

**JSC RAO UES INTERNATIONAL
IFRS CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007**

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IFRS CONSOLIDATED FINANCIAL STATEMENTS

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of Open Joint Stock Company INTER RAO UES, the legal successor of Joint Stock Company for Development of International Electrical Relations (JSC RAO UES International):

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

Management's Responsibility for the Financial Statements

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

Emphasis of Matter

Without qualifying our opinion we draw attention to the following:

As at 31 December 2007 management performed an assessment of the recoverable amount of property, plant and equipment of JSC Moldavskaya GRES, a 51 percent subsidiary of the Group, and concluded that no impairment loss adjustment needed to be recorded. As stated in Note 3 "Critical accounting estimates and judgments. Impairment of property, plant and equipment" and Note 6 "Impairment", a number of significant estimations and assumptions were made relating to the determination of the recoverable amount of property, plant and equipment of JSC Moldavskaya GRES. Actual results could differ from those estimations and assumptions. Because of the sensitivity of the recoverable values, if future events are different from the estimations and assumptions, this could have a significant impact on the carrying value of property, plant and equipment.

The Transnistria territory in which JSC Moldavskaya GRES is incorporated and operates, is not recognised by other countries. As a consequence, Transnistria legislation and the Transnistria Rouble as a currency are not recognised outside Transnistria. The majority of Government decisions affecting the activity of JSC Moldavskaya GRES are not publicly communicated. It is uncertain what changes in conditions may occur and/or what effect such changes might have on the financial position of the JSC Moldavskaya GRES, but they could be material to the Group.

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
1 August 2008

JSC RAO UES International**IFRS Consolidated Financial Statements for the year ended 31 December 2007**

(in thousands of EUR)

Consolidated Balance Sheet

	Note	<u>2007</u>	<u>2006</u>
ASSETS			
Non-current assets			
Property, plant and equipment	6	348,318	322,795
Intangible assets	7	2,565	1,413
Investments in associates and jointly controlled entities	8	160,995	156,016
Deferred tax assets	9	13,088	11,579
Other non-current assets	10	14,233	9,310
Total non-current assets		<u>539,199</u>	<u>501,113</u>
Current assets			
Inventories	11	31,397	23,393
Accounts receivable and prepayments	12	184,405	188,628
Cash and cash equivalents	13	53,408	30,550
Other current assets	14	3,130	2,664
Total current assets		<u>272,340</u>	<u>245,235</u>
Total assets		<u>811,539</u>	<u>746,348</u>

The consolidated balance sheet is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 11 to 53.

JSC RAO UES International
IFRS Consolidated Financial Statements for the year ended 31 December 2007
(in thousands of EUR)

Consolidated Balance Sheet (continued)

	Note	2007	2006
EQUITY AND LIABILITIES			
Equity			
Share capital registered	15	33,040	1,803
Share capital non-registered	15	-	31,237
Revaluation and fair value reserve		115,797	65,045
Foreign currency translation reserve		(17,403)	(4,200)
Retained earnings		129,263	153,122
Total equity attributable to shareholders of the Company		260,697	247,007
Minority interest		45,334	55,154
Total equity		306,031	302,161
Non-current liabilities			
Loans and borrowings	17	29,989	171,245
Deferred tax liabilities	9	25,243	23,039
Other non-current liabilities		1,479	1,176
Total non-current liabilities		56,711	195,460
Current liabilities			
Loans and borrowings	17	313,823	77,880
Accounts payable and accrued liabilities	18	108,896	131,292
Other taxes payable	19	21,098	28,555
Income tax payable		4,980	11,000
Total current liabilities		448,797	248,727
Total liabilities		505,508	444,187
Total equity and liabilities		811,539	746,348

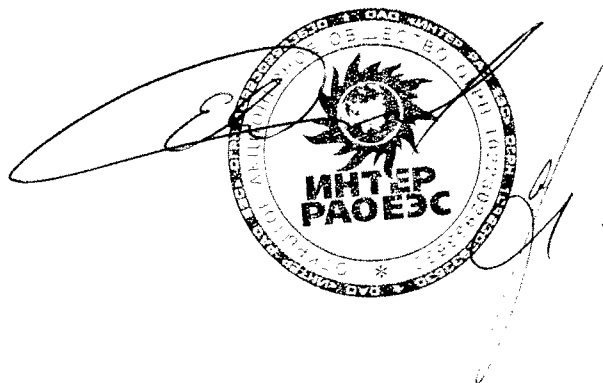
General Director

Dod E.V.

Chief Accountant

Chesnokova A.O.

30 July 2008



JSC RAO UES International
IFRS Consolidated Financial Statements for the year ended 31 December 2007
(in thousands of EUR)

Consolidated Income Statement

	Note	2007	2006
Revenue	20	1,060,348	1,082,613
Operating expenses	21	(1,083,966)	(960,694)
Operating (loss)/profit		(23,618)	121,919
Finance income	22	15,399	15,236
Interest expense		(23,890)	(22,548)
Share of loss of associates and jointly controlled entities	8	(6,343)	(3,134)
(Loss)/Profit before income tax		(38,452)	111,473
Total income tax benefit / (expense)	23	16,702	(34,845)
(Loss)/Profit for the year		(21,750)	76,628
Attributable to:			
Shareholders of the Company		(13,490)	86,634
Minority interest		(8,260)	(10,006)
		(21,750)	76,628
Earnings per ordinary share for (loss) / profit attributable to the shareholders of the Company – basic and diluted	16	EUR (1.18)	EUR 7.60

General Director

Chief Accountant



Dod E.V.

Chesnokova A.O.

30 July 2008

JSC RAO UES International

IFRS Consolidated Financial Statements for the year ended 31 December 2007

(in thousands of EUR)

Consolidated Cash Flow Statement

	Note	2007	2006
OPERATING ACTIVITIES			
(Loss) / profit before income tax		(38,452)	111,473
<i>Adjustments to reconcile (loss)/profit before tax to net cash provided by operations:</i>			
Depreciation and amortisation	21	31,372	26,708
Provision for impairment of accounts receivable	21	635	6,578
Provision for impairment of property plant and equipment	21	30,180	-
Share of loss of associates and jointly controlled entities	8	6,343	3,134
(Gain) / loss on disposal of property, plant and equipment	21	(856)	4,590
Foreign exchange gain, net		(23,385)	(29,188)
Interest income	22	(1,229)	(1,871)
Interest expense		23,890	22,548
Government grants/subsidies	20	(5,720)	-
Operating cash flows before working capital changes and profit tax paid		22,778	143,972
Increase in inventories		(8,004)	(3,626)
Decrease / (increase) in accounts receivable and prepayments		19,967	(24,467)
(Increase) / decrease in value added tax recoverable		(13,269)	22,586
(Increase) / decrease in other current assets		(600)	3,643
Increase in other non-current assets		(80)	(139)
Decrease in accounts payable and accrued liabilities		(27,410)	(18,174)
Decrease in taxes payable other than profit tax		(7,457)	(10,537)
Income tax paid		(2,703)	(33,563)
Net cash flows (used for) / received from operating activities		(16,778)	79,695

The consolidated cash flow statement is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 11 to 53.

JSC RAO UES International**IFRS Consolidated Financial Statements for the year ended 31 December 2007**

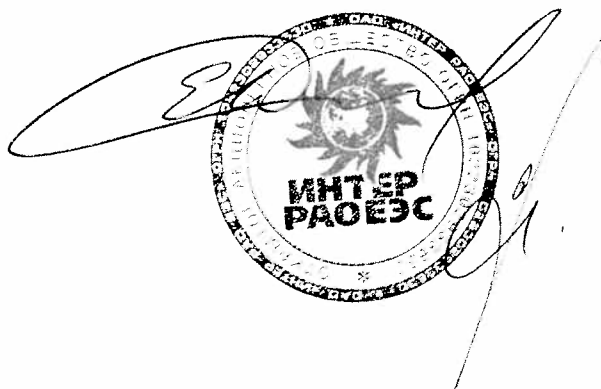
(in thousands of EUR)

Consolidated Cash Flow Statement (continued)

	Note	2007	2006
INVESTING ACTIVITIES			
Proceeds from disposal of property, plant and equipment		4,651	604
Interest received		1,102	1,977
Purchase of property, plant and equipment and intangible assets		(51,340)	(42,477)
Purchases of investments		(279)	(802)
Dividends received	8	55	172
Net cash flows used for investing activities		(45,811)	(40,526)
FINANCING ACTIVITIES			
Proceeds from current borrowings		238,602	286,102
Proceeds from non-current borrowings		93,855	138,015
Repayment of borrowings		(210,557)	(445,705)
Interest paid		(21,850)	(16,880)
Dividends paid		(12,092)	(10,573)
Net cash flows received from / (used for) financing activities		87,958	(49,041)
Effect of exchange rate fluctuations on cash and cash equivalents		(2,511)	14,592
Net increase in cash and cash equivalents		22,858	4,720
Cash and cash equivalents at the beginning of the year		30,550	25,830
Cash and cash equivalents at the end of the year	13	53,408	30,550

General Director

Chief Accountant



Dod E.V.

Chesnokova A.O.

30 July 2008

JSC RAO UES International

IFRS Consolidated Financial Statements for the year ended 31 December 2007

(in thousands of EUR)

Consolidated Statement of Changes in Equity

	Note	Attributable to shareholders of the Company					Total	Minority interest	Total equity
		Share capital	Share capital non-registered	Foreign currency translation reserve	Revaluation and fair value reserve	Retained earnings			
Balance at 1 January 2006		1,803	-	(4,750)	13,594	107,951	118,598	72,071	190,669
Profit for the year		-	-	-	-	86,634	86,634	(10,006)	76,628
Foreign currency translation differences		-	-	550	-	-	550	(6,911)	(6,361)
Realization of property, plant and equipment revaluation reserve		-	-	-	(347)	347	-	-	-
Effects of revaluation of property, plant and equipment in jointly controlled entity	8, 9	-	-	-	51,798	-	51,798	-	51,798
Total recognized income and expense for the year		-	-	550	51,451	86,981	138,982	(16,917)	122,065
Issue of share capital (non-registered)		-	31,237	-	-	(31,237)	-	-	-
Dividends to shareholders	15	-	-	-	-	(10,573)	(10,573)	-	(10,573)
Balance at 31 December 2006		1,803	31,237	(4,200)	65,045	153,122	247,007	55,154	302,161
Balance at 1 January 2007		1,803	31,237	(4,200)	65,045	153,122	247,007	55,154	302,161
Loss for the year		-	-	-	-	(13,490)	(13,490)	(8,260)	(21,750)
Foreign currency translation differences		-	-	(13,203)	-	-	(13,203)	(4,746)	(17,949)
Change in fair value of available-for-sale investments	15	-	-	-	3,716	-	3,716	-	3,716
Realization of property, plant and equipment revaluation reserve		-	-	-	(1,723)	1,723	-	-	-
Revaluation of property, plant and equipment	6, 8, 9	-	-	-	48,759	-	48,759	3,186	51,945
Total recognized income and expense for the year		-	-	(13,203)	50,752	(11,767)	25,782	(9,820)	15,962
Registration of share capital		31,237	(31,237)	-	-	-	-	-	-
Dividends to shareholders	15	-	-	-	-	(12,092)	(12,092)	-	(12,092)
Balance at 31 December 2007		33,040	-	(17,403)	115,797	129,263	260,697	45,334	306,031

General Director

Chief Accountant



Dod E.V.

Chesnokova A.O.

30 July 2008

JSC RAO UES International

Notes to the Consolidated Financial Statements for the Year ended 31 December 2007
(in thousands of EUR, unless otherwise stated)

1 The Group and its operations

Organisation and operations

Joint Stock Company for the Development of International Electrical Relations – JSC RAO UES International (the “Parent Company” or the “Company”) and its subsidiaries, associates and jointly controlled entities (together referred to as the “Group”) comprise Russian Federation joint stock companies as defined in the Civil Code of the Russian Federation, and companies located abroad. The Parent Company was established in the Russian Federation on 20 August 1996 in accordance with the decision of its majority shareholder, Russian Open Joint Stock Company for Energy and Electrification Unified Energy System of Russia (“RAO UES”).

RAO UES, prior to its liquidation in mid 2008 (see Note 31 “Reorganisation”), was a holder of certain significant electricity power generation, transmission and distribution assets in the Russian Federation, Georgia, Armenia, Moldova (Transnistria) and Kazakhstan. RAO UES and FGUP “Rosenergoatom” owned 60 percent and 40 percent, respectively, of the voting ordinary shares of JSC RAO UES International as at 31 December 2007 and 2006. At 31 December 2007 and 2006, the Government of the Russian Federation owned 52.7 percent of RAO UES and 100 percent of FGUP “Rosenergoatom”.

The Group performs the following types of business activity:

- Electricity production and distribution;
- Export of electricity purchased on domestic markets;
- Sales of electricity purchased abroad, on the Russian market; and
- Sales of electricity, purchased abroad, to foreign customers without crossing of the border of the Russian Federation.

The Group’s principal subsidiaries as at 31 December 2007 are presented in Note 30.

At 31 December 2007, the average number of employees of the Group was 14,510 (2006: 14,630).

The Parent Company’s registered office is at entrance 7, Krasnopresnenskaya naberezhnaya – 12, 123610, Moscow, Russia.

Group’s business environment

The governments of the countries where Group companies operate directly affect the Group’s operations through regulation with respect to energy generation, purchases and sales. Governmental economic, social and other policies in these countries could have a material effect on the operations of the Group.

The Russian Federation, Georgia, Armenia, Moldova (Transnistria) and Kazakhstan have been experiencing political and economic change that has affected, and may continue to affect, the activities of Group enterprises operating in this environment. Consequently, operations in these jurisdictions involve risks that typically do not exist in other markets. These risks include matters arising from the policies of the government, economic conditions, the imposition of or changes to taxes and regulations, foreign exchange fluctuations and the enforceability of contract rights.

The accompanying consolidated financial statements reflect management’s assessment of the impact of the business environment in the countries where Group companies operate, on the operations and the financial position of the Group. The future business environment may differ from management’s assessment.

JSC RAO UES International

Notes to the Consolidated Financial Statements for the Year ended 31 December 2007

(in thousands of EUR, unless otherwise stated)

2 Financial conditions

As at 31 December 2007, the Group's current liabilities exceeded its current assets by EUR 176,457 thousand (at 31 December 2006 EUR 3,492 thousand).

The change in the current financial position in 2007 is partially explained by a significant reclassification of long-term loans in the amount of EUR 97,404 thousand (see Note 17) into current liabilities. As discussed in Note 31 "Reorganisation", in connection with the reorganization of JSC RAO UES International approved by shareholders in December 2007, the Parent company notified its creditors of their right to demand the settlement of liabilities. In this circumstance, in accordance with IAS 1 "Presentation of Financial Statements", the related liabilities in the amount of EUR 97,404 thousand should be presented as current liabilities as the Group did not have an unconditional right to defer the settlement of the liabilities for at least 12 months after the balance sheet date. The Company's creditors had the right to make a claim for earlier repayment until 9th of February 2008. As after the balance sheet date no claims were received from the creditors and the deadline for claims had passed, non-current debt of JSC RAO UES International was reclassified back to non-current liabilities in February 2008.

Unfavorable market conditions had an impact on the financial result of the year 2007, which, in its turn impacted negatively the cash flows from operating activities and resulted in a deterioration in the financial position of the Group. The deterioration of the Group's financial position is also explained by the reduced possibilities for long-term financing due to recent volatility in global financial markets. Such circumstances affected the ability of the Group to obtain new long-term borrowings on favorable terms and conditions. The Loan Notes payable in the amount of EUR 102,466 thousand (see Notes 17 and 31) repayable in March 2008 and, consequently presented as current at 31 December 2007 (as long-term at 31 December 2006), were not refinanced by new long-term borrowings in 2007.

Management believe that, the Group has sufficient access to sources of both short and long term financing and, consequently, is not expecting any interruptions in the Group's operational activities. Based on their expectations of the future operations of the Group, management believes that it is appropriate to present the Financial Statements on a going concern basis.

The Company's investment, financial and operational activities are aimed at maximizing its cash flows and minimizing its cost of capital.

The Group aims to achieve its objectives principally by applying the following efforts:

- Investment activity intensification in the electric power markets where the Group has competitive advantages;
- Increasing electric power sales volumes in markets adjacent to those in which the Group operates, which will make it possible for the Group to strengthen its positions in the given electric power markets (including management's plans related to JSC Moldavskaya GRES, see Note 6 "Impairment");
- Strengthening of the vertical integration between the assets acquired by the Group so as to maximize income from electric power sales;
- Lengthening the terms of the Company's borrowed funds and reducing the relative effective interest rates, which will decrease the Company's cost of capital and reduce annual interest expense.

The processes aimed at securing the Group's entry into the international financial equity markets are expected to intensify. The Company is increasing its financial and operating transparency and openness as a part of its current business activities. This process is pursued along with continued close interrelationships with the governments and the regulating authorities of the countries where the Group holds its assets and maintains its business dealing in generation, sales and purchases of electric power.

3 Basis of preparation

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

Each entity of the Group individually maintains its own books of accounts and prepares its statutory financial statements in accordance with the relevant 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.

JSC RAO UES International

Notes to the Consolidated Financial Statements for the Year ended 31 December 2007

(in thousands of EUR, unless otherwise stated)

3 Basis of preparation (continued)

Basis of measurement. The consolidated financial statements are prepared on the historical cost basis except as described in Note 4.

Functional and presentation currency. The national currencies of the countries where the Group companies operate, are usually the individual company's functional currencies, because they generally reflect the economic substance of the underlying transactions and circumstances of those companies.

These consolidated financial statements are presented in the European Euro ("EUR") since management believes that this currency is a more useful measure for the potential users of the consolidated financial statements. All financial information presented in EUR has been rounded to the nearest thousand.

The national currencies of the Russian Federation, Armenia, Georgia, Kazakhstan and Moldova (Transnistria) are not readily convertible currencies outside these countries and, accordingly, any conversion of national currencies to EUR should not be construed as a representation that their amounts have been, could be, or will be in the future, convertible into EUR at the exchange rate disclosed, or at any other exchange rate.

Going concern. The Financial Statements have been prepared on a going concern basis, which contemplates the realisation of assets and the satisfaction of liabilities in the normal course of business. The accompanying Financial Statements do not include any adjustments that might be necessary should the Group be unable to continue as a going concern.

Critical accounting estimates and judgments. The Group makes estimates and judgments that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgments, apart from those involving estimations, in the process of applying the accounting policies. Judgments that have the most significant effect on the amounts 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:

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 a deterioration in a major customer's creditworthiness or actual defaults are higher than the estimates, the actual results could differ from these estimates.

If the Group determines that no objective evidence exists that an impairment has occurred 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 (see Note 12).

Revaluation of property, plant and equipment

Fair value 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 6).

Impairment of property, plant and equipment

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 income statement 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.

JSC RAO UES International

Notes to the Consolidated Financial Statements for the Year ended 31 December 2007

(in thousands of EUR , unless otherwise stated)

3 Basis of preparation (continued)

As at 31 December 2007 a number of significant estimations and assumptions were made relating to the determination of the recoverable amount of property, plant and equipment of JSC Moldavskaya GRES, including assumptions as to that company's ability to make new deliveries to foreign markets (see Note 6).

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.

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 judgment 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.

Reconsideration of useful life of property, plant and equipment by one year impacts future annual depreciation charge approximately by EUR 2 million.

Loans and borrowings

At 31 December 2007 and 2006 the Group accounts for loans at amortized cost (see Note 17). The amortized cost of these loans has been calculated taking into account future cash flows associated with the repayment of these loans. The Group assessed future cash flows based on currently available facts and conditions, such as assessments of capital investments, gas and electricity prices and WACC level. Changes in any of these conditions or estimates may result in adjustments for future amortized cost.

Tax contingencies

The Group entities operate in a number of tax jurisdictions across Europe and CIS. 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 consolidated financial Statements. Tax contingencies are disclosed in Note 27.

Deferred income tax asset recognition

The Group does not recognize certain deferred income tax assets in respect of Group entities located in Armenia as the management believe that it is not probable that the future taxable profit will be available in the respective Group entities against which the Group can utilize the benefits. Unrecognized deferred income tax assets are disclosed in Note 9 (b).

Reclassifications

There have been changes in classification of certain items in the financial statements as at 31 December 2006 presented as comparatives in the annual consolidated financial statements for the year ended 31 December 2007:

- Advances for capital construction amounting to EUR 904 thousand and related to the Group companies JSC Elektricheskiye seti Armenii and JSC IEC were reclassified from Accounts receivables and prepayments to Construction in progress in Property, plant and equipment.
- Spare parts amounting to EUR 3,653 thousand and related to JSC Elektricheskiye seti Armenii were reclassified from Materials and consumables in Inventories to Construction in progress in Property, plant and equipment.

JSC RAO UES International

Notes to the Consolidated Financial Statements for the Year ended 31 December 2007

(in thousands of EUR, unless otherwise stated)

4 Summary of significant accounting policies

The significant accounting policies applied in the preparation of the consolidated financial statements are described below. These accounting policies have been consistently applied.

Basis of consolidation

Subsidiaries. Subsidiaries are entities controlled by the Company. Control is presumed to exist when the Company directly or indirectly has an interest of more than one half of the voting rights or otherwise has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Minority interest. Minority interest represents the minority shareholders' proportionate share of the equity and results of operations of the Group's subsidiaries. This has been calculated based upon the minority interests' ownership percentage of these subsidiaries. The minority interest has been disclosed as part of Equity.

Associates and jointly controlled entities. Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Associates are accounted for using the equity method. The consolidated financial statements include the Group's share of the income and expenses of associates, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an associate, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

A jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity in which the ventures have a shared interest. The entity operates in the same way as other entities, except that a contractual arrangement between the ventures establishes joint control over the economic activity of the entity. Jointly controlled entities are accounted for using the equity method.

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, associates and jointly controlled entity.

Transactions eliminated on consolidation. Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

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

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.

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Notes to the Consolidated Financial Statements for the Year ended 31 December 2007

(in thousands of EUR, unless otherwise stated)

4 Summary of significant accounting policies (continued)

Foreign currency

Foreign currency transactions and translation. Transactions in foreign currencies are remeasured to the respective functional currencies of the Group entities at exchange rates effective at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are remeasured to the entities' functional currencies at the exchange rate at that date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are remeasured to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on remeasurement are recognised in the consolidated income statement. Available-for-sale equity instruments are considered non-monetary and the effect of exchange rate changes on their fair value is included in the fair value gain or loss recognised in equity.

The balance sheets of foreign subsidiaries are translated into the Group's presentation currency at the exchange rate prevailing at the reporting date. Income statements of foreign subsidiaries 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 foreign currency translation reserve (FCTR) in equity.

Property, plant and equipment

Property, plant and equipment are recorded initially based on historic cost, but are subject to periodic revaluation. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads. Where an item of property, plant and equipment comprises major components having different useful lives, those are accounted for as separate items of property, plant and equipment.

A revaluation increase on an item of property, plant and equipment is recognised directly in equity except to the extent that it reverses a previous revaluation decrease or impairment recognised in the consolidated income statement, in which case it is recognised in the consolidated income statement. A revaluation decrease on an item of property, plant and equipment is recognised in the consolidated income statement except to the extent that it reverses a previous revaluation increase recognised directly in equity, in which case it is recognised in equity. When the asset is derecognised the revaluation surplus is transferred directly to retained earnings.

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

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, is capitalised with the carrying amount of the component being written off. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognised in the consolidated income statement as an expense as incurred.

Advances for capital construction and acquisition of property, plant and equipment are included into construction in progress.

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. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. For the property, plant and equipment which were subject to the third party valuation, the depreciation rate applied is initially based on the estimated remaining useful lives as at the valuation date. The useful lives are reviewed at each financial year-end and, if expectations differ from previous estimates, the changes are recognised prospectively. The useful lives, in years, of assets by type of facility are as follows:

Type of facility	Useful life before revaluation as of 1 January 2007, years	Useful life after revaluation as of 1 January 2007, years
Buildings	40 – 50	25 – 100
Electricity and heat generation	20 – 50	20 – 50
Electricity transmission and distribution	15 – 25	20 – 50
Fixtures and fittings	5	3 - 40
Other	10	8 – 50

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(in thousands of EUR, unless otherwise stated)

4 Summary of significant accounting policies (continued)

Intangible assets

Goodwill. Goodwill arises on the acquisition of subsidiaries, associates and joint ventures.

Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. Goodwill in respect of subsidiaries is recognised as a separate asset in the balance sheet. Goodwill in respect of associates and joint ventures is included in the carrying amount of the investees.

When the excess is negative ("negative goodwill"), the excess is recognised immediately in the consolidated income statement.

Goodwill is measured at cost less accumulated impairment losses and is the subject for an annual impairment test.

Other intangible assets. Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses. Expenditure on internally generated goodwill and brands is recognised in the consolidated income statement as an expense as incurred.

Amortisation. Amortisation is recognised in the consolidated income statement on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated useful lives of intangible assets are in the range of 2-10 years.

Leased assets

Leases in the terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. The corresponding finance lease liability is carried at the present value of future lease payments.

Other leases are operating leases and the leased assets are not recognised on the Group's balance sheet.

Available-for-sale 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. 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 consolidated income statement in the period in which they arise.

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Notes to the Consolidated Financial Statements for the Year ended 31 December 2007

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4 Summary of significant accounting policies (continued)

Impairment losses are recognised in the consolidated income statement 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 the consolidated income statement – is removed from equity and recognised in the consolidated income statement. Impairment losses on equity instruments are not reversed through the consolidated income statement. 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 the consolidated income statement, the impairment loss is reversed through current period's consolidated income statement.

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

Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is determined on the weighted average basis, and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Cash and cash equivalents

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

Accounts receivable and prepayments

Accounts receivable are recorded inclusive of value added taxes (VAT) and are initially recorded at the amount receivable from the debtor. 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 future cash flows, discounted at the market rate of interest for similar borrowers at the date of origination of the receivables.

Value added tax on purchases and sales

Value added tax related to sales is payable to tax authorities either upon revenue recognition or at the time of collection of receivables from customers, depending on local statutory regulations in respective jurisdictions in which Group entities operate. Input VAT is reclaimable against sales VAT upon payment for purchases. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases which have not been settled at the balance sheet date (deferred VAT) is recognised in the balance sheet on a gross basis and disclosed separately as a current asset and liability. Where provision has been made for impairment of receivables, the impairment loss is recorded for the gross amount of the debtor's balance, including VAT. The related deferred VAT liability is maintained until the debtor is written off for tax purposes.

Impairment

Financial assets. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the consolidated income statement.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in the consolidated income statement.

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(in thousands of EUR, unless otherwise stated)

4 Summary of significant accounting policies (continued)

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

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised if the carrying amount of an asset or cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from those of other assets and groups. Impairment losses are recognised in the consolidated income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

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

Employee benefits

Pension and post-employment benefits. In the normal course of business the Group contributes to various governmental pension schemes on behalf of its employees. Mandatory contributions to governmental pension schemes are expensed when incurred. Costs associated with discretionary pensions and other post-employment benefits are included in wages, benefits and payroll taxes in the consolidated income statement, however, separate disclosures are not provided as these costs are not material.

Short-term benefits. Short-term employee benefits obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Borrowings

Debt is recognised initially at its fair value net of transaction costs incurred. 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 yield method; any difference between the amount at initial recognition and the redemption amount is recognised in the consolidated income statement as an interest expense over the period of the debt obligation.

Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Environmental liabilities

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

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(in thousands of EUR , unless otherwise stated)

4 Summary of significant accounting policies (continued)

Shareholder's equity

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.

Earnings per share

Earnings per share is determined by dividing the profit (loss) attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the reporting period.

Revenue

Revenue from the sale of electricity is recognised in the consolidated income statement on the delivery of electricity. Revenue amounts are presented exclusive of value added tax.

Operating expenses

Lease payments. Payments made under operating leases are recognised in the consolidated income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the consolidated income statement as an integral part of the total lease payments made.

Social expenditure. To the extent that the Group's contributions to social programs benefit the community at large and are not restricted to the Group's employees, they are recognised in the consolidated income statement as incurred.

Finance income

Finance income comprises interest income on funds invested, dividend income and foreign currency gains. Interest income is recognised as it accrues, using the effective interest method. Dividend income is recognised when the dividends are declared and inflow of economic benefits is probable.

Interest expense

Interest expense on borrowings, unwinding of any discount on provisions and foreign currency losses. All borrowing costs are recognised in the consolidated income statement using the effective interest method.

Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the consolidated income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that the parent is able to control the timing of their reversal and it is probable that they will not reverse in the foreseeable future.

A deferred tax asset for deductible temporary differences and tax losses carry forward is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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Notes to the Consolidated Financial Statements for the Year ended 31 December 2007

(in thousands of EUR, unless otherwise stated)

4 Summary of significant accounting policies (continued)

Any additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Group's primary format for segment reporting is based on geographical segments.

New accounting pronouncements and revised standards

Certain new Standards and Interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2007 and that have been applied in preparing these consolidated financial statements:

- (a) Standards, amendments and interpretations effective in 2007
 - *IFRS 7, Financial Instruments: Disclosures and a complementary Amendment to IAS 1 Presentation of Financial Statements - Capital Disclosures (effective from 1 January 2007)*. The IFRS introduced new disclosures to improve the information about financial instruments, including about quantitative aspects of risk exposures and the methods of risk management. The new quantitative disclosures provide information about the extent of exposure to risk, based on information provided internally to the entity's key management personnel. Qualitative and quantitative disclosures cover exposure to credit risk, liquidity risk and market risk including sensitivity analysis to market risk. IFRS 7 replaced IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and some of the requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The Amendment to IAS 1 introduced disclosures about the level of an entity's capital and how it manages capital. The new disclosures are made in these financial statements.
 - *IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006, that is from 1 January 2007)*. The Interpretation prohibits the reversal of impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost at the subsequent balance sheet date. This standard does not have any impact on the Group's financial statements.
- (b) The following standards and interpretations became effective for the Group's financial statements from 1 January 2007, but are not relevant to its operations:
 - *IFRS 4, Insurance contracts*;
 - *IFRIC 7, Applying the restatement approach under IAS 29, Financial reporting under hyper-inflationary economies*;
 - *IFRIC 8, Scope of IFRS 2*;
 - *IFRIC 9, Reassessment of embedded derivatives*;
- (c) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group.
 - *IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009)*. IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, «Disclosures about segments of an enterprise and related information». The new standard requires a «management approach», under which segment information is presented on the same basis as that used for internal reporting purposes. The group will apply IFRS 8 from 1 January 2009. The expected impact is still being assessed by management, but it appears likely that the number of reportable segments, as well as the manner in which the segments are reported, will change in a manner that is consistent with the national reporting provided to the chief operating decision-maker. As goodwill is allocated to groups of cash-generating units based on segments, the change will also require management to reallocate goodwill to the newly identified operating segments. Management does not anticipate that this will result in any material impairment to the goodwill balance.

4 Summary of significant accounting policies (continued)

- IAS 1 “Presentation of Financial Statements” (revised September 2007; effective for annual periods beginning on or after 1 January 2009). The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternately, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Group expects the revised IAS 1 to affect the presentation of its financial statements.
 - *IAS 23 (Amendment), Borrowing Costs* (revised March 2007; effective for annual periods beginning on or after 1 January 2009). The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing cost will be removed. The group will apply IAS 23 (Amended) from 1 January 2009. The Group is currently assessing the impact of this standard.
 - *IAS 27, Consolidated and Separate Financial Statements* (revised January 2008; effective for annual periods beginning on or after 1 July 2009, that is from January 2010). The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously “minority interests”) even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent’s ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The Group is currently assessing the impact of this standard.
 - *IFRS 3, Business Combinations* (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009, that is from January 2010). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree’s identifiable net assets) or on the same basis as US GAAP (at fair value). The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, goodwill will be measured as the difference at acquisition date between the fair value of any investment in the business held before the acquisition, the consideration transferred and the net assets acquired. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone.
- (d) Interpretations to existing standards that are not yet effective and not relevant for the Group’s operations are:
- *IAS 1 (Amendment) and IAS 32 (Amendment), “Puttable financial instruments and obligations arising on liquidation”* (effective for annual periods beginning on or after 1 January 2009).
 - *IFRS 2 (Amendment), “Share-based payment vesting conditions and cancellations* (effective for annual periods beginning on or after 1 January 2009).
 - *IFRIC 11, IFRS 2, Group and Treasury Share Transactions* (effective for annual periods beginning on or after 1 January 2009)
 - *IFRIC 12, Service concession arrangements* (effective for annual periods beginning on or after 1 January 2008 that is from 1 January 2008).
 - *IFRIC 13, Customer loyalty programmes* (effective from 1 July 2008)..
 - *IFRIC 14, “IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction”* (effective from 1 January 2008).
 - *IFRIC 15, Agreements for the Construction of Real Estate* (effective for annual periods beginning on or after 1 January 2009).
 - *IFRIC 16, Hedges of a Net Investment in a Foreign Operation* (effective for annual periods beginning on or after 1 October 2008).

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5 Segment information

Segment information is presented in respect of the Group's geographical and business segments. The primary format, geographical segments, is based on the location of assets.

Segment results, assets and liabilities include items directly attributable to each segment. Unallocated items comprise mainly investments and related revenue, external loans received by the Parent company and related expenses, corporate assets and expenses, income tax assets and liabilities.

The basis for inter-segment sales pricing is market prices, which in their turn are affected through regulation by the appropriate regulators as discussed in Note 1.

Geographical segments based on location of assets

The Group's companies operate in the following principal geographical areas: Finland, Russia, Georgia, Armenia, Moldova (Transnistria). Revenue, assets and liabilities of the Group companies located in Kazakhstan, Ukraine, Turkey, Netherlands and Belgium do not represent reportable segment and are, therefore, included in unallocated.

2007

	Finland	Russia	Georgia	Armenia	Moldova	Unallocated	Eliminations	Consolidated
Revenue from external customers	109,046	629,671	112,515	179,527	26,858	2,731	-	1,060,348
Inter-segment revenue	-	95,053	-	63	8,739	2,927	(106,782)	-
Total segment revenue	109,046	724,724	112,515	179,590	35,597	5,658	(106,782)	1,060,348
Segment results	3,124	14,095	(3,885)	(2,773)	(9,160)	(3,650)		(2,250)
Unallocated expenses	-	-	-	-	-	-	-	(21,368)
Finance income	-	-	-	-	-	-	-	15,399
Interest expense	-	-	-	-	-	-	-	(23,890)
Share of profit/(loss) of associates and jointly controlled entity	-	(6,887)	-	-	-	544	-	(6,343)
Income tax benefit	-	-	-	-	-	-	-	16,702
Loss for the year								(21,750)

2006

	Finland	Russia	Georgia	Armenia	Moldova	Unallocated	Eliminations	Consolidated
Revenue from external customers	173,422	652,870	91,920	148,310	13,464	2,627	-	1,082,613
Inter-segment revenue	798	125,789	-	4,350	-	1,269	(132,206)	-
Total segment revenue	174,220	778,659	91,920	152,660	13,464	3,896	(132,206)	1,082,613
Segment results	31,094	122,389	16,099	3,682	(14,899)	(1,827)		156,538
Unallocated expenses	-	-	-	-	-	-	-	(34,619)
Finance income	-	-	-	-	-	-	-	15,236
Interest expense	-	-	-	-	-	-	-	(22,548)
Share of profit/(loss) of associates and jointly controlled entity	-	106	-	-	-	(3,240)	-	(3,134)
Income tax expense	-	-	-	-	-	-	-	(34,845)
Profit for the year								76,628

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5 Segment information (continued)

31 December 2007	Finland	Russia	Georgia	Armenia	Moldova	Unallocated	Eliminations	Consolidated
Segment assets	59,449	186,390	124,531	171,597	155,396	34,538	(94,445)	637,456
Investments in associates and jointly controlled entities	-	79,668	-	-	-	81,327	-	160,995
Current and deferred tax assets	-	-	-	-	-	-	-	13,088
Unallocated assets	-	-	-	-	-	-	-	-
Total assets								811,539
Segment liabilities	(48,932)	(36,267)	(75,657)	(65,844)	(24,328)	(5,976)	35,354	(221,650)
Current and deferred tax liabilities	-	-	-	-	-	-	-	(30,223)
Unallocated liabilities	-	-	-	-	-	-	-	(253,635)
Total liabilities								(505,508)
Depreciation and amortization	100	895	3,558	6,846	19,601	372	-	31,372
Capital expenditure	81	1,338	16,974	30,003	8,519	123	-	57,038
PPE impairment	-	-	12,605	17,997	(422)	-	-	30,180
Provision for/(release) of impairment of accounts receivable	-	(186)	1,100	51	(330)	-	-	635
31 December 2006	Finland	Russia	Georgia	Armenia	Moldova	Unallocated	Eliminations	Consolidated
Segment assets	81,005	158,544	133,760	144,013	167,235	41,431	(147,442)	578,546
Investments in associates and jointly controlled entities	-	79,384	-	-	-	76,632	-	156,016
Current and deferred tax assets	-	-	-	-	-	-	-	11,579
Unallocated assets	-	-	-	-	-	-	-	207
Total assets								746,348
Segment liabilities	(35,812)	(70,738)	(103,668)	(47,738)	(26,973)	(7,798)	54,940	(237,787)
Current and deferred income tax liabilities	-	-	-	-	-	-	-	(34,039)
Unallocated liabilities	-	-	-	-	-	-	-	(172,361)
Total liabilities								(444,187)
Depreciation and amortization	88	787	3,449	9,066	13,250	68	-	26,708
Capital expenditure	65	2,131	8,548	17,850	9,326	1,615	-	39,535
Provision for/(release) of impairment of accounts receivable	19	(965)	6,322	1,288	(86)	-	-	6,578

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5 Segment information (continued)

Geographical segments based on location of customers

In addition to above segments based on location of assets, management has identified a reportable segment "Belorussia" to disclose 75 per cent of the Group's revenue based on location of customers. Revenues from customers located in Kazakhstan, Latvia, Lituania and other destinations are included in unallocated.

2007	Finland	Russia	Belorussia	Georgia	Armenia	Moldova	Unallocated	Eliminations	Consolidated
Revenue from external customers	156,463	282,812	80,329	116,357	176,940	14,954	232,493	-	1,060,348
Inter-segment revenue	91,201	11,580	-	150	-	-	3,851	(106,782)	-
Total segment revenue	247,664	294,392	80,329	116,507	176,940	14,954	236,344	(106,782)	1,060,348
2006	Finland	Russia	Belorussia	Georgia	Armenia	Moldova	Unallocated	Eliminations	Consolidated
Revenue from external customers	324,358	224,521	55,784	103,083	146,951	21,488	206,428	-	1,082,613
Inter-segment revenue	125,789	798	-	5,619	-	-	-	(132,206)	-
Total segment revenue	450,147	225,319	55,784	108,702	146,951	21,488	206,428	(132,206)	1,082,613

Business segments

The Group comprises the following main business segments:

Distribution. The distribution of electric power.

Generation. The generation of electric power.

Unallocated. Other operations, including the holding companies, investment activity.

	Distribution		Generation		Unallocated		Eliminations		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Revenue from external customers	1,005,012	997,929	54,082	75,985	1,254	8,699	-	-	1,060,348	1,082,613
Segment assets	523,456	414,616	254,302	269,936	35,471	41,437	(175,773)	(147,443)	637,456	578,546
Capital expenditure	46,172	24,507	10,742	13,666	124	1,362	-	-	57,038	39,535

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(in thousands of EUR , unless otherwise stated)

6 Property, plant and equipment

	<u>Distribution</u>	<u>Generation</u>	<u>Others</u>	<u>Construction in progress</u>	<u>Total</u>
Cost/Revalued amount					
Balance at 1 January 2006	92,488	240,760	3,993	17,268	354,509
Additions	8,313	3,089	1,425	25,991	38,818
Transfers	8,377	10,326	1,979	(20,682)	-
Disposals	(2,027)	(2,779)	(1,154)	(1,383)	(7,343)
Translation difference	6,868	(16,833)	(206)	1,008	(9,163)
Balance at 31 December 2006	<u>114,019</u>	<u>234,563</u>	<u>6,037</u>	<u>22,202</u>	<u>376,821</u>
Including PPE under finance lease	-	-	903	-	903
Balance at 1 January 2007	114,019	234,563	6,037	22,202	376,821
Reclassification	(2,768)	(157)	-	2,925	-
Elimination of depreciation and impairment	(15,380)	(34,837)	-	-	(50,217)
Revaluation reserve	22,892	20,707	-	-	43,599
Revaluation loss (impairment provision)	-	(9,824)	-	(12,161)	(21,985)
Additions	1,562	113	204	53,655	55,534
Transfers	28,754	10,047	722	(39,523)	-
Disposals	(1,716)	(584)	(1,380)	(602)	(4,282)
Translation difference	5,788	(14,974)	(252)	(135)	(9,573)
Balance at 31 December 2007	<u>153,151</u>	<u>205,054</u>	<u>5,331</u>	<u>26,361</u>	<u>389,897</u>
Including PPE under finance lease	-	-	255	-	255
Depreciation and impairment losses					
Balance at 1 January 2006	(5,708)	(22,523)	(1,390)	-	(29,621)
Depreciation charge	(8,851)	(16,412)	(0,754)	-	(26,017)
Impairment loss	-	-	-	-	-
Disposals	450	192	385	-	1,027
Translation difference	(1,287)	695	1,177	-	585
Balance at 31 December 2006	<u>(15,396)</u>	<u>(38,048)</u>	<u>(582)</u>	<u>-</u>	<u>(54,026)</u>
Including PPE under finance lease	-	-	-	-	-
Balance at 1 January 2007	(15,396)	(38,048)	(582)	-	(54,026)
Reversal of impairment provision	-	2,693	-	-	2,693
Elimination of depreciation and impairment	15,380	34,837	-	-	50,217
Impairment loss recognised during the year	-	(10,695)	-	(193)	(10,888)
Depreciation charge	(6,766)	(23,079)	(1,066)	-	(30,911)
Disposals	69	49	290	-	408
Translation difference	(165)	1,018	75	-	928
Balance at 31 December 2007	<u>(6,878)</u>	<u>(33,225)</u>	<u>(1,283)</u>	<u>(193)</u>	<u>(41,579)</u>
Including PPE under finance lease	-	-	-	-	-
Net book value					
At 1 January 2006	<u>86,780</u>	<u>218,237</u>	<u>2,603</u>	<u>17,268</u>	<u>324,888</u>
At 31 December 2006	<u>98,623</u>	<u>196,515</u>	<u>5,455</u>	<u>22,202</u>	<u>322,795</u>
At 31 December 2007	<u>146,273</u>	<u>171,829</u>	<u>4,048</u>	<u>26,168</u>	<u>348,318</u>

In the above disclosure any accumulated depreciation (aggregated with accumulated impairment losses) at the date of the revaluation was eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

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Property, plant and equipment (continued)

The Group management undertook a review of the basis of disclosure of property, plant and equipment and determined that it was more meaningful to the users of the financial statements to make such disclosure based on the business functions of the assets rather than, as previously, their nature. Consequently, property, plant and equipment is allocated between the principal functional grouping being generating assets, distribution assets, construction in progress and other. Comparative information on the previous basis is presented below.

	<u>Land and buildings</u>	<u>Plant and equipment</u>	<u>Fixtures and fittings</u>	<u>Construc- tion in progress</u>	<u>Total</u>
Net book value as at 1 January 2006	<u>141,011</u>	<u>133,501</u>	<u>33,108</u>	<u>17,268</u>	<u>324,888</u>
Net book value as at 31 December 2006	<u>129,009</u>	<u>139,235</u>	<u>32,350</u>	<u>22,202</u>	<u>322,795</u>
Net book value as at 31 December 2007	<u>100,605</u>	<u>173,025</u>	<u>48,519</u>	<u>26,168</u>	<u>348,318</u>

(a) Revaluation

The Group is using the revaluation model for accounting of property, plant and equipment.

In 2007, management commissioned an independent valuer to appraise the property, plant and equipment of five major subsidiaries (JSC Telasi, Mtkvari Ltd., JSC Elektricheskiye seti Armenii, JSC IEC, JSC Moldavskaya GRES) in order to determine the fair value of their property, plant and equipment for the purpose of revaluation as at 1 January 2007.

The independent valuer holds a recognized and relevant professional qualification and has recent experience in valuation of assets of similar location and category.

Fair values were determined primarily based on the depreciated replacement cost method. The replacement cost of the major part of buildings, substations, power transmission grids and constructions has been estimated based on technical characteristics, unit construction cost and construction estimates. The replacement cost of the major part of equipment was estimated based on the 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 following significant assumptions were applied:

- The discount rate used in profitability test varied from 15.49% to 15.90% per annum depending on the subsidiary. From 2008 onwards, the applied discount rate varied from 15.49% to 16.23%;
- The forecast period was 10 years;
- The planned annual growth of the electricity tariff used for the purposes of appraisal was 3% for JSC Elektricheskiye seti Armenii and JSC IEC, 5% for JSC Telasi, 7% for Mtkvari Ltd. and 14% for JSC Moldavskaya GRES;
- The expected long-term growth of sales used was 2% for JSC Telasi and Mtkvari Ltd., 4% for JSC Elektricheskiye seti Armenii 5% for JSC IEC and 20% for JSC Moldavskaya GRES.

A change in the volume of electricity sales by 3% would result in an average change in the fair value of property, plant and equipment of approximately 10%. A change in the expected electricity tariff by 3% would result in an average change in the fair value of property, plant and equipment of approximately 11%. A change in the expected weighted average cost of capital by 2% would result in an average change of the fair value of property, plant and equipment of approximately 6%. A change in the capital expenditures by 10% would result in an average change in the fair value of property, plant and equipment of approximately 7%.

Revaluation of property, plant and equipment as at 1 January 2007 has resulted in:

- a net revaluation increase of EUR 43,599 thousand comprising an increase in the carrying value of property, plant and equipment;
- a net revaluation decrease of EUR 19,292 thousand comprising a decrease in the carrying value of property, plant and equipment of EUR 21,985 thousand less the reversal of a previously recognized impairment on property plant and equipment of JSC Moldavskaya GRES and Mtkvari Ltd. of EUR 2,693 thousand.

Increases in the carrying amount arising on revaluation of the items of property, plant and equipment net of the related deferred tax effect were credited to the revaluation reserve in equity; decreases were recognized in the consolidated income statement as provision for impairment of property, plant and equipment.

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Property, plant and equipment (continued)

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

	<u>Land and buildings</u>	<u>Plant and equipment</u>	<u>Fixtures and fittings</u>	<u>Construc- tion in progress</u>	<u>Total</u>
Net book value as at 31 December 2006	<u>121,994</u>	<u>134,726</u>	<u>31,127</u>	<u>22,202</u>	<u>310,049</u>
Net book value as at 31 December 2007	<u>116,677</u>	<u>127,313</u>	<u>64,680</u>	<u>22,781</u>	<u>331,451</u>

(b) Impairment

As at 31 December 2006 the Group's accumulated impairment provision related to the property, plant and equipment of JSC Moldavskaya GRES and Mtkvari Ltd. equaled to EUR 8,795 thousand. As a result of the revaluation undertaken on 1 January 2007 the above accumulated impairment provision has been partially reversed due to the increase in the carrying value of certain items of property, plant and equipment previously impaired in the amount of EUR 2,693 thousand.

As a result of the impairment test performed as at 31 December 2007 the Group recognised an impairment loss in the amount of EUR 9,964 thousand with regard to JSC IEC, one of the Group subsidiaries. The main indicator and reason for the additional impairment relates to the fact that in July 2007 there was a significant decrease in the state regulated tariff. For impairment purposes the recoverable amount was determined for all property, plant and equipment of JSC IEC as one cash-generating unit. The recoverable amount represents its value in use as determined by discounting the expected future cash flows of the company from the continuing use of property, plant and equipment during the remaining twenty five years of their useful life. The expected cash flows were based on budgeted EBITDA for 2008 in the amount of EUR 697 thousand with further annual growth of 2.7% and were discounted using WACC 12.28%. The entire amount of EUR 9,964 thousand has been recognised in the consolidated income statement within the Provision for impairment of property plant and equipment.

During 2007 JSC Moldavskaya GRES has impaired its property, plant and equipment located on the territory of Ukraine by EUR 924 thousand, as the rights of ownership of this property is disputed and is currently uncertain.

As at 31 December 2007 the Group performed an assessment of the recoverable amount of property, plant and equipment of JSC Moldavskaya GRES, one of the Group subsidiaries. During 2007 JSC Moldavskaya GRES operated at 15% of its operating capacity and recognized revenue in the amount of EUR 35,557 thousand. Management is actively seeking new distribution markets for this entity. For the purposes of an assessment of the recoverable amount of property, plant and equipment of JSC Moldavskaya GRES management made the following assumptions and estimates related to new markets:

- Revenue for the years ended 31 December 2009 and 2010 are expected to be not lower than EUR 87.3 million and EUR 266.3 million, respectively;
- The major source of revenue growth is export of electricity to Romania, Ukraine and Moldova. The main reason for export revenue increase is an anticipated commencement of significant electricity supply to Romania under so called "aerial wire" mode in 2010 after certain upgrades of Moldavian electricity transmission grids. The revenue from export sales is expected to reach 95% of total revenue from 2010, out of which the share of "aerial wire" mode operations is expected to be on average 67% over the next ten years.

Based on the assumptions described above, management concluded that no additional impairment loss needed to be recognized in these consolidated financial statements in respect of the JSC Moldavskaya GRES assets. Had an impairment provision been calculated based solely on existing trading levels and pricing, an additional impairment provision of approximately EUR 48 million would have been recognized in the income statement for 2007.

In management's opinion, the existing provisions represents the best estimate of the impact of impairment as a result of the current economic conditions in the Russian Federation and other countries in which the Group operates and expectations about future trading.

(c) Security

Properties as at 31 December 2007 with a carrying amount of EUR 273 thousand (at 31 December 2006: EUR 607 thousand) and EUR 10 thousand (at 31 December 2006: EUR 2.4 thousand) are pledged by JSC Elektricheskiye seti Armenii as collateral for its bank loans from Inecobank and Ardshinvestbank, respectively (see Note 17).

As at 31 December 2007, property, plant and equipment of one of the Group's companies Telasi in the amount of EUR 1,212 thousand were pledged as security to the Tax Department of Large Taxpayers Inspection in Georgia.

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7 Intangible assets

	<u>Goodwill</u>	<u>Software</u>	<u>Other</u>	<u>Total</u>
<i>Cost</i>				
Balance at 1 January 2006	287	1,280	369	1,936
Additions	-	711	5	716
Disposals	-	(396)	(34)	(430)
Translation difference	12	(3)	-	9
Balance at 31 December 2006	<u>299</u>	<u>1,592</u>	<u>340</u>	<u>2,231</u>
Balance at 1 January 2007	299	1,592	340	2,231
Reclassification of cost from other intangibles to software	-	75	(75)	-
Additions	-	1,481	22	1,503
Disposals	-	(72)	(33)	(105)
Translation difference	(11)	32	17	38
Balance at 31 December 2007	<u>288</u>	<u>3,108</u>	<u>271</u>	<u>3,667</u>
<i>Amortisation</i>				
Balance at 1 January 2006	-	(409)	(56)	(465)
Amortisation charge	-	(691)	(1)	(692)
Disposals	-	353	-	353
Translation difference	-	(14)	-	(14)
Balance at 31 December 2006	<u>-</u>	<u>(761)</u>	<u>(57)</u>	<u>(818)</u>
Balance at 1 January 2007	-	(761)	(57)	(818)
Amortisation charge	-	(409)	(52)	(461)
Disposals	-	169	14	183
Translation difference	-	(1)	(5)	(6)
Balance at 31 December 2007	<u>-</u>	<u>(1,002)</u>	<u>(100)</u>	<u>(1,102)</u>
<i>Net book value</i>				
At 1 January 2007	<u>299</u>	<u>831</u>	<u>283</u>	<u>1,413</u>
At 31 December 2007	<u>288</u>	<u>2,106</u>	<u>171</u>	<u>2,565</u>

The amortisation charge is included in operating expenses in the consolidated income statement.

Goodwill was recognized on the acquisition of SOOO "Energospetserviceobslyzhivanie" (Moldova, Transnistria) in 2005.

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8 Investments in associates and jointly controlled entities

Details of the associates and jointly controlled entities, together with the movements in the carrying values of these entities, are set at below:

	Country	Ownership/Voting	
		2007	2006
JSC "Industrial Power Company" (jointly controlled entity)	Russian Federation	50.0%	-
Stantsiya Ekibastuzskaya GRES-2 (jointly controlled entity)	Kazakhstan	50.0%	50.0%
JSC "Severo-Zapadnaya TETS"	Russian Federation	25.0% + 1 share	25.0% + 1 share

	Stantsiya Ekibastuz-skaya GRES-2	JSC "Severo- Zapadnaya TETS"	JSC "Industrial Power Company"	Other	Total
Carrying value at 1 January 2006	15,898	80,474	-	105	96,477
Fair value of net assets of associates acquired	-	-	-	(105)	(105)
Share of revaluation of property, plant and equipment and other related equity movements	68,156	-	-	-	68,156
Share of (loss) / profit after tax	(3,240)	106	-	-	(3,134)
Dividends received	(163)	(9)	-	-	(172)
Translation difference	(4,018)	(1,188)	-	-	(5,206)
Carrying value at 31 December 2006	76,633	79,383	-	-	156,016
Carrying value at 1 January 2007	76,633	79,383	-	-	156,016
Additions	-	-	279	-	279
Share of revaluation of property, plant and equipment and other related equity movements	8,731	10,024	-	-	18,755
Share of profit/(loss) after tax	544	(6,846)	(41)	-	(6,343)
Dividends received	-	(55)	-	-	(55)
Translation difference	(4,581)	(3,076)	-	-	(7,657)
Carrying value at 31 December 2007	81,327	79,430	237	-	160,995

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8 Investments in associates and jointly controlled entities (continued)

JSC Stantsiya Ekibastuzskaya GRES-2

The following is summarised financial information in respect of the jointly controlled entity Stantsiya Ekibastuzskaya GRES-2:

	<u>2007</u>	<u>2006</u>
Total assets	247,817	203,116
Total liabilities	(85,164)	(49,852)
Revenue	60,177	51,478
Profit/(loss) for the year	<u>1,087</u>	<u>(6,480)</u>

JSC Severo-Zapadnaya TETS

Goodwill of EUR 12.8 million recognised on the acquisition of JSC Severo-Zapadnaya TETS in 2005 was generated as a result of the Group's ability to benefit from synergies available to it because of its position in the electricity markets and the Group's presence in the Russian market.

The following is summarised financial information, in respect of JSC Severo-Zapadnaya TETS:

	<u>2007</u>	<u>2006</u>
Total assets	490,370	311,169
Total liabilities	(222,179)	(45,033)
Revenue	154,766	47,543
(Loss)/profit for the year	<u>(27,384)</u>	<u>424</u>

The loss for the year 2007 is mainly attributable to the write off of VAT recoverable related to the construction of the second block in the amount of EUR 35,308 thousand due to failure to obtain of its reimbursement from the budget.

JSC Industrial Power Company

In August 2007, Inter RAO UES contributed RR 10 million to the share capital of the newly established company – JSC Industrial Power Company and became the owner of 50 percent of its shares.

The ownership of JSC Industrial Power Company represents a jointly controlled entity and the Group applies the equity accounting method to recognize its investment.

The following is summarised financial information, in respect of JSC Industrial Power Company:

	<u>2007</u>
Total assets	485
Total liabilities	(9)
Revenue	-
Loss for the year	<u>(81)</u>

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9 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Differences between IFRS and relevant 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 the rate expected to be applicable when the temporary differences will reverse, based on rates and legislation enacted or substantively enacted by the balance sheet date.

Deferred tax assets and liabilities are attributable to the following:

	Assets at 31 December		Liabilities at 31 December	
	2007	2006	2007	2006
Property, plant and equipment	4,050	3,058	(11,421)	(9,774)
Investments in associates and jointly controlled entity	10	-	(17,584)	(16,398)
Trade and other receivables	11,432	7,368	(852)	-
Tax loss carry-forwards	-	2,930	-	-
Available-for-sale investments	-	-	(1,306)	-
Other	3,072	1,499	444	(143)
Tax assets/(liabilities)	<u>18,564</u>	<u>14,855</u>	<u>(30,719)</u>	<u>(26,315)</u>
Set off of tax	<u>(5,476)</u>	<u>(3,276)</u>	<u>5,476</u>	<u>3,276</u>
	<u>13,088</u>	<u>11,579</u>	<u>(25,243)</u>	<u>(23,039)</u>

(b) Unrecognised deferred tax assets

Deferred tax assets have not been recognized in respect of Group entities located in Armenia in 2007 (Georgia and Armenia in 2006) and applicable to the following items:

	2007	2006
Deductible temporary differences	9,684	19,426
Tax loss carry-forwards	359	167
	<u>10,043</u>	<u>19,593</u>

The tax losses expire in 2010. Deferred tax assets have not been recognised in respect of these items because in management's view it is not probable that future taxable profit will be available in the respective Group entity against which the Group can utilize the benefits.

Movement in temporary differences during the year

Deferred tax assets:

	1 January 2006	Recognized in income statement	Recognized in equity (FCTR)	31 December 2006
Property, plant and equipment	4,272	(1,075)	(203)	2,994
Trade and other receivables	1,486	3,251	(180)	4,557
Other items	393	614	90	1,097
Tax loss carry-forwards	493	2,562	(124)	2,931
	<u>6,644</u>	<u>5,352</u>	<u>(417)</u>	<u>11,579</u>

	1 January 2007	Recognized in income statement	Recognized in equity (FCTR)	Recognized in equity	31 December 2007
Property, plant and equipment	2,994	1,179	(78)	(1,637)	2,458
Investment in associate and jointly controlled entity	-	10	-	-	10
Trade and other receivables	4,557	5,102	(200)	-	9,459
Other items	1,097	95	(31)	-	1,161
Tax loss carry-forwards	2,931	(2,888)	(43)	-	-
	<u>11,579</u>	<u>3,498</u>	<u>(352)</u>	<u>(1,637)</u>	<u>13,088</u>

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9 Deferred tax assets and liabilities (continued)

Deferred tax liabilities:

	1 January 2006	Recognized in income statement	Recognized in equity (FCTR)	Recognized in equity	31 December 2006
Property, plant and equipment	(10,755)	735	333	-	(9,687)
Investments in associates and jointly controlled entities	(1,792)	636	1,115	(16,357)	(16,398)
Other items	2,217	1,958	(1,129)	-	3,046
	<u>(10,330)</u>	<u>3,329</u>	<u>319</u>	<u>(16,357)</u>	<u>(23,039)</u>
	1 January 2007	Recognized in income statement	Recognized in equity (FCTR)	Recognized in equity	31 December 2007
Property, plant and equipment	(9,687)	5,966	(1,840)	(4,268)	(9,829)
Investments in associates and jointly controlled entities	(16,398)	1,513	1,804	(4,503)	(17,584)
Available-for-sale investments	-	-	-	(1,306)	(1,306)
Other items	3,046	(486)	916	-	3,476
	<u>(23,039)</u>	<u>6,993</u>	<u>880</u>	<u>(10,077)</u>	<u>(25,243)</u>

The Group recognized temporary differences on property, plant and equipment which relate to differences between accounting and tax bases for depreciation rates, fair values and statutory tax base of property, plant and equipment.

As a result of the revaluation of property, plant and equipment made as at 1 January 2007, the Group recognized deferred tax liabilities in equity related to the Group's subsidiaries Mtkvari and Elektricheskie seti Armenii in the amount of EUR 1,910 thousand and EUR 2,358 thousand respectively. The revaluation of property, plant and equipment made in Telasi as at 1 January 2007 resulted in the recognition of deferred tax assets in the amount of EUR 1,637 thousand due to set off of tax.

A deferred tax liability in the amount of EUR 2,097 thousand and EUR 2,406 thousand in respect of the Group's share in the revaluation of property, plant and equipment performed at 1 January 2007 were recognised in equity in relation to Stantsiya Ekibastuzskaya GRES-2 and JSC Severo-Zapadnaya TETS, respectively (2006: EUR 16,357 thousand in respect of Stantsiya Ekibastuzskaya GRES-2) (see Note 8).

The Group has not recognized a deferred tax liability in respect of temporary differences associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future. For the years ended 31 December 2007 and 2006, the corresponding temporary tax differences were equal to EUR 90,243 thousand and EUR 119,080 thousand.

10 Other non-current assets

	2007	2006
Financial non-current assets		
Non-current loans issued	2,740	3,073
Non-current trade receivables	1,218	202
Available-for-sale investments	8,947	3,981
	<u>12,905</u>	<u>7,256</u>
Non-financial non-current assets		
Other non-current assets	1,328	2,054
	<u>1,328</u>	<u>2,054</u>
	<u>14,233</u>	<u>9,310</u>

Included in the available-for-sale investments are EUR 8,100 thousand of investments in shares of ERC, UAB Energijos Realizacijos Centras (Lithuania) acquired in 2005 (paid in cash) and accounted at fair value at 31 December 2007. Although there were no active market for the shares of ERC, which were privately held and not traded, management were in a position to make an estimate of the fair value of the investment using alternative sources, including an investment review provided by a third party. After the balance sheet date the Group acquired an additional stake in the shares of ERC (see Note 31, 5a.).

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10 Other non-current assets (continued)

Also included in the available-for-sale investments are EUR 802 thousand of investments in shares of Sangtudinskaya GES - 1 (Tadjikistan) acquired in 2006 (paid in cash). Management is not able to reliably estimate the fair value of the above investments. The shares of this company are not quoted and reliable financial information about its operations is not available; so the investment is stated at cost.

Included in the non-current loans issued is EUR 2,732 thousand in respect of a loan given to Khramesi I (31 December 2006: EUR 3,036 thousand), a company under asset management of the Group (see Note 29).

The Group does not hold any collateral as security.

11 Inventories

	2007	2006
Materials and consumables	10,719	7,595
Spare Parts	9,466	11,828
Fuel Production stocks	7,234	887
Other inventories	3,978	3,083
	31,397	23,393

12 Accounts receivable and prepayments

	2007	2006
Financial assets	107,413	124,746
Trade receivables	163,144	203,233
<i>Less impairment provision</i>	(66,006)	(89,356)
Trade receivables - net	97,138	113,877
Receivables from associates	234	318
Other receivables	13,061	13,674
<i>Less impairment provision</i>	(3,020)	(3,123)
Other receivables - net	10,041	10,551
Non-financial assets	76,992	63,882
Advances to suppliers and prepayments	11,740	11,651
<i>Less impairment provision</i>	(2,432)	(1,585)
Advances to suppliers and prepayments - net	9,308	10,066
VAT recoverable, including export VAT	58,642	45,373
Income tax receivable (overpaid)	8,441	5,547
Other taxes recoverable	601	2,896
	184,405	188,628
Impairment provision, total	(71,458)	(94,063)

Management has determined the impairment provision for trade receivables 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 17.8 – 19.2 percent have been used in the estimate of the 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. If the timing of expected future cash flows will be 6 months later, the impairment provision would be higher by EUR 1.3 million.

Carrying value of above financial assets can be analysed as follows:

At 31 December 2007	Trade receivables	Receivables from associates	Other receivables	Total
Not past due not impaired	89,042	234	11,621	100,897
Past due but not impaired	3,403	-	287	3,690
Past due and impaired	70,699	-	1,153	71,852
Total	163,144	234	13,061	176,439

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12 Accounts receivable and prepayments (continued)

At 31 December 2006	Trade receivables	Receivables from associates	Other receivables	Total
Not past due not impaired	105,286	318	11,144	116,748
Past due but not impaired	3,134	-	1,810	4,944
Past due and impaired	94,813	-	720	95,533
Total	203,233	318	13,674	217,225

The impaired accounts receivable mainly comprise amounts due from wholesalers. It was assessed that a portion of these receivables is expected to be recovered. The ageing of these receivables is as follows:

	2007	2006
3 to 6 month	3,323	7,436
Over 6 month	68,529	88,097
	71,852	95,533

As of 31 December 2007, accounts receivable of EUR 3,690 thousand (2006: EUR 4,944 thousand) were past due but not impaired. These relate to a number of independent counterparties from whom there is no recent history of default. The ageing analysis of these receivables is as follows:

	2007	2006
Up to 3 month	2,957	3,129
3 to 6 month	113	537
6 to 12 month	620	1,278
	3,690	4,944

The Group does not hold any collateral as security.

13 Cash and cash equivalents

	2007	2006
Cash at bank and in hand	24,163	18,508
Foreign currency accounts	29,245	12,042
	53,408	30,550

Financial institution	Credit rating	Rating agency	2007	2006
JSB Sberbank	Baa2	Moody's	38,289	21,807
Commerzbank	A+/A-1	Standard & Poor's	5,687	644
Credit Suisse First Boston	AA-/A-1+	Standard & Poor's	2,277	10
Bank of Georgia	-		1,202	22
JSB Tavrichesky	-		991	1,019
Nordea	Aa1	Moody's	822	817
JSC UniCredit Bank	BBA/A-2	Standard & Poor's	610	177
JSCB Rosbank	Aaa	Moody's	425	566
OJSC VTB bank	Baa2	Moody's	391	3
Other	-		2,714	5,485
			53,408	30,550

Cash and cash equivalent balances do not include cash deposited in Nordea (NordPool) and Fingrid (Finland) in the aggregate amount of EUR 1,557 thousand, EUR 1,630 thousand as at 31 December 2007 and 31 December 2006, respectively, as the usage of these amounts is restricted. Such balances are classified within other current assets.

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Notes to the Consolidated Financial Statements for the Year ended 31 December 2007

(in thousands of EUR , unless otherwise stated)

14 Other current assets

	2007	2006
Restricted cash (see Note 15)	1,557	1,630
Other	1,573	1,034
	<u>3,130</u>	<u>2,664</u>

15 Equity

(a) Share capital

Number of shares unless otherwise stated

	Ordinary shares 2007	Ordinary shares 2006
Authorised and fully paid	11,400,000	11,400,000
Par value	RUR 100	RUR 100

In 2006 the Company commenced the process of making a capitalization issue of additional ordinary shares. The total number of shares issued was 10,800,000 with a nominal value RR 100 per share. The respective increase of share capital was registered by the tax authorities in February 2007. The additional shares were issued to existing shareholders in proportion to their interest.

As at 31 December 2007 the above capitalization issue was included in category share capital registered (2006: non-registered) in the consolidated balance sheet.

(b) Dividends

In accordance with Russian legislation, the Parent Company, JSC RAO UES International, distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of financial statements prepared in accordance with Russian Accounting Rules. The statutory accounting reports of JSC RAO UES International are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the net profit. For 2007, the net statutory profit for JSC RAO UES International as reported in the published annual statutory reporting forms was RUR 635,202 thousand (2006: RUR 1,738,561 thousand) and the closing balance of the accumulated profit including the net statutory profit totaled RUR 2,539,073 thousand (2006: RUR 3,491,138 thousand). However, this legislation and other statutory laws and regulations are open to legal interpretation and accordingly management believes at present it would not be appropriate to disclose an amount for the distributable reserves in these financial statements.

Information on dividends for the year 2007 is presented in the Note 31.

A dividend amounting to RR 420 million or EUR 12,092 thousand (RR 36.85 or EUR 1.06 per ordinary share) was declared on 29 June 2007 in respect of the year ended 31 December 2006. Tax paid to the tax authorities on behalf of the shareholders from dividends declared for the year ended 31 December 2006 equals RR 37.8 million or EUR 1,088 thousand.

A dividend amounting to RR 360 million or EUR 10,573 thousand (RR 600 or EUR 17.62 per ordinary share) was declared on 28 June 2006 in respect of the year ended 31 December 2005. Tax paid to the tax authorities on behalf of the shareholders from dividends declared for the year ended 31 December 2005 amounted to RR 32.4 million or EUR 952 thousand.

(c) Revaluation and fair value reserve

	2007	2006
Property, plant and equipment	112,081	65,045
Fair value of available-for-sale investments	3,716	-
	<u>115,797</u>	<u>65,045</u>

A fair value reserve was recognized in respect of investments in shares of ERC, UAB Energijos Realizacijos Centras (Lithuania) (see Note 10) in the amount of EUR 5,022 thousand, net of a related deferred tax effect in the amount of EUR 1,306 thousand.

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Notes to the Consolidated Financial Statements for the Year ended 31 December 2007

(in thousands of EUR, unless otherwise stated)

16 Earnings per share

The calculation of earnings per share is based upon the profit for the year and the weighted average number of ordinary shares outstanding during the year, calculated as shown below. The Company has no dilutive potential ordinary shares.

	2007	2006
Weighted average number of shares for the year ended 31 December (shares)	11,400,000	11,400,000
(Loss) / profit attributable to the shareholders of the Company	(13,490)	86,634
(Loss) / earnings per ordinary share – basic and diluted (EUR)	(1.18)	7.60

17 Loans and borrowings

This note provides information about the contractual terms of the Group's loans and borrowings.

	Currency	Effective non- current interest rate	2007	2006
Loan Notes payable ³ (ii)	USD	7.75%	102,466	113,835
Sberbank (iv)	RUR	8.25%	55,659	-
VTB Bank Europe plc ³	USD	LIBOR+2.5%	34,155	11,383
Credit Swiss International ³ (i)	USD	RF30+2.7% ²	15,180	21,080
Ministry of Defense, Armenia	AMD	15%	8,342	1,689
Freecom Trading Limited ²	USD	12%	8,197	9,107
FIBI BANK (Switzerland)	USD	3.5%	6,831	7,589
Government of Armenia (subloaned-KfW) (v)	EUR	18%	3,812	3,215
Khramesi I (see Note 29)	USD	12%	2,057	2,279
Notes payable Elgadatsema	GEL	15.4%	323	407
Finance lease liabilities	USD, EUR	6%-22%	255	489
Ministry of Finance, Georgia (subloaned- IDA/WB) (iii, a)	USD	20%	159	146
Ministry of Finance, Georgia (subloaned-EBRD) (iii, b)	USD	20%	137	126
Ministry of Finance, Georgia (subloaned-KfW) (iii, c)	EUR	20%	62	58
Other	Various	Various	4	183
Total non-current loans and borrowings			237,639	171,586
Less: current portion of non-current loans and borrowings			(110,246)	(341)
Less: current portion of non-current loans and borrowings related to restructuring (see Note 2)			(97,404)	-
Non-current loans and borrowings			29,989	171,245

¹ RF30 +2.7% - interest rate is based on margin (2.7%) and current normal market rate as per "guiding debenture" (RF30). According to the loan agreement, guiding debenture represents Eurobond of Russian Federation with a maturity date of 2030 and a yield of 5%.

² Freecom Trading Limited is a significant shareholder of CJSC Moldavskaya GRES, 51 percent owned by the Group.

³ Under the terms of the Agreement the Company should be in compliance with certain financial and non-financial covenants.

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17 Loans and borrowings (continued)

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 as at the 31 December 2007 for floating rate loans.

As at 31 December 2007 the estimated fair value of total non-current debts (including the current portion) was EUR 238.3 million (31 December 2006: EUR 175.9 million), which is estimated by discounting the future contractual cash flows at the estimated current market interest rates available to the Group for similar financial instruments.

- (i) The Parent Company pledged to Credit Suisse International property rights in respect of certain electricity sales contracts.
- (ii) On 13 March 2006 the Company issued loan notes payable in the amount of USD 150 million with a fixed interest rate of 7.75%. The loan is to be repaid one business day prior to 12 March 2008.
- (iii) As at 31 December 2007 one of the Group entities, "Mtkvari" Ltd. (Mtkvari) had three loans obtained by the predecessor of this entity and acquired by the Group as a result of the acquisition of this entity in 2003.

Initially these loans were borrowed by the State of Georgia from international credit organizations (World Bank, EBRD, KfW) to rehabilitate certain generation assets and these loans were assigned to the predecessor of this Group entity in the course of privatization. The loans currently are payable to:

- (a) Ministry of Finance, Georgia (IDA/WB) – USD 36 million under contractual payment schedule from 2008 to 2027, interest rate 7 percent;
- (b) Ministry of Finance, Georgia (EBRD) – USD 14.4 million under contractual payment schedule from 2005 to 2010, interest rate 8.2 percent;
- (c) Ministry of Finance, Ministry of Fuel and National Bank, Georgia (KfW) – EUR 30 million under contractual payment schedule from 2007 to 2036, interest rate 0.75 percent.

All three loans have common provisions in relation to setting priority for the repayment of the loans, as follows:

- The entity is required to cover all current operational costs.
- The entity is required to repay a principal and related interest of the loan payable to the parent company only up to a maximum aggregate principal amount of USD 50 million.
- The entity is required to repay the "Subordinated Liabilities", i.e. the loans to the State of Georgia initially taken from the World Bank, EBRD and KfW stipulated above.
- The entity is required to repay all principal and interest repayments due on the loans payable to the parent company above the USD 50 million aggregate principal cap set out in the second point above.

The Group considered the ability of Mtkvari to settle its existing and future liabilities in accordance with the above repayment priority and concluded that the repayment of these three loans will start not earlier than in 2028 with the last payment to be made in 2066. The amortized cost of these loans has been calculated by taking into account the future cash flows associated with the repayment of these loans, as assessed by the Group, and discounting them at a rate of 20 percent, approximating the equivalent market yield on loan borrowings by Mtkvari at the date of inception of these loans.

The Group recognized a charge within interest expense in respect of the amortization of the prior period discounting on the Mtkvari loans discussed above, in the amount of EUR 61 thousand and EUR 57 thousand in 2007 and 2006, respectively.

- (iv) On 25 April 2007 the Company obtained a loan in the amount of RUR 2,000 million. The loan is to be repaid on 23 April 2010.
- (v) The Government of Armenia (subloaned –KfW liabilities) loan arose as a result of sub-lending of credit received by the Government of Armenia from KfW to Sevan-Hrazdan Cascade JSC.

This liability was transferred to one of the Group entities, "International Energy Corporation" JSC (JSC IEC) pursuant to the purchase of Sevan-Hrazdan Cascade JSC assets. The total amount of the loan was EUR 21.1 million. This amount is to be paid by JSC IEC from 25 November 2009 to 25 November 2041. Since the interest rate stipulated by this loan was significantly lower than the market rates (effective interest rate per agreement is about 1 percent), initially the loan has been recorded at discounted amounts using market rates prevailing at the time of its initial recognition (18 percent). Further to initial recognition, the loan has been carried at amortized cost, using the discount rate applied during its initial recognition.

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17 Loans and borrowings (continued)

The Group recognized a charge within interest expense in respect of the amortization of the prior period discounting for the Armenian loans considered above in the amount of EUR 587 thousand and EUR 489 thousand in 2007 and 2006, respectively.

Maturity table

	<u>2007</u>	<u>2006</u>
Due for repayment		
Between one and two years	10,585	124,177
Between two and five years	15,385	45,988
Over five years	4,019	1,080
	<u>29,989</u>	<u>171,245</u>

Changes in interest rates impact loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

Finance lease liabilities are payable as follows:

	<u>2007</u>			<u>2006</u>		
	Payments	Interest	Principal	Payments	Interest	Principal
Less than one year	202	12	190	270	4	266
Between one and five years	65	-	65	223	-	223
	<u>267</u>	<u>12</u>	<u>255</u>	<u>493</u>	<u>4</u>	<u>489</u>

Current loans and borrowings and current portion of non-current loans and borrowings

	<u>Effective interest rate</u>	<u>2007</u>	<u>2006</u>
Current loans and borrowings	7-15%	106,173	77,539
Current portion of non-current loans and borrowings	8-9%	110,056	75
Current portion of non-current loans and borrowings related to restructuring	7-9%	97,404	-
Current portion of finance lease liability	17-18%	190	266
		<u>313,823</u>	<u>77,880</u>

Bank loans are collateralized by properties with a carrying amount of EUR 284 thousand (2006: EUR 609 thousand) – see Note 6 (c). The amount of the loans as at 31 December 2007 is EUR 2,899 thousand (31 December 2006: EUR 1,632 thousand).

As at 31 December 2007 the Group has undrawn borrowing facilities at fixed rates, expiring within one year in the amount of EUR 2,228 thousand (31 December 2006: EUR 5,890 thousand). These borrowing facilities are annual facilities subject to review at various dates during 2008.

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18 Accounts payable and accrued liabilities

	<u>2007</u>	<u>2006</u>
<i>Financial liabilities</i>		
Trade payables	80,078	107,428
Payables to associates	382	2,218
Other payables	7,167	1,166
	<u>87,627</u>	<u>110,812</u>
<i>Non-financial liabilities</i>		
Advances received	8,929	8,536
Staff payables	6,558	6,839
Other payables and accrued liabilities	5,782	5,105
	<u>21,269</u>	<u>20,480</u>
	<u>108,896</u>	<u>131,292</u>

19 Other taxes payable

	<u>2007</u>	<u>2006</u>
Value added tax (including deferred)	11,165	23,669
Fines and interest	6,237	1,656
Property tax	562	498
Other taxes	3,134	2,732
	<u>21,098</u>	<u>28,555</u>

Included in value added tax payable is EUR 7,403 thousand of deferred VAT which only becomes payable to the authorities when the underlying receivables balance is either recovered or written off (31 December 2006: EUR 11,235 thousand).

20 Revenue

	<u>2007</u>	<u>2006</u>
Revenue from electricity sales	1,043,987	1,070,660
Other revenue	16,361	11,953
	<u>1,060,348</u>	<u>1,082,613</u>

Revenue from electricity sales for the year ended 31 December 2007 includes revenue from capacity sales in the amount of EUR 27,003 thousand (2006: nil).

Other revenue for the year ended 31 December 2007 include governmental grants in the amount of EUR 5,720 thousand related to the Group's companies Mtkvari Ltd and JSC Electriccheskiye seti Armenii.

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21 Operating expenses

	<u>2007</u>	<u>2006</u>
Purchased power	705,251	575,155
Provision for impairment of property plant and equipment (Note 6)	30,180	-
Transmission fees	107,131	62,758
Wages, benefits and payroll taxes	85,806	67,782
Fuel expenses	44,232	70,042
Depreciation and amortization	31,372	26,708
Agency fees	16,644	47,248
Repair and maintenance	10,976	37,616
Consulting services	5,364	6,383
Taxes other than on income	4,378	(92)
Bank services	3,053	4,325
Material expenses (office maintenance)	2,966	2,867
Leasing costs	2,938	23,733
Advertising	2,166	5,292
Social expenditures	903	2,417
Provision for impairment of accounts receivable	635	6,578
Custom taxes	565	2,366
(Gain) / loss on disposal of fixed assets	(856)	4,590
Other expenses	30,262	14,926
	<u>1,083,966</u>	<u>960,694</u>

Purchased power expenses for the year ended 31 December 2007 include purchases of capacity in the amount of EUR 171,269 thousand (2006: nil).

22 Finance income

	<u>2007</u>	<u>2006</u>
Interest income	1,229	1,871
Foreign exchange gain, net	14,170	13,365
	<u>15,399</u>	<u>15,236</u>

23 Income tax benefit /(expense)

	<u>2007</u>	<u>2006</u>
Current tax benefit/ (expense)	6,211	(43,526)
Deferred tax benefit	10,491	8,681
	<u>16,702</u>	<u>(34,845)</u>

The Parent Company's applicable tax rate is the corporate income tax rate of 24% (2006: 24%). The income tax rate in Finland is 26% (2006: 26%), in Georgia is 20% (2006: 20%), in Armenia is 20% (2006: 20%). The tax system in Transnistria, Moldova, where Moldavskaya GRES, a Group company acquired in 2005, operates, is based on revenue at a rate of 8.6% (2006: 8.7%).

In accordance with tax legislations, tax losses in different Group companies in the countries where Group companies operate may not be offset against taxable profit of other Group companies. Accordingly, profit tax may accrue even where there is a net consolidated tax loss.

Profit before tax for financial reporting purposes is reconciled to profit tax expenses as follows:

	<u>2007</u>	<u>2006</u>
(Loss) / profit before tax	(38,452)	111,473
Theoretical profits tax benefit/(charge) at 24% (2006: 24%)	9,229	(26,754)
Effect of different tax rates	732	(1,352)
Effect of different tax base (Moldavskaya GRES)	(3,703)	(2,876)
Non-recognized deferred tax assets movements and recognition of previously unrecognised tax benefits	17,569	5,773
Income tax refund due to agency fees deduction (JSC RAO UES International)	16,038	-
Tax effect of items which are not deductible or assessable for taxation purposes, net	(23,163)	(9,636)
	<u>16,702</u>	<u>(34,845)</u>

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24 Financial instruments and financial risk factors

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency exchange risk, interest rates risk and price risk), credit risk and liquidity risk. Till the end of 2007 the Group did not have a risk policy in order to hedge its financial exposures. Since 2008 risk management is carried out in accordance with a risk policy approved by the Management Board. This risk policy provides written principles for overall risk management and policies for specific areas, such as foreign exchange risk, credit risk, and other particular areas. The Group management considers these measures as sufficient to control the risks the Group's business activities.

Information on financial instruments in term of categories is presented below:

31 December 2007	Loans and receivables	Available-for-sale assets	Other financial liabilities	Total
Assets as per balance sheet				
Other non-current assets	3,958	-	-	3,958
Accounts receivable and prepayments	107,413	-	-	107,413
Other current assets	3,130	-	-	3,130
Available-for-sale investments	-	8,947	-	8,947
Cash and cash equivalents	53,408	-	-	53,408
Total assets	167,909	8,947	-	176,856
Liabilities as per balance sheet				
Non-current debt	-	-	29,989	29,989
Current debt and current portion of non-current debt	-	-	313,823	313,823
Accounts payable and accrued liabilities	-	-	87,627	87,627
Total liabilities	-	-	431,439	431,439
31 December 2006	Loans and receivables	Available-for-sale assets	Other financial liabilities	Total
Assets as per balance sheet				
Other non-current assets	3,275	-	-	3,275
Accounts receivable and prepayments	124,746	-	-	124,746
Other current assets	2,664	-	-	2,664
Available-for-sale investments	-	3,981	-	3,981
Cash and cash equivalents	30,550	-	-	30,550
Total assets	161,235	3,981	-	165,216
Liabilities as per balance sheet				
Non-current debt	-	-	171,245	171,245
Current debt and current portion of non-current debt	-	-	77,880	77,880
Accounts payable and accrued liabilities	-	-	110,812	110,812
Total liabilities	-	-	359,937	359,937

(a) Credit risk

The Group is exposed to credit risk, which is the risk that a counterparty will not be able to pay amounts due in full when due. Credit risk is managed on Group basis, as well as at the level of a particular Group entity. Financial assets which potentially subject to credit risk are presented net off allowance for impairment provision in the table below and consist principally of trade and other receivables, cash and cash equivalents.

The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. The Group's current arrangements include assessing the customers' financial position, past experience and other relative factors. The carrying amount of trade and other receivables, net of allowance for impairment provision, represents the maximum amount exposed to credit risk. Although collection of receivables could be influenced by economic and other factors, management believes that there is no significant risk of loss to the Group beyond the impairment provision already recorded.

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24 Financial instruments and financial risk factors (continued)

The Group does not assign credit ratings to its debtors. As the Group's assets are located in different geographical areas (Russia, Finland, Georgia, Armenia, Moldova (Transnistria) and others) potential credit risk is associated with the credit risks of those regions. Some of the areas where Group operations take place continue to display certain characteristics of an emerging market. As such, the Group's credit risk is mostly related to any deterioration of the business environment in those areas.

Information on financial assets potentially subject to credit risk in terms of geographical areas is presented below:

At 31 December 2007	<u>Russia</u>	<u>Finland</u>	<u>Georgia</u>	<u>Armenia</u>	<u>Moldova</u>	<u>Other</u>	<u>Total</u>
Trade receivables	39,150	4,910	21,786	28,570	2,556	166	97,138
Other receivables	891	194	1,671	2,094	1,579	3,612	10,041
Non-current loans issued	2,732	-	-	8	-	-	2,740
Non-current trade receivables	-	-	781	437	-	-	1,218
Cash and cash equivalents	48,943	831	2,123	544	538	429	53,408
	<u>91,716</u>	<u>5,935</u>	<u>26,361</u>	<u>31,653</u>	<u>4,673</u>	<u>4,207</u>	<u>164,545</u>

At 31 December 2006	<u>Russia</u>	<u>Finland</u>	<u>Georgia</u>	<u>Armenia</u>	<u>Moldova</u>	<u>Other</u>	<u>Total</u>
Trade receivables	58,494	6,398	17,953	24,788	921	5,323	113,877
Other receivables	2,944	-	1,802	4,037	771	997	10,551
Non-current loans issued	3,036	37	-	-	-	-	3,073
Non-current trade receivables	-	-	-	184	-	18	202
Cash and cash equivalents	27,941	826	247	273	871	392	30,550
	<u>92,415</u>	<u>7,261</u>	<u>20,002</u>	<u>29,282</u>	<u>2,563</u>	<u>6,730</u>	<u>158,253</u>

Cash placed in financial institutions, which are considered at time of deposit to have minimal risk of default. Despite the fact that certain banks do not have the international credit rating (see Note 13) they are considered as reliable counterparties that have stable positions in the financial market of the Russian Federation and other countries in which the Group entities operate.

(b) Market risk

(i) Foreign exchange risk

Individual subsidiaries and the Group as a whole, incur currency risk on sales, purchases and borrowings that are denominated in a currency other than functional currency of the specific subsidiary or the Parent Company. The currencies giving rise to this risk are primarily the USD and EUR. Management does not hedge the Group's exposure to foreign currency risk.

The Group has the following foreign-currency denominated financial assets and liabilities (those are disclosed on stand-alone basis inclusive of intercompany balances):

At 31 December 2007	<u>EUR</u>	<u>USD</u>	<u>Other</u>	<u>Total</u>
Trade and other receivables, net	34,598	481,061	2,050	517,709
Cash and cash equivalents	12,262	17,198	103	29,563
Current loans and borrowings	(23,744)	(729,600)	(63)	(753,407)
Non-current loans and borrowings	(3,875)	(238,754)	-	(242,629)
Trade and other payables	(2,104)	(18,492)	(3,288)	(23,884)
Net foreign currency position	<u>17,137</u>	<u>(488,587)</u>	<u>(1,198)</u>	<u>(472,648)</u>

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24 Financial instruments and financial risk factors (continued)

At 31 December 2006	EUR	USD	Other	Total
Trade and other receivables, net	14,737	95,053	2,080	111,870
Cash and cash equivalents	7,700	3,897	296	11,893
Current loans and borrowings	(16,951)	(399,134)	-	(416,085)
Non-current loans and borrowings	(9,273)	(501,886)	(65)	(511,224)
Trade and other payables	(3,066)	(27,299)	-	(30,365)
Net foreign currency position	(6,853)	(829,369)	2,311	(833,911)

For the purposes of sensitivity analysis management has estimated the reasonably possible changes in currency exchange rates based mainly on expectations as to the volatility of exchange rates. If the currency exchange rates had weakened/strengthened within the estimated levels (see table below) with all other variables held constant, the hypothetical effect on income and equity results would have been EUR 35,665 thousand – EUR 58,464 thousand, respectively.

	EUR/USD	RUR/USD	RUR/EUR	AMD/USD	AMD/EUR	GEL/USD	GEL/EUR
Upper level	1.9%	-0.3%	2.9%	3.6%	11.4%	-9.8%	-2.8%
Lower level	-8.9%	-6.6%	-2.3%	-4.8%	-2.5%	-14.5%	-14.3%

The expected deviations were based on the calculation of possible change in exchange rates based on an analysis of trends.

(ii) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). At the moment, Group's management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity. The Group's management does not hedge its interest rate risk.

As at 31 December 2007 the variable rate debt, represented mostly by loans with LIBOR linked interest rate, amounted to EUR 93,672 thousand. If interest rates on borrowings at that date had been 150 basis points per annum higher/lower, with all other variables held constant, the hypothetical effect on income for the year would have been EUR 1,405 thousand loss/profit.

(c) Liquidity risk

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group seeks to adopt prudent liquidity risk management which implies maintaining sufficient cash balances and the availability of funding through an adequate amount of committed credit facilities.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining contractual maturity date. The amounts disclosed in the table are contractual or estimated undiscounted cash flows.

At 31 December 2007	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Between 5 and 20 years	Over 20 years
Loans and borrowings	218,428	23,802	102,646	2	179,849
Trade payables	80,078	1,479	-	-	-
Other payables	7,549	-	-	-	-
Total at 31 December 2007	306,055	25,281	102,646	2	179,849
At 31 December 2006	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Between 5 and 20 years	Over 20 years
Loans and borrowings	45,120	162,187	41,885	-	195,614
Trade payables	107,428	1,176	-	-	-
Other payables	3,384	-	-	-	-
Total at 31 December 2006	155,932	163,363	41,885	-	195,614

JSC RAO UES International

Notes to the Consolidated Financial Statements for the Year ended 31 December 2007

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24 Financial instruments and financial risk factors (continued)

(d) Capital risk management

The Group's objective when managing capital is to safeguard the ability to continue operations on the going concern basis and to provide returns to shareholders as well as to maintain a strong capital base to provide creditor's and the market with confidence in the Group (see also Note 2).

The Group monitors capital on the basis of a number of ratios, including gearing ratio, based on quarterly statutory financial statements of JSC RAO UES International and management accounts of its subsidiaries prepared according to statutory requirements. The Group was in compliance with gearing ratios imposed by loan agreements with certain banks.

(e) Fair values

Fair value has been determined either by reference to the market value at the balance sheet date or by discounting the relevant cash flows using market interest rates for similar instruments. As a result of this exercise management believes that the fair value of its financial assets and liabilities approximates their carrying amounts.

25 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2007	2006
Less than one year	1,835	1,551
Between one and five years	1,326	3,359
	3,161	4,910

During 2006 the Group leased premises in Moscow, and the power plant facilities of Iriklinkaya GRES (a division of JSC Orenburgenergo, an entity controlled by RAO UES) and JSC Kaliningradskaya TETS-2. The leases typically run for an initial period of one year, with an option to renew the lease after that date. In 2007 the Group did not prolong the lease of the power plant facilities of Iriklinkaya GRES and JSC Kaliningradskaya TETS-2.

During 2007 EUR 2,938 thousand (2006: EUR 23,733 thousand) was recognised in the consolidated income statement in respect of operating lease expenses.

26 Commitments

Investment commitments

In accordance with the agreement between the Group and the Government of Georgia, the Group has the investment commitments for the amount of USD 5.5 million.

These investments are any expenditure, expenses or investments of any kind related to the rehabilitation, or upgrade of the business infrastructure, including, without limitation, the rehabilitation, replacement, or upgrade of the transformers, cables, lines, fuses, vehicles, fault detection equipment, relay protection and automating substations.

In accordance with the agreement signed between the Group and the Government of Georgia in June 2007, the Group has to invest during the period from 1 January 2007 till 31 December 2015 USD 56.3 million in realization of projects aimed at the improvement of the electricity network which belongs to the Group entity JSC Telasi. The remaining investment commitments as at 31 December 2007 are as follows:

Year	Investments, USD million
2008	13.9
2009	2.5
2010	2.5
2011	2.5
2012	2.5
2013	2.6
2014	2.9
2015	2.9

In accordance with the privatization agreements, the shareholders of CJSC Moldavskaya GRES, a 51 percent-owned Group company acquired in 2005, have certain investment commitments. Fulfillment of investment

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Notes to the Consolidated Financial Statements for the Year ended 31 December 2007

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26 Commitments (continued)

commitments in relation to CJSC Moldavskaya GRES are subject to approval by the authorised governmental body of Transnistria, Moldavia. Initially the Group's investment commitments amounted to USD 80.4 million; the schedule of investing covers the period up to year 2010.

As of 31 December 2007 the Group is in compliance with the Moldavia investment program. The authorised body of Transnistria accepted the fulfillment of investment commitments for USD 78.4 million, out of which USD 50.2 million is to be invested into CJSC Moldavskaya GRES if and when needed in the course of normal business activities. The remaining part of the investment commitments (USD 2 million) are to be realised by end of 2010.

27 Contingencies

(a) 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, Georgia, Armenia, Moldavia (Transnistria) and Kazakhstan.

(b) Insurance

The insurance industry in Russia and the CIS countries is in a developing stage and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations in the CIS countries. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

(c) Litigation

Legal proceedings

In the normal course of business the Group may be a party to legal actions. Other than as presented below, management of the Group is unaware of any actual, pending or threatened claims as at the signing date of these financial statements, which would have a material impact on the Group.

Legal claims	<u>2007</u>	<u>2006</u>
	10,482	4,954

As at 31 December 2007 the Group had legal claims the likelihood of which is not probable, but only possible, and, consequently, no provision has been made in the consolidated financial statements.

(d) Tax contingency

The taxation systems in the Russian Federation and in the CIS countries in which the Group operates are relatively new and characterised by frequent changes in legislation, official pronouncements and court decisions which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three to five subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation in particular suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation and in the CIS countries that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable relevant tax legislations, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

The subsidiaries in the countries where Group companies operate, have various transactions with other related parties, where the pricing is determined in conjunction with other companies within the Shareholder Group. The pricing policy could give rise to transfer pricing risks. In management's opinion, the Group is in substantial compliance with the tax laws of the countries, where Group companies operate. However, relevant authorities could take different positions with regard to interpretive issues or court practice could develop adversely with respect to the positions taken by the Group and the effect could be significant.

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27 Contingencies (continued)

The Group includes a number of operating and investment companies located in a number of tax jurisdictions across Europe and CIS. Those entities are subject to a complex variety of tax regimes and the nature of current and past trading and investment activities exposes them to areas of tax legislation involving considerable judgement and, consequently, uncertainty. The Group estimates that possible claims in respect of certain open tax positions of Group companies could amount to as much as EUR 22,386 thousand (31 December 2006: EUR 30,737 thousand) if the tax positions would be successfully challenged. In addition, the Group identified certain tax matters, which require estimates to be made of the amount of possible tax claims. The Group's best estimate of potential obligations relating to such additional exposures is EUR 2,426 thousand (31 December 2006: EUR 9,166 thousand).

(e) Environmental matters

Group entities and their predecessor entities have operated in the electric power industry in the Russian Federation, Georgia, Armenia, Kazakhstan and Moldavia for many years. The enforcement of environmental regulation in these countries 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.

(f) Ownership of transmission lines

The current legislation in Georgia is untested in relation to ownership issues with regard to line objects of real estate property, for example, the land over which one of the Group's entities (JSC "Telasi") equipment for the transmission of electricity is located. On further clarification of the law, it is possible that JSC "Telasi" may be required to acquire ownership to certain land plots or to pay rentals to other parties for the use of certain land plots. At the date of approval of these financial statements, management considers that it is not possible to quantify any additional expense, if any, which JSC "Telasi" might incur and consequently, no provision has been made against such potential liabilities in the financial statements.

(g) Recent volatility in global financial markets

Since the second half of 2007 there has been a sharp rise in foreclosures in the US sub-prime 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 or other debt financing by banks 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 increase volatility.

28 Related party transactions

(a) Parent company and control relationships

As at 31 December 2007 RAO UES owned 60% of the ordinary voting shares of the Parent Company. The party with ultimate control over the Parent Company is the Government of the Russian Federation.

During the year ended 31 December 2007 RAO UES charged to the Group an agency fees in the amount of EUR 13,662 thousand (EUR 33,150 thousand for the year ended 31 December 2006). Accounts payable to RAO UES as at 31 December 2007 and 31 December 2006 were equal to EUR 804 thousand and EUR 1,316 thousand, respectively.

(b) Transactions with management and close family members

Compensation paid to key management for their service in that capacity is made up of contractual salary and performance bonuses. Key management received the following remuneration during the year, which is included in wages, benefits and payroll taxes (see note 21):

Salaries and bonuses	<u>2007</u>	<u>2006</u>
	7,829	4,403

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28 Related party transactions (continued)

(c) Transactions with associates and jointly controlled entities

The jointly controlled entities are JSC Stantsiya Ekibaztuzskaya GRES-2 and JSC Industrial Power Company. The associate is JSC Severo-Zapadnaya TETS.

The Group's transactions with associates and jointly controlled entities are disclosed below.

	Year ended 31 December 2007	Year ended 31 December 2006
Revenue		
Electricity revenues:		
Associate	1,113	322
	1,113	322
	Year ended 31 December 2007	Year ended 31 December 2006
Purchases		
Purchased power:		
Jointly-controlled entities	9,423	11,629
Associate	23,625	11,987
	33,048	23,616
	31 December 2007	31 December 2006
Accounts receivable		
Jointly-controlled entities	27	317
Associate	-	1
	27	318
	31 December 2007	31 December 2006
Accounts payable		
Jointly-controlled entities	-	792
Associate	382	1,426
	382	2,218

(d) Transactions with the subsidiaries of RAO UES

	Year ended 31 December 2007	Year ended 31 December 2006
Revenue		
Electricity revenues	103,616	96,827
Other revenues	-	724
	103,616	97,551
	Year ended 31 December 2007	Year ended 31 December 2006
Loans received		
JSC "OGK-1"	-	1,743
JSC "Irklynskaya GRES"	-	522
	-	2,265
	Year ended 31 December 2007	Year ended 31 December 2006
Purchases		
Purchased power	166,030	188,024
Transmission fees/Agency fees	61,842	44,939
Other purchases	318	47,140
	228,190	280,103

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28 Related party transactions (continued)

	<u>31 December 2007</u>	<u>31 December 2006</u>
Accounts receivable		
Trade accounts receivable	3,577	17,344
Advances issued	72	2,689
Other receivable	90	159
	<u>3,739</u>	<u>20,192</u>
	<u>31 December 2007</u>	<u>31 December 2006</u>
Accounts payable		
Trade accounts payable		
Purchased power	36	13,133
Transmission/Agency fees	6,590	24,847
Advances received	45	-
Other accounts payable	906	1,915
	<u>7,577</u>	<u>39,895</u>
	<u>31 December 2007</u>	<u>31 December 2006</u>
Loans payable		
JSC "OGK-1"	-	61

Sales of electricity to subsidiaries of RAO UES are made based on tariffs, set by Federal service of tariffs (FST). Purchases of electricity are made for realization on export and on Russian electricity market (NOREM). According to NOREM rules in 2007 electricity purchases were made mostly on the basis of tariffs set by FST, the remaining purchase transactions were executed based on market prices. There are also separate transactions of capacity purchase have been provided since 2007 in according to NOREM rules, which are based on tariffs, set by Federal service of tariffs (FST) and include in purchased power expenses in disclosure above. All outstanding balances with related parties are to be settled in cash within six months of the balance sheet date. None of the balances are secured.

(e) Transactions with entities controlled by the State of the Russian Federation

FGUP Rosenergoatom has significant influence over the Company. The Government of the Russian Federation is the ultimate controlling party of FGUP Rosenergoatom and has a controlling interest of 100% in FGUP Rosenergoatom (see Note 1).

During the years ended 31 December 2007 and 31 December 2006 the Group purchased electricity from FGUP Rosenergoatom in the amount of EUR 16,168 thousand and EUR 41,907 thousand, respectively and purchased capacity for the year ended 31 December 2007 in amount of EUR 12,093 thousand. Operating expenses for the year ended 31 December 2007 and 31 December 2006 equal to EUR 600 thousand and EUR nil thousand, respectively.

Account payable as at 31 December 2007 and 31 December 2006 equal to EUR 90 thousand and EUR nil thousand, respectively.

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28 Related party transactions (continued)

For the year ended and as of 31 December 2007 and 2006, respectively, the Group had the following significant transactions and balances with other entities controlled by the State of the Russian Federation:

	Year ended 31 December 2007	Year ended 31 December 2006
Revenue		
Electricity revenue	27	-
Other revenue	566	-
	593	-
	Year ended 31 December 2007	Year ended 31 December 2006
Expenses		
Current income tax	1,920	30,984
Unified social tax	1,350	1,018
Taxes other than income	1,219	148
Interest expense (Sberbank (Russian Federation))	3,139	1,886
Interest income (Sberbank (Russian Federation))	(554)	(934)
Fuel purchases from Gazprom	7,205	29,701
Income from VAT recovery	(10,555)	-
Other operating expenses	404	-
	4,128	62,803
	Year ended 31 December 2007	Year ended 31 December 2006
Loans received		
Sberbank (Russian Federation)	97,156	7,326
	97,156	7,326
	31 December 2007	31 December 2006
Accounts receivable		
Value added tax recoverable	52,709	38,352
Current profit tax	8,439	5,547
Other receivables	125	-
	61,273	43,899
	31 December 2007	31 December 2006
Accounts payable		
Value added tax payable	-	5,884
Other taxes payable	41	42
Other accounts payables	8	-
	49	5,926
	31 December 2007	31 December 2006
Loans payable		
Sberbank (Russian Federation):		
Short-term loan	20,872	7,203
Long-term loan	55,659	-
Interest on loans	189	17
	76,720	7,220

The loans from Sberbank consist of a short-term and long-term loan, both denominated in RUR and bear interest at 8% and 8.25%. The long-term loan is subject to repayment in 2010.

Taxes are accrued and settled in accordance with Russian tax legislation.

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29 The entities under asset management

The entities under asset management are the hydrogeneration plants Khramesi I and II in Georgia and the CJSC Armenian nuclear power station. These entities were not consolidated in these financial statements.

The Group's transactions with the entities under asset management are disclosed below.

	Year ended 31 December 2007	Year ended 31 December 2006
Electricity revenues	1,564	1,542
Purchased power	32,446	32,118

	Year ended 31 December 2007	Year ended 31 December 2006
Accounts receivable	3,155	4,145
Accounts payable	6,133	7,817
Loans received from Khramesi I	2,057	2,279
Loans issued to Khramesi I	2,732	3,036

The loan received from and the loan given to Khramesi I bear interest at 12 % per annum and are subject to repayment in January 2009.

30 Significant subsidiaries

The principal subsidiaries consolidated in the Group's financial statements are disclosed in the table below:

	Country of incorporation	2007 Ownership/voting	2006 Ownership/voting
Distributing and trading entities			
RAO Nordic Oy*	Finland	100%	100%
JSC Telasi	Georgia	75%	75%
JSC Elektricheskiye seti Armenii	Armenia	67%	67%
Generating entities			
Mtkvari Ltd.	Georgia	100%	100%
JSC IEC	Armenia	90%	90%
JSC Moldavskaya GRES	Moldova, Transnistria	51%	51%
Holding entities			
InterEnergO BV	Netherlands	67%	67%
Silk Road Holdings BV	Netherlands	100%	100%
Gardbani Holdings BV	Netherlands	100%	100%
ES Georgia Holdings BV	Netherlands	100%	100%
Saint Guidon Invest N.V.	Belgium	100%	100%
Service entities			
JSC RAO UES International Baltia	Russian Federation	88%	88%
Technoelectrika S.R.L.	Moldova	90%	90%
TGR Energji	Turkey	70%	70%
JSC Inter RAO UES – Ukraine	Ukraine	90%	90%
Energospetsservisobsluzhivanie	Moldova, Transnistria	60%	60%
Inter RAO Central Asia	Kazakhstan	100%	100%
Other entity			
LLC INTER RAO UES FINANCE	Russian Federation	100%	-

* RAO Nordic Oy also acts as a holding company for Group entities.

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31 Events after the balance sheet date

1. Reorganization

- a) Following decisions of the Government of Russian Federation, RAO UES, the majority shareholder of the Parent Company, was reorganised by way of the distribution of the RAO UES assets among its shareholders proportionately to stakes belonging to them in RAO UES's share capital. As of July 1, 2008, the reorganization process was fully completed and RAO UES ceased to exist as a legal entity.
- b) In December 2007 an Extraordinary Shareholders Meeting of the Parent Company approved the decision on Parent Company reorganisation in the form of its merger into JSC "Sochinskaya Thermal Power Plant" (further renamed into Open Joint-Stock Company INTER RAO UES). As required by law, the Parent Company notified its creditors of their right to demand the settlement of liabilities (see Note 2). The reorganization was carried out in the course of the final stage of the reorganization of RAO UES (see (a) above), the majority shareholder of the Parent Company. As of May 1, 2008, the Parent Company, as well as JSC Ivanovo Thermal-gas Plant (Ivanovo oblast, Russia) and JSC Severo-Zapadnaya TETS (Saint - Petersburg, Russia), both formerly subsidiaries of RAO UES, became the branches of Open Joint-Stock Company INTER RAO UES, (before reorganization JSC "Sochinskaya Thermal Power Plant" see above). The share capital of the newly established company was distributed among the stock-holders of RAO UES and the stock-holders of the companies merged into Open Joint-Stock Company INTER RAO UES. As of July 1, 2008, Kaliningradsckaja Thermal Power Plant (Kaliningrad, Russia), formerly a subsidiary of RAO UES, was merged into Open Joint-Stock Company INTER RAO UES. As of July 1, 2008, JSC INTER RAO UES Holding was separated from RAO UES and merge into Open Joint-Stock Company INTER RAO UES. The reorganization process was carried out in full compliance with the current legislation of the Russian Federation.
- c) As of July, 2, 2008, the majority shareholder of Open Joint-Stock Company INTER RAO UES was Russian Federation Federal Agency on federal property management, with the share of 42.45% in share capital of Open Joint-Stock Company INTER RAO UES. Taking into consideration that as at the same date the other shareholder with 14.9 % share in the share capital of Open Joint-Stock Company INTER RAO UES was FGUP "Rosenergoatom", 100 % owned by the Government of Russian Federation, an ultimate controlling party of Open Joint-Stock Company INTER RAO UES is the State of Russian Federation.

2. Group reorganization

For the purposes of improving corporate management, in March 2008 the Board of Directors of the Parent Company approved the following changes in the Group's structure.

- a) The Parent Company has established INTER RAO Holding B.V., a private limited liability company, registered in the Netherlands. The company was registered in April 2008. 100 % of the shares of the newly established company are owned by the Parent company. The issued capital of the company is EUR 50,000 thousand. The Parent company paid for the share capital of the newly established company in part in cash and in part by contributing the shares of Interenergo B.V. (the Netherlands), a Group entity.
- b) Acting as the executive body of RAO Nordic Oy and INTER RAO Holding B.V., both 100 % subsidiaries of the Parent Company, the Board of Directors of the Parent Company approved the sale-purchase agreements between RAO Nordic Oy and INTER RAO Holding B.V. Following those agreements, RAO Nordic Oy sold to INTER RAO Holding B.V. the shares of Gardabani Holdings B.V., Silk Road Holdings B.V., ES Georgia Holdings B.V. (all three registered in the Netherlands) and CJSC International Energy Corporation (Republic of Armenia). The shares transfer was completed in May 2008.
- c) Acting as the executive body of RAO Nordic Oy and INTER RAO Holding B.V., both 100 % subsidiaries of the Parent Company, in April 2008 the Board of Directors of the Parent Company approved the cession from RAO Nordic Oy to INTER RAO Holding B.V. of the rights in respect of receivables to RAO Nordic OY from Interenergo B.V. (the total nominal amount owed as of 31 March 2008 was USD 42,053 thousand, of which USD 35,791 thousand was the principal debt and USD 6,262 thousand was interest accrued), from Silk Road Holdings B.V. (as of 31 December 2007 the total nominal amount owed was USD 434,411 thousand, of which USD 255,542 thousand was the principal debt and USD 183,869 thousand was interest accrued), from Gardabani Holdings B.V. (as of 31 December 2007 the total nominal amount owed was USD 46,536 thousand, of which USD 25,458 thousand was the principal debt and USD 21,078 thousand was interest accrued), from ES Georgia Holdings B.V. (as of 31 December 2007 the total nominal amount owed was USD 9,767 thousand, of which USD 4,672 thousand was the principal debt and USD 5,095 thousand was interest accrued).

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Events after the balance sheet date (continued)

3. Loans

- a) In March 2008 the Parent Company signed a syndicated loan agreement with BNP Paribas, Commerzbank, Nateksis and VTB Bank Europe. The syndicated loan totaled USD 130 million. The loan was issued for a one year period to cover the operational needs of the Parent Company, as well as for refinancing of the Parent Company's current debt. According to the loan agreement, during the first six months the interest rate on the loan was set at 1Y LIBOR + 1, 25%, or 4,33 % p.a. as of the date the loan was issued.
- b) In March 2008 the Parent Company fully repaid its debt in relation to Credit Linked Notes, issued in 2006 for a 2-year period (see Note 17 (ii)).
- c) In May 2008 the Parent Company fully repaid the remaining part of the debt in relation to the loan issued in June 2005 by Credit Swiss First Boston International (See Note 17 (i)).

4. Dividends

- a) On June 25, 2008, the Annual Shareholders meeting of JSC INTER RAO UES (OAO) approved the decision to pay no dividends in respect of the year ended 31 December 2007.
- b) In April 2008 the Annual shareholders meeting of Stantsiya Ekibastuzskaya GRES-2, the Parent Company jointly controlled entity, declared the distribution of 379 779 thousand tenges (EUR 2 021 thousand) as dividends. 50 % of the dividends declared are attributable to the Parent Company.

5. Acquisition

- a) In May 2008, RAO Nordic Oy, the Group entity, finalized acquisition of 33% of the share Capital of ERC, UAB Energijos Realizacijos Centras (Lithuania). The total consideration paid by RAO Nordic was EUR 31,600 thousand. As at 31 December 2007 18 % of ERC's share capital was owned by RAO Nordic (see Note 10). Thus, in May 2008 the Group obtained control over ERC. According to the report of the independent appraiser, the value of the business of ERC as at 31 December 2007 was in the range from EUR 90 to 110 million.
- b) In July, 2008 the Parent Company purchased 100 % of the shares of Freecom Trading Limited, which owns 49 % of shares of JSC Moldavskaya GRES, a Group entity. The total consideration paid in cash for the shares of Freecom Trading Limited was USD 163 million.