount of 960 000 000 000 (nine hundred sixty billion) shares with a par value 50 (fifty) copecks each totaling at par value 480

000 000 000 (four hundred eighty billion) rubles as well. Conversion of shares from joined companies into JSC “FGC UES” shares was determined as a way of placement. Furthermore, Extraordinary general meeting defined procedure and conditions for conversion of shares in joined companies into JSC “FGC UES” shares.

Backbone grid companies also held extraordinary General meetings of shareholders with regard to restructuring in form of BGC takeover to JSC “FGC UES”. On December 17, 2007 53 BGC and on January 25, 2008 the rest BGC made positive decisions on restructuring, including approval of transfer acts and multilateral takeover agreement concluded among JSC “FGC UES” and joined companies. The majority of minority shareholders in BGC took a stand for the proposed schedule for reforming in electric grid complex related to UNEG. From 87.02% up to 99.99% of shareholder participated in voting gave their votes for restructuring decision. Takeover of BGC and IBGC to JSC “FGC UES” jointly with completion of JSC RAO “UES of Russia” reforming will enable to consolidate the electric grid complex related to UNEG within framework of a unified company, as well as to provide availability for immediate investments of JSC “FGC UES” in development of regional backbone grids in BGC which earlier have been on AO-energo books, increase in controllability of unified Company and extinction of existing transaction costs; simplification and enhancement in transparency for profit distribution process inside Company; stakes for minority shareholders in the unified grid complex of the country.

Upon planned restructuring in 2008 a possible adverse effect occurred as a result of present difference between net asset value of BGC companies and value of investments in Company financial statements will be not exceed 11 bln. rubles.

Since tax and other legislation do not regulate all aspects of restructuring as takeover in full, there are legal, tax and accounting risk in this respect. Probability of backwash effect for our organization in consequence of this risk is not very high.

In 2007 a field tax inspection for financial and economic activities in Company over 2005-2006 was performed, it completed in March of 2008. Tax inspection act was not compiled by the taxing authority.

On March 14, 2007 the Moscow City Arbitration Court made a decision on Company claims adjustment, according to which resolution and requirements taken by the Interregional inspectorate

in Federal Revenue Service of Russia on largest taxpayers No. 4 following the results of field tax inspection for financial and economic activities in JSC “FGC UES” over a period of 2003-2004 with total tax in arrears 494 mio. rubles and the relevant amounts of fines and penalties amounting to 99 mio. rubles were declared invalid. Henceforth, this decision of the court was approved by the appellate instance in Moscow City Arbitration Court. Decision of Cassational court partially sent up consideration of this contentious case to a court of first instance for a new trial.

On February 28, 2008 the Moscow City Arbitration Court iterated decision on Company claims adjustment and invalidation of resolution and requirements taken by the Interregional inspectorate in Federal Revenue Service of Russia on largest taxpayers No. 4. Henceforth, it is possible that taxing authority will file an appeal for first judgement again.

The court claim to recover cost of actually rendered services the amount of 93 mio. rubles and relevant penalties and fines amounting to 7 mio. rubles was laid to JSC “Stavropolenergosbyt” in the Arbitral Tribunal under Fund “PETEK”. The court claim to recover cost of actually rendered services the amount of 83 mio. rubles and relevant penalties and fines amounting to 4 mio. rubles was laid to JSC “Tuvaenergo” in the Arbitral Tribunal under JSC RAO “UES of Russia” рублей as well. Management evaluates probability of favorable result for the above mentioned cases as rather high.

According to Company management, data as of December 31, 2007, the relevant provisions in legislation are correctly interpreted, and situation in Company in the context of tax legislation will be stable. Accordingly, no liabilities are admitted in these financial statements.

Deputy Chairman of Management Board	/signature/	A.A. Demin
Accountant in charge	/signature/	V.V. Schukin
March “30”, 2008.	Seal of “FGC UES”, JSC	