WGC-3 GROUP
CONSOLIDATED FINANCIAL STATEMENTS
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)
FOR THE YEAR ENDED 31 DECEMBER 2007

PRICEWATERHOUSECOOPERS

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Board of Directors of the Open Joint Stock Company "Third Generation Company of the Wholesale Electricity Market" (JSC "WGC-3"):

We have audited the accompanying consolidated financial statements of JSC "WGC-3" and its subsidiaries (the Group) which comprise the consolidated balance sheet as of 31 December 2007 and the consolidated income statement, consolidated statement of changes in equity and consolidated statement of cash flows 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 its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
14 May 2008

WGC-3 Group
Consolidated Balance Sheet as at 31 December 2007
(in thousands of Russian Roubles)

	Notes	31 December 2007	31 December 2006
ASSETS			
Non-current assets			
Property, plant and equipment	6	24 698 526	18 724 758
Other non-current assets	7	242 017	262 904
Total non-current assets		**24 940 543**	**18 987 662**
Current assets			
Inventories	8	2 328 176	2 292 782
Accounts receivable and prepayments	9	2 921 503	1 172 568
Deposits and other financial assets	10	74 750 000	-
Loans issued		1 660	-
Current income tax prepayments		119 443	286 146
Cash		2 182 360	354 892
Total current assets		**82 303 142**	**4 106 388**
TOTAL ASSETS		**107 243 685**	**23 094 050**
EQUITY AND LIABILITIES			
Equity			
Share capital	12	47 487 999	29 487 999
Share premium	12	63 228 766	450 818
Other reserves		(8 357 873)	(8 357 873)
Fair value reserve		34 673	25 642
Retained earnings		(323 064)	(6 350 801)
Total equity		**102 070 501**	**15 255 785**
Non-current liabilities			
Deferred tax liabilities	13	2 784 528	1 545 753
Pension and post employment liabilities	14	150 098	240 545
Other non-current liabilities		22 204	33 342
Total non-current liabilities		**2 956 830**	**1 819 640**
Current liabilities			
Current debt and current portion of non-current debt	15	-	3 704 008
Accounts payable and accruals	16	1 643 498	1 702 122
Provision for liabilities and charges	17	140 199	233 343
Taxes payable	18	432 657	379 152
Total current liabilities		**2 216 354**	**6 018 625**
Total liabilities		**5 173 184**	**7 838 265**
TOTAL EQUITY AND LIABILITIES		**107 243 685**	**23 094 050**

General Director — Yuriy Sablukov

Chief Financial Officer — Dmitry Katiev

ОТКРЫТОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО «Третья генерирующая компания оптового рынка электроэнергии» ОГРН 1040302983093 * Республика Бурятия *

14 May 2008

WGC-3 Group
Consolidated Income Statement for the year ended 31 December 2007
(in thousands of Russian Roubles, except for earning/(loss) per ordinary share information)

	Notes	Year ended 31 December 2007	Year ended 31 December 2006
Revenues			
Electricity		32 346 124	22 344 941
Heat		598 151	509 110
Other		441 405	216 137
Total revenue		**33 385 680**	**23 070 188**
Operating expenses	19	(31 650 452)	(23 455 828)
Impairment loss reversed during the year	6	3 930 682	6 400 021
Impairment loss recognized during the year	6	-	(49 693)
Other operating income	20	35 687	221 818
Operating profit/(loss)		**5 701 597**	**6 186 506**
Finance income	21	3 753 821	45 485
Finance costs	22	(239 842)	(216 213)
Profit/(loss) before income tax		**9 215 576**	**6 015 778**
Income tax	13	(2 487 838)	(1 615 065)
Profit/(loss) for the period		**6 727 738**	**4 400 713**
Attributable to:			
Shareholders of JSC WGC-3		**6 727 738**	**4 400 713**
Earning/(loss) per ordinary share for profit/(loss) attributable to the shareholders of JSC WGC-3 – basic and diluted (in Russian Roubles)	23	**0.157**	**0.152**

General Director — Yuriy Sablukov

Chief Financial Officer — Dmitry Katiev

14 May 2008

(in thousands of Russian Roubles)

	Notes	Year ended 31 December 2007	Year ended 31 December 2006
CASH FLOW FROM OPERATING ACTIVITIES:			
Profit / (loss) before income tax		**9 215 576**	**6 015 778**
Adjustments for non-cash items:			
Depreciation	6	1 233 387	1 093 393
Provision for impairment of accounts receivable	19	275 984	147 240
Finance cost	22	239 842	170 728
Forgiveness of tax penalties		-	(134 137)
Finance income	21	(3 753 821)	-
Loss/(gain) on disposal of fixed assets	6	133 264	162 743
Impairment loss reversed during the year	6	(3 930 682)	(6 350 328)
Other non-cash items		(6 022)	(83 264)
Operating cash flows before working capital changes and income tax paid		**3 407 528**	**1 022 153**
Working capital changes:			
Decrease/(Increase) in accounts receivable and prepayments		(1 138 238)	39 465
Increase in inventories		(16 773)	(771 072)
Increase in other assets		(15 347)	(170 726)
Increase/(Decrease) in accounts payable and accruals		(142 720)	307 013
Increase/(Decrease) in taxes payable, other than income tax		81 098	(276 692)
Increase/(Decrease) in other non-current liabilities		(107 473)	200 297
Income tax paid in cash		(1 112 809)	(519 509)
Net cash generated from operating activities		**955 266**	**(169 071)**
CASH FLOW FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment and other non-current assets		(3 453 353)	(1 264 970)
Deposited to banks	10	(55 750 000)	-
Short-term investments held to maturity		(19 000 000)	-
Proceeds from sale of property, plant and equipment and other non-current assets		26 342	18 391
Interest received		2 890 775	13 850
Net cash used in investing activities		**(75 286 236)**	**(1 232 729)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from short-term borrowings		4 736 198	9 678 548
Repayment of debt		(8 442 149)	(7 654 557)
Interest paid		(221 750)	(130 798)
Dividends paid to shareholders of JSC WGC-3		(418 011)	(240 282)
Dividend paid to minority interest shareholders		(273 798)	(13 845)
Proceeds from issue of share capital		80 777 948	-
Net cash generated from financing activities		**76 158 438**	**1 639 066**
Net increase/(decrease) in cash		**1 827 468**	**237 267**
Cash at the beginning of the period		**354 892**	**117 625**
Cash at the end of the period		**2 182 360**	**354 892**

General Director Yuriy Sablukov

Chief Financial Officer Dmitry Katiev

14 May 2008

WGC-3 Group

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

(in thousands of Russian Roubles)

	Attributable to the shareholders of JSC WGC-3						
	Share capital	Share Premium	Other reserves	Retained earnings	Fair value reserve	Minority interest	Total equity
As at 1 January 2006	**27 608 088**	**450 818**	**(8 357 873)**	**(9 485 548)**	**-**	**618 475**	**10 833 960**
Available-for-sale investments:							
Change in fair value of available-for-sale investments	-	-	-	-	33 739		33 739
Deferred tax on change in fair value of available-for-sale investments	-	-	-	-	(8 097)		(8 097)
Net income / (expense) recognized directly in equity	-	-	-	-	25 642	-	25 642
Profit for the period	-	-	-	4 400 713	-	-	4 400 713
Total recognized income for 2006	-	-	-	4 400 713	25 642	-	4 426 355
Transactions with minorities (Note 12)	1 879 911	-	-	(1 261 436)	-	(618 475)	-
Dividends declared (Note 12)	-	-	-	(4 530)	-	-	(4 530)
As at 31 December 2006	**29 487 999**	**450 818**	**(8 357 873)**	**(6 350 801)**	**25 642**	**-**	**15 255 785**
Available-for-sale investments:							
Change in fair value of available-for-sale investments	-	-	-	-	11 882	-	11 882
Deferred tax on change in fair value of available-for-sale investments	-	-	-	-	(2 851)	-	(2 851)
Net income / (expense) recognized directly in equity	-	-	-	-	9 031	-	9 031
Profit for the period	-	-	-	6 727 738	-	-	6 727 738
Total recognized income for 2007	-	-	-	6 727 738	9 031	-	6 736 769
Payment of share capital (Note 12)	18 000 000	63 720 000	-	-	-	-	81 720 000
Transaction costs of share capital increase	-	(942 052)	-	-	-	-	(942 052)
Dividends declared (Note 12)	-	-	-	(700 001)	-	-	(700 001)
As at 31 December 2007	**47 487 999**	**63 228 766**	**(8 357 873)**	**(323 064)**	**34 673**	**-**	**102 070 501**

General Director — Yuriy Sablukov

Chief Financial Officer — Dmitry Katiev

14 May 2008

The government of the Russian Federation directly affects the Group's operations through regulation by the Federal Service on Tariffs ("FST"), with respect to its wholesale energy sales. Tariffs which the Group may charge for sales of electricity and heat are governed by regulations specific to the electricity and heat industry and by regulations applicable to natural monopolies.

As described in Notes 2, 24 and 25, the government's economic, social and other policies could have material effects on the operations of the Group.

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

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

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

As a result of an additional share issue RAO UES lost control over WGC-3 and WGC-3 became it's associate. The reorganization of RAO UES is expected to be completed on 1 July 2008. As of that date the RAO UES expects to have sold all of the retailing companies, its effective interests in all WGCs and TGCs, except for Federal Hydro Generating Company ("HydroWGC") and it will distribute most of its remaining investments to the shareholders of the WGCs, TGCs or the minority shareholders in RAO UES, In case with WGC-3 it's planned to transfer share of RAO UES in WGC-3 (26,02%) to minority shareholders of RAO UES by means of a spin-off of the Company from RAO UES and a subsequent merger with WGC-3 Holding. The shareholders of WGC-3 Holding are the minority (non-State) shareholders of RAO UES.

All information connected with the reorganization of RAO UES, including acts of legislation, results of RAO UES shareholder meetings, RAO UES Board of Directors decisions, etc. are public and are located on RAO UES official web-site.

The reorganization of RAO UES creates conditions for competitive electricity market development. WGC-3 is one of the participants involved in activity on competitive market. Prices in this market will not be regulated by the government, but will be formed on a demand and supply basis. As at 1 September 2006, a new liberalized model of the wholesale and retail electricity (power) markets was launched according to the Russian Government's Resolution No. 529 "On Improvement of the Procedure for Functioning of Wholesale Electricity (Power) Market" and No. 530 "On Rules for the Functioning of Retail Electricity Markets". Under the new wholesale market model, the existing electricity and power purchase-and-sale relations in the regulated market sector are to be replaced by a regulated bilateral contract system. From January 2007 the volumes of electricity (power) traded on the wholesale energy market under regulated contracts should be not less than 95% of the basic forecasted volume of electricity (power) , and from 1 July 2007 - not less than 90%. The pace of reduction will be set annually by the Russian Federation Government according to the Rules for the Functioning of Retail Electricity Markets. From 1 January 2011 all electricity will be traded at free prices. The new market model implies two ways of electricity trading at free prices, being free bilateral contracts and a day-ahead market. Under free bilateral contracts market participants have the right to choose contracting parties, prices and supply volumes. The day-ahead market is based on competitive selection of bids submitted by suppliers and buyers a day before the electricity is actually supplied. The competitive selection is performed by the non-commercial partnership "Trade System Administrator of the Wholesale Electricity Market". As a whole, the day-ahead market replaces the free trade sector that was previously operating.

Note 2. Financial condition

At 31 December 2007, the Group's current assets exceeded its current liabilities by RR 80 086 788 thousand (at 31 December 2006: current liabilities exceeded its current assets by RR 1 912 237 thousand). The excess of current assets over current liabilities as at 31 December 2007 is affected by additional issue of shares sold at market price which is above par value of shares (see Note 12).

As discussed above the Group is affected by government policy through the control of tariffs and other factors. The FST does not always permit tariff increases in excess of increases in the Group's costs and thus some tariffs are insufficient to cover all the costs of generation. Moreover, these tariffs consider costs only on a Russian statutory basis and, accordingly, exclude additional costs recognized under the IFRS basis of accounting.

However, the growing demand for electricity and capacity together with increasing unregulated market of the wholesale electricity market result in a higher rate of revenue growth during the year ended 31 December 2007 to date. Management considered recent favorable changes in operation of the Russian electricity market. According to new liberalized model of the wholesale and retail electricity (power) markets (see also Note1) the share of free market activity in all operations of the Group increased in the reporting period and it will increase in near future. These assumptions were used in determining the need for impairment of property, plant and equipment reversal at 31 December 2006 (see Note 6).

Management in recent years has improved the absolute level of settlements for current sales. Currently substantially all settlements of accounts receivable are made in cash.

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

- introduction of improved financial budgeting procedures;
- discussions with strategic investors, and identification and assessment of projects requiring investment funds;
- raising financing for investments in new generating assets.

Note 3. Basis of preparation

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

Each enterprise of the Group individually maintains its own books of accounts and prepares its statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation. The accompanying Financial Statements are based on the statutory records and adjusted and reclassified for the purpose of fair presentation in accordance with IFRS.

Predecessor Accounting. In January 2005 RAO UES of Russia transferred to the Company 99.90%, 99.90%, 51.00%, 51.00% and 55.80% of the outstanding ordinary shares of Kharanorskaya SDPP, Gusinoozerskaya SDPP, Pechorskaya SDPP, Kostromskaya SDPP and Cherepetskaya SDPP respectively. In December 2005 RAO UES of Russia additionally transferred to the Company 49.00% of the outstanding ordinary shares of Yuzhnouralskaya SDPP. In the 2005 combined and consolidated financial statements, JSC WGC-3 accounted for this business combination amongst entities under common control under an accounting policy using the predecessor values method. Accordingly, assets and liabilities of the transferred entities were accounted for at the carrying value, as determined by RAO UES of Russia in its IFRS consolidated financial statements. Information in respect of 2004 was restated as if the business combination took place at the beginning of 2004.

Therefore Kharanorskaya SDPP, Gusinoozerskaya SDPP, Pechorskaya SDPP, Kostromskaya SDPP, Cherepetskaya SDPP and Yuzhnouralskaya SDPP were consolidated into the Group combined and consolidated financial statements starting 1 January 2004.

(in thousands of Russian Roubles)

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

In prior periods the Group accounted for advances to construction companies and suppliers of property, plant and equipment as part of other non-current assets. Currently management considered that such advances should be disclosed as part of property, plant and equipment.

Effects from reclassification of advances to construction companies and suppliers of property, plant and equipment is disclosed in table below:

	31 December 2006 (adjusted)	31 December 2006
Property, plant and equipment	18 724 758	18 392 001
Other non-current assets	262 904	595 661

The management of the Group believes that the revised presentation provides more relevant and meaningful information about the changes in the financial position of the Group.

Functional and presentation currency. The national currency of the Russian Federation is the Russian rouble ("RR"), which is the functional currency of each of the Group's entities and the currency in which these financial statements are presented. All financial information presented in RR has been rounded to the nearest thousand.

Inflation accounting. Prior to 1 January 2003 non-monetary assets acquired and non-monetary liabilities incurred or assumed have been adjusted for the changes in the general purchasing power of the RR in accordance with International Accounting Standards 29 ("IAS") ("Financial Reporting in Hyperinflationary Economies"). IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. As the characteristics of the economic environment of the Russian Federation indicate that hyperinflation has ceased, the amounts expressed in the measuring unit current at 31 December 2002 are treated as the basis for the carrying amounts in these Financial Statements.

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

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

- IFRIC 7, "Applying the Restatement Approach under IAS 29", effective for annual periods beginning on or after 1 March 2006. This amendment did not have a material effect on the Group's financial statements;
- IFRIC 8, "Scope of IFRS 2", effective for annual periods beginning on or after 1 May 2006. This amendment did not have a material effect on the Group's financial statements;
- IFRIC 9, "Reassessment of Embedded Derivatives", effective for annual periods beginning on or after 1 June 2006. This amendment did not have a material effect on the Group's financial statements;
- IFRIC 10, "Interim financial reporting and impairment", effective for annual periods beginning on or after 1 November 2006. This amendment did not have a material effect on the Group's financial statements;
- IFRIC 11, IFRS 2 – "Group and Treasury share transactions ", effective for annual periods beginning on or after 1 March 2007. This amendment did not have a material effect on the Group's financial statements;

- IFRS 7, "Financial instruments: Disclosures", effective for annual periods beginning on or after 1 January 2007. IAS 1, "Amendments to capital disclosures", effective for annual periods beginning on or after 1 January 2007.

The following new Standards and Interpretations are not yet effective and have not been applied in preparing these consolidated financial statements:

- Amendment to IAS 23 "Borrowing Cost" effective for borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after 1 January 2009. The main change from the previous version is the removal of the option of immediately recognizing as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale.
- Amendment to IAS 1 "Presentation of Financial Statements" 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. Alternatively, 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 but to have no impact on the recognition or measurement of specific transaction and balances.
- Amendment to IAS 32 “Financial Instruments: Presentation” effective for annual periods beginning on or after 1 January 2009. The amendment requires classification as equity of some financial instruments that meet the definition of a financial liability. The Group does not expect the amendment to affect its consolidated financial statements.
- IAS 27 “Consolidated and Separate Financial Statements” effective for annual periods beginning on or after 1 July 2009. The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously “minority interests”) even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent’s ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value The Group does not expect the amendment to affect its consolidated financial statements.
- IFRS 3 “Business Combinations” effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree’s identifiable net assets) or 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 recognized as expenses rather than included in goodwill. An acquirer will have to recognize at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognized 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.
- Amendment to IFRS 2 “Share-based Payment” effective for annual periods beginning on or after 1 January 2008. The amendment clarifies that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other

parties, should receive the same accounting treatment. The Group does not expect the amendment to affect its consolidated financial statements.

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

- IFRIC 12, "Service concession agreements", effective for annual periods beginning on or after 1 January 2008. This amendment will not have a material effect on the Group's financial statements;

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

- IFRS 8, "Operating segments", effective for annual periods beginning on or after 1 January 2009. The Standard requires an entity to report financial and descriptive information about its operating segments and specifies how an entity should report such information.

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

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

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

Provision for impairment of accounts receivable. Provision for impairment of accounts receivable is based on the Group's assessment of whether the collectibility of specific customer accounts worsened compared to prior estimates. If there is deterioration in a major customer's creditworthiness or actual defaults are higher than the estimates, the actual results could differ from these estimates.

Provision for impairment of other assets. 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 of property, plant and equipment is the higher of an asset's fair value less costs to sell and its value in use. When such a decline is identified, the carrying amount is reduced to the recoverable amount. The amount of the reduction is recorded in the consolidated statement of income in the period in which the reduction is identified. If conditions change and management determines that the value of an asset other than goodwill has increased, the impairment provision will be fully or partially reversed.

Critical assumptions that were made for the purposes of impairment test of property, plant and equipment are described in the Note 6.

Tax contingencies. Russian tax legislation is subject to varying interpretations and changes, which can occur frequently. Where the Group management believes it is probable that their interpretation of the relevant legislation and the Group's tax positions cannot be sustained, an appropriate amount is accrued for in these consolidated financial statements.

Note 4. Summary of significant accounting policies

Principles of consolidation. The consolidated financial statements comprise the financial statements of JSC WGC-3 and the financial statements of those entities whose operations are controlled by JSC WGC-3. Control is presumed to exist when JSC WGC-3 controls, directly or indirectly through subsidiaries, more than 50% of voting rights.

A) Subsidiaries

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

B) Transactions eliminated on consolidation

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

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

As at 31 December 2007, the official rate of exchange, as determined by the Central Bank of the Russian Federation, between the RR and the US Dollar ("USD") was RR 24.5462: USD 1.00 (31 December 2006: RR 26.3311: USD 1.00), between the RR and EURO RR 35.9332: EURO 1.00 (31 December 2006: RR 34.6965: EURO 1.00).

Financial assets. The Group classifies its financial assets in the following categories: loans and receivables, held-to-maturity and available-for-sale. The classification depends on the purpose for which the financial assets are required. Management determines the classification of its financial assets at initial recognition.

(a) Loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets.

(b) Held- to- maturity financial assets. Held to maturity financial assets are financial assets with fixed or determinable payments and fixed maturity that the Company has the positive intent and ability to hold to maturity other than loans and receivables originated by the Company.

(c) Available-for-sale financial assets. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

For these investments, which comprise non-marketable securities, which are not publicly traded or listed on the Russian stock exchange, 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 recognized 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. Realized gains and losses from the disposal of available-for-sale investments are included in the statement of operations in the period in which they arise.

(in thousands of Russian Roubles)

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

Property, plant and equipment. In 2004 property, plant and equipment were recognized at the carrying value determined in accordance with the IFRS at the date of their transfer to the Group by the Predecessor.

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

Depreciation of 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. For the property, plant and equipment which were subject to an independent valuation as at 31 December 1997, the depreciation rate applied is based on the estimated remaining useful lives.

The useful lives, in years, of assets by type of facility are as follows:

Type of facility	Acquired prior to 31 December 1997	Acquired subsequent to 31 December 1997
Electricity and heat generation	4-63	25 -50
Electricity distribution	19-30	30
Heating networks	4-22	25
Other	8	10

Loan charges received for the financing of construction of property, plant and equipment are not capitalized within the cost of property, plant and equipment object during the period needed for the finalization of construction works and preparation for planned use.

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

Cash. Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments. Cash and cash equivalents are carried at amortized cost using the effective interest method. Restricted balances are excluded from cash and cash equivalents. Balances restricted from being exchanged or used to settle liability for at least twelve months after the balance sheet date are included in non-current assets.

Accounts receivable and prepayments. Accounts receivable are recorded inclusive of value added taxes. Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method less provision for impairment. Such a provision for impairment of accounts receivable 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 provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers at the date of origination of the receivables. The primary factors that the Group considers whether a receivable is impaired is its overdue status and reliability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any portion of the receivable is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains;
- the counterparty considers bankruptcy or a financial reorganisation;

- there is adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty;

Value added tax on purchases and sales. Before 1 January 2006 value added tax ("VAT") related to sales was payable to tax authorities upon collection of receivables from customers. Input VAT was reclaimable against sales VAT upon payment for purchases. The tax authorities permitted the settlement of VAT on a net basis. VAT related to sales and purchases which had not been settled at the balance sheet date (deferred VAT) was recognized in the balance sheet on a gross basis and disclosed separately as an asset and liability. Where provision was made for impairment of receivables, the impairment loss was recorded for the gross amount of the debtor's balance, including VAT. The related deferred VAT liability was maintained until the debtor was written off for tax purposes.

There are also some transaction rules applied for output and input VAT incurred before 1 January 2006 and which were not settled as at 1 January 2006. According to the rules these output and input VAT will be settled not later than the first tax period for year 2008.

Since 1 January 2006 VAT related to sales is payable to tax authorities upon dispatch of goods and provision of services, input VAT is reclaimable against sales VAT upon purchase of goods and services on accrual basis.

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

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

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

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

Deferred tax is not provided for the undistributed earnings of subsidiaries, as the Group requires profits to be reinvested, and only insignificant dividends are expected to be declared from future profits of the subsidiaries. Neither these future profits nor the related taxes are recognized in these financial statements.

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

Debt. Debt is recognized initially at its' fair value. If it is significantly different from the transaction price, fair value is determined using the prevailing market interest rate for a similar instrument. In subsequent periods, debt is stated at amortized cost using the effective interest rate method; any difference between the fair value at initial recognition (net of transaction costs) and the redemption amount is recognized in the income statement as an interest expense over the period of the debt obligation.

Borrowing Costs. The Group applies the benchmark treatment of IAS 23 "Borrowing costs" and recognises all borrowing costs as an expense in the period in which they are incurred.

Minority interest. Minority interest represents the minority shareholders' proportionate share of the equity and results of operations of the Group's subsidiaries. This is calculated based upon the minority interests' ownership percentage of these subsidiaries. In purchases of minority interest, difference, if any, between the carrying amount of a minority interest and the amount paid to acquire it is recorded as loss directly in equity.

Pension and post-employment benefits. In the normal course of business the Group contributes to the Russian Federation defined contribution state pension scheme on behalf of its employees. Mandatory contributions to the governmental pension scheme are expensed when incurred.

The Group has also operated a combination of defined benefit and defined contribution plans untill December 2007, in respect of which it had contracts with a non-governmental pension fund. The Board of Directors at their meeting of December, 28 2007 has taken the decision to curtail the defined benefit part of the plan which affected the liability recognized in the balance sheet as at 31 December 2007. The defined benefit pension plans are no longer included in calculation of the liability, but the Group offers various post-employment, long-term and jubilee benefits to its employees which are of a defined benefit nature. The defined benefit obligations and costs are assessed using the projected unit credit method. The present value of the obligations are determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits associated with the operations of the plan will be paid, and that have terms to maturity approximating the terms of the related liabilities.

Actuarial gains and losses arising from changes in actuarial estimations and exceeding 10.00% of the obligations are charged or credited to the statement of operations over the average remaining service lives of employees starting from the next reporting period.

Provisions. Provisions are recorded where there is a present obligation, the payment is probable and reliable estimates can be made.

Revenue recognition. Revenue is recognized on the delivery of electricity and heat during the period. Revenue amounts are represented exclusive of value added tax.

Social expenditure. To the extent that the Group's contributions to social programs benefit the community at large without creating constructive obligation to provide such benefits in the future and are not restricted to the Group's employees, they are recognized in the income statement as incurred.

Segment reporting. The Group operates predominantly in a single geographical area and industry, the generation of electric power and heat in the Russian Federation. The generation of electricity and heat are related activities and are subject to similar risks and returns, therefore they are reported as one business segment.

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

Interest. Interest income and expense are recognized in the income statement for all debt instruments on an accrual basis using the effective rate of interest method. Interest income includes nominal interest and amortized discount and premium. When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognized based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

(in thousands of Russian Roubles)

Fair value measurement. The fair value of accounts receivable for disclosure purposes is measured by discounting the value of expected cash flows at the market rate of interest for similar borrowers at the reporting date.

The fair value of financial liabilities and other financial instruments (except if publicly quoted) for disclosure purposes is measured by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments. The fair value of publicly quoted financial instruments for disclosure purposes are measured based on current market value at the close of business on the reporting date.

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

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

Note 5. Related Parties

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions during the period ended 31 December 2007 and during the period ended 31 December 2006 or had significant balances outstanding at 31 December 2007 and at 31 December 2006 are detailed below.

Parent and parent's subsidiaries

The Group had the following significant transactions with the parent and its subsidiaries:

	Period ended 31 December 2007	Period ended 31 December 2006
Electricity and heat sales	148 628	-
Other	3 284	-

There are no balances with the parent or its subsidiaries as at 31 December 2007.

Rosbank

	Period ended 31 December 2007	Period ended 31 December 2006
Cash	4 130	75
Deposits	1950 000	-
Promissory notes	19 000 000	-

For the period ended 31 December 2007 interest income on these deposits amounted RR 36 329 thousand. Interest income on promissory notes amounted RR 238 932 thousand.

(in thousands of Russian Roubles)

Group RAO UES of Russia

	Period ended 31 July 2007	Period ended 31 December 2006
Sales of electricity	11 720 877	14 158 955

The Group had the following significant balances with RAO UES and its subsidiaries as at 31 December 2006:

	31 December 2006
Accounts receivable, gross	570 937
Accounts payable	17 588

As at 1 August 2007 the subsidiaries of RAO UES have been no longer related parties for the Group.

The Group did not make provision for impairment of accounts receivable during the period ended 31 December 2006.

State-controlled entities

In the normal course of business the Group enters into transactions with other entities under government control. Prices for natural gas, electricity and heat are based on tariffs set by FST and RST. Bank loans are granted at market rates. Taxes are charged and paid under the Russian tax legislation.

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

	Period ended 31 July 2007	Period ended 31 December 2006
Electricity and heat sales	115 957	187 032
Other sales	21 889	35 323
Purchases of fuel	4 211 728	5 693 515

The Group had the following significant balances with state-controlled entities as at 31 December 2006:

	31 December 2006
Accounts receivable and prepayments	732 342
Provision for impairment of accounts receivable	(323 154)
Accounts payable and accruals	41 983

As at 1 August 2007 state-controlled entities are no longer related parties for the Group.

Tax balances (other than deferred income tax) are disclosed in the balance sheet and Note 18. Tax transactions (other than deferred income tax) are disclosed in the income statement and Note 19.

Transactions with key management and close family members

There are no transactions or balances with key management and close family members except their remuneration in the form of salary and bonuses.

Total remuneration in the form of salary and bonuses paid to the members of the Board of Directors and Management Board for the period ended 31 December 2007 was RR 223 785 thousand (for the period ended 31 December 2006 – RR 53 687 thousand).

(in thousands of Russian Roubles)

Note 6. Property, plant and equipment

Cost	Electricity and heat generation	Electricity transmission	Heating networks	Construction in progress	Other	Total
Opening balance as at 31 December 2006	**29 472 943**	**3 845 767**	**923 522**	**2 311 434**	**6 585 373**	**43 139 039**
Additions	8 382	263	-	3 304 863	125 021	3 438 529
Transfer	448 131	69 429	13 281	(858 556)	327 715	-
Disposals	(4 764)	(2 188)	-	(145 589)	(51 691)	(204 232)
Closing balance as at 31 December 2007	**29 924 692**	**3 913 271**	**936 803**	**4 612 152**	**6 986 418**	**46 373 336**
Accumulated depreciation (including impairment)						
Opening balance as at 31 December 2006	**(15 355 385)**	**(2 798 203)**	**(663 402)**	**(130 928)**	**(5 466 363)**	**(24 414 281)**
Charge for the period	(826 960)	(72 710)	(22 233)	-	(311 484)	(1 233 387)
Impairment transferred from CIP	(6 053)	(552)	-	7 379	(774)	-
Disposals	1 740	961	-	80	39 395	42 176
Reversal of impairment	3 271 051	303 467	163 422	0	192 742	3 930 682
Closing balance as at 31 December 2007	**(12 915 607)**	**(2 567 037)**	**(522 213)**	**(123 469)**	**(5 546 484)**	**(21 674 810)**
Net book value as at 31 December 2007	**17 009 085**	**1 346 234**	**414 590**	**4 488 683**	**1 439 934**	**24 698 526**
Net book value as at 31 December 2006	**14 117 558**	**1 047 564**	**260 120**	**2 180 506**	**1 119 010**	**18 724 758**

Cost	Electricity and heat generation	Electricity transmission	Heating networks	Construction in progress	Other	Total
Opening balance as at 31 December 2005	**29 034 800**	**3 768 419**	**866 936**	**2 256 075**	**6 466 371**	**42 392 601**
Additions	38 140	1 263	49 830	956 899	104 981	1 151 113
Transfer	446 832	80 318	6 756	(769 064)	235 158	-
Disposals	(46 829)	(4 233)	-	(132 476)	(221 137)	(404 675)
Closing balance as at 31 December 2006	**29 472 943**	**3 845 767**	**923 522**	**2 311 434**	**6 585 373**	**43 139 039**
Accumulated depreciation (including impairment)						
Opening balance as at 31 December 2005	**(20 510 038)**	**(3 196 542)**	**(690 359)**	**(138 122)**	**(5 367 679)**	**(29 902 740)**
Charge for the period	(552 586)	(56 128)	(29 924)	-	(454 755)	(1 093 393)
Impairment transferred from CIP	(2 733)	(2886)	-	10 641	(5 022)	-
Disposals	31 827	3 929	-	(2 627)	198 395	231 524
Reversal of impairment	**5 678 145**	**453 424**	**56 881**	**(820)**	**162 698**	**6 350 328**
Closing balance as at 31 December 2006	**(15 355 385)**	**(2 798 203)**	**(663 402)**	**(130 928)**	**(5 466 363)**	**(24 414 281)**
Net book value as at 31 December 2006	**14 117 558**	**1 047 564**	**260 120**	**2 180 506**	**1 119 010**	**18 724 758**
Net book value as at 31 December 2005	**8 524 762**	**571 877**	**176 576**	**2 117 953**	**1 098 692**	**12 489 861**

The assets transferred to the Group upon privatization did not include the land on which the Group's buildings and facilities are situated. The Group has the right to purchase this land (except for the land at Moscow) upon application to the state registration body or to formalize the right for rent after the right expiry date, which is 1 January 2010.

Impairment

The provision included in accumulated depreciation balance as at 31 December 2007, 31 December 2006 and 31 December 2005 is RR 849 806 thousand, RR 4 836 185 thousand and RR 12 149 788 thousand, accordingly.

At 31 December 2006 management concluded that there were indications for reversing previously recognized impairment losses based on significant changes with a favorable effect on the Group that have occurred or are expected to occur in the near future in the market and economic environment in which the Group operates. Such changes included:

1. upward revisions, based on recent trends, in the expected growth of demand for electricity and heat in the regions in which the Group operates;
2. higher degree of certainty about the unregulated market for electricity, which has been enacted by the government of the Russian Federation as of August 2006 (see Note 1);

These developments have resulted in a change to the assumptions that were used to determine the value in use of assets that comprise the cash generating units. An impairment review has been carried out by comparing the recoverable amount of the individual cash generating units with their net book values. For the purposes of the review, each of the Group's power plants was used as the relevant cash generating unit.

Consequently, in 2006 the Group recorded a reversal of the previously recognized impairment loss in the amount of RR 6 400 million. A respective gain together with a corresponding deferred tax expense of RR 1 536 million were recognized in the statement of operations for the year ended 31 December 2006. The Group recognized an impairment loss of RR 50 million in respect of the property, plant and equipment of Pechorskaya SDPP with a corresponding deferred tax benefit of RR 12 million in the statement of operations for the year ended 31 December 2006.

At 31 December 2007, management concluded that there were indications for further reversing previously recorded impairment. In particular, following the acquisition of the Group by “MMC “Norilsk Nickel”, management has assessed the fair value of the assets, engaging independent appraisers Ernst and Young Valuation LLC, that reported increased marked value of the Property, Plant and Equipment. An impairment review has been carried out by management comparing the recoverable amount of the individual cash generating units with their net book values. The recoverable amount was generally based on value in use, which was calculated based on estimated future cash flows using various assumptions including the following:

Regulated Electricity tariff and Capacity Price

Management used the electricity tariffs and capacity payments set by Federal Tariff Service (FTS) and Regional Energy Committees (REC) for each power plant for 2007. Management assumed that the electricity tariffs will increase at the growth rate equal to the growth rate of fuel costs for the period from 2008 to 2011. In other words the tariffs were projected using the cost plus method, assuming no change in the level of profitability in the regulated tariffs for the period of 2008 to 2011. The regulated capacity payments were assumed to increase at the rate equal to the inflation level as measured by the consumer price index (CPI) for the whole forecasted period.

Unregulated Electricity Wholesale Price

Management assumed that unregulated wholesale prices will increase from their current level as of the Date of Valuation and will grow in the line with the price of gas. Management assumed that unregulated wholesale prices will increase from their current level as of the date of valuation at the growth rate equal to the growth in fuel costs for a marginal plant. The management assumed to limit the average wholesale price forecast to the expected price dynamics of natural gas for the period in question.

Free-market Price

Management assumed the free-market capacity price to be equal to the regulated capacity payment for the period from 2008 to 2011. The growth in free-market capacity price was assumed in line with the general inflation as measured by CPI. Management also assumed that the growth in the free-market capacity price starting from 2012 would be in line with CPI.

Gas Price

The price of gas for the period from 2008 to 2020 was assumed to grow in line with the rate provided by the Ministry of Economic Development of Russia as summarised in the base case scenario dated July 24, 2007. The growth in gas price after 2020 was assumes in line with the general inflation level as measures by producer price index (PPI).

(in thousands of Russian Roubles)

Fuel oil Price

The price of fuel oil was assumed to grow in line with the general inflation as measures by PPA level for the entire forecast period.

Coal Price

The price of coal was assumed to grow in line with the general inflation as measures by PPI level for the entire forecast period.

Operating Expenses

Operating Expenses were projected to include mainly the fuel costs, labour costs, repair and maintenance costs and material costs. The growth of fuel costs was driven by the expected growth in electricity output and fuel prices. The growth in labour costs was driven by the general inflation as measured by CPI. The growth of material was driven by the inflation as measured by PPI. The repair costs were forecasted in line with management projections till 2012; hereafter they inflated by PPI.

Pre-tax discount rate

The pre-tax discount rate used to determine assets value in use is equal to 13%.

Useful economic life

The useful economic life of the main generation assets would allow the cashflow horizon to extend to 2044.

Consequently, in 2007 the Group recorded further reversal of the previously recognized impairment loss in the amount of RR 3 930 682 million. A respective gain together with a corresponding deferred tax expense of RR 943 364 million were recognized in the statement of operations for the year ended 31 December 2007. Management's assessment indicates that fair value of property, plant and equipment will not be lower than its net book value for all generating units, except for Pechorskaya SDPP.

In respect of Pechorskaya SDPP, management believes this power plant will be unable to generate positive cash flow from the operations of its assets for the foreseeable future due to low installed capacity, a large portion of fixed costs, and limitations of the distribution market. As a consequence, in relation to Pechorskaya SDPP the Group reversed only RR 442 million of impairment losses, with the corresponding deferred tax charge of RR 106 million. The remaining impairment balance of RR 849 806 thousand is fully related to Pechorskaya SDPP.

During the period ended 31 December 2007 the Group recognised the disposal loss of 134 million in respect of certain non-operating fixed assets and construction in progress (in period ended 31 December 2006 recognised the disposal loss : RR 162 million).

Operating leases

The Group leases a number of land areas owned by local governments under operating lease. Land lease payments are determined by lease agreements.

Non-cancelable operating lease rentals are payable as follows:

	31 December 2007	31 December 2006
not later than one year	27 255	35 379
later than one year and not later than five years	58 740	122 025
later than five years	138 755	18 691
Total	**224 750**	**176 095**

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

(in thousands of Russian Roubles)

Note 7. Other non-current assets

	31 December 2007	31 December 2006
Long-term available for sale investments	154 578	142 696
Long-term receivables	85 521	116 519
Long-term Value added tax	1 475	1 607
Other non-current assets	443	2 082
Total	**242 017**	**262 904**

The carrying amount of Group's other non-current assets approximates their fair value.

Note 8. Inventories

	31 December 2007	31 December 2006
Fuel supplies	1 563 975	1 625 529
Materials and supplies	298 184	232 410
Other inventories	466 017	434 843
Total	**2 328 176**	**2 292 782**

The above inventory balances are recorded net of an obsolescence provision of RR 117 488 thousand and RR 183 538 thousand as at 31 December 2007 and 31 December 2006, respectively.

Note 9. Accounts receivable and prepayments

	31 December 2007	31 December 2006
Trade receivables (net of provision for impairment of accounts receivable of RR 399 455 thousand as at 31 December 2007 and RR 562 451 thousand as at 31 December 2006)	803 720	657 994
Advances to suppliers (net of provision for impairment of advances to suppliers of RR 70 875 thousand as at 31 December 2007 and RR 71 447 thousand as at 31 December 2006)	694 219	240 344
Value added tax recoverable	173 262	71 572
Other receivables (net of provision for impairment of other receivables of RR 377 786 thousand as at 31 December 2007 and RR 410 238 thousand as at 31 December 2006)	1 250 302	202 658
Total	**2 921 503**	**1 172 568**

The provision for impairment of accounts receivable was calculated based on analysis of collectibility. The Movement of the provision is shown in the table below:

	Period ended 31 December 2007	Period ended 31 December 2006
As at 1 January	1 044 136	1 387 879
Reversal of provision	(367 674)	(683 371)
Accrued provision	171 654	339 628
As at 31 December	**848 116**	**1 044 136**

Management has determined the provision for impairment of accounts receivable based on specific customer identification, customer payment trends, subsequent receipts and settlements and analyses of expected future cash flows.

(in thousands of Russian Roubles)

According to the analysis of accounts receivable in respect to the payment dates the Group has the following overdue balances not included in the provision for accounts receivable as at 31 December 2007:

Overdue period	**Period ended 31 December 2007**
Less than 90 days	43 639
More than 90 days but less than 365 days	32 101
Over 365 days	-
As at 31 December	**75 740**

Management of the Group believes that Group entities will be able to realize the net receivable amount through direct collections and other non-cash settlements, and therefore the recorded value of accounts receivable approximates their fair value.

Note 10. Deposits and other financial assets

Name of bank	**Currency**	**Type**	**Interest rate, %**	**31 December 2007**	**31 December 2006**
VTB Bank	RR	Deposit	8.00-8.50	36 500 000	-
Rosbank	RR	PN's	8.50	19 000 000	-
Alfa-bank	RR	Deposit	6.00	13 300 000	-
Gazprombank	RR	Deposit	6.70-8.50	3 000 000	-
Rosbank	RR	Deposit	8.50	1 950 000	-
Sberbank	RR	Deposit	8.50-8.60	1 000 000	-
Total				**74 750 000**	**-**

As at 31 December 2007 cash collected by Group from the additional public offering (see Note 12) was included in deposits and promissory notes in the amount of RR 55 750 million and 19 000 million respectively. According to CJSC "Gazprombank" and OJSC "Sberbank" contracts the deposit repayment can exercise at any time at two and three days notice respectively. In accordance with the OJSC "VTB Bank", OJSC "Alfa-bank" and OJSC "Rosbank" contracts the Group is required not to demand a refund all or part of deposits prior to maturity date. Deposit periods are from three to eighteen months and interest rates are fixed.
For the period ended 31 December 2007 interest income on these deposits amounted RR 3 203 204 thousand. Interest income on promissory notes amounted RR 238 932 thousand.
The Group's deposits in banks and other financial assets are short-term and their carrying amount approximates fair value.

Note 11. Financial instruments by category

The accounting policies for financial instruments have been applied to the line items below:

	Loans and receivables	**Held- to-maturity financial assets**	**Available-for-sale financial assets**
31 December 2007			
Assets as per balance sheet			
Deposits and other financial assets	55 750 000	19 000 000	
Loans issued	1 660		
Accounts receivable and prepayments	2 921 503		
Other non-current assets	86 996		154 578
Total	**58 760 159**	**19 000 000**	**154 578**

(in thousands of Russian Roubles)

	Loans and receivables	Held- to-maturity financial assets	Available-for-sale financial assets
31 December 2006			
Assets as per balance sheet			
Accounts receivable and prepayments	1 172 568		
Other non-current assets	118 126		142 696
Total	**1 290 694**	**-**	**142 696**

	Other financial liabilities as at 31 December 2007	Other financial liabilities as at 31 December 2006
Liabilities as per balance sheet		
Corporate bonds	-	3 000 000
Borrowings	-	704 008
Total	**-**	**3 704 008**

Note 12. Equity

Share capital *(Number of shares unless otherwise stated)*	**Ordinary shares 31 December 2007**	**Ordinary shares 31 December 2006**
Issued shares	47 487 999 252	29 487 999 252
Par value (in RR)	1.00	1.00

Contributions to the Company's share capital were effected as follows.

Cash contributions amounted to RR 20 500 thousand, of which RR 5 500 thousand were paid in the year ended 31 December 2004 and RR 15 000 thousand – in the year ended 31 December 2005.

Ordinary shares for total amount of RR 27 587 588 thousand were paid in the year ended 31 December 2005 in kind of shares in the Company's subsidiaries, where values determined by independent appraisers were equal to RR 28 038 406 thousand. Share premium of RR 450 818 thousand equaled to difference between the appraisers' value of the contributions to the share capital and nominal value of the shares issued.

On December 19, 2006 the Board of Directors of JSC WGC-3 has approved the additional emission of 18 000 000 000 ordinary shares, with nominal value of RR 1.00 each and total amount of RR 18 000 000 thousand.

On March 10, 2007 the Board of Directors of JSC WGC-3 has approved the offering price of ordinary registered share of JSC WGC-3 as RR 4.54. Shareholders of JSC WGC-3 bought 163 656 899 ordinary registered shares at the above price taking advantage of the preemptive right. During public offering the Group "MMC "Norilsk Nickel" has acquired 17 836 343 101 of ordinary registered shares. Thus, the stake of the Group "MMC "Norilsk Nickel" in share capital of JSC WGC-3 has increased to 46.62%. JSC WGC-3 raised RR 81 720 000 000 from the additional public offering. As a result of the above facts the stake of RAO UES of Russia has decreased from 59.68% to 37.10%.

In accordance with the Joint-stock company Act the Group "MMC "Norilsk Nickel" has sent the compalsory offer for acquisition of Company's shares at RR 4.54 per share. On August 6, 2007 within the above mentioned offer for acquisition the Group "MMC "Norilsk Nickel", the Company's principal shareholder, has acquired 3 423 968 050 of ordinary registered shares at RR 4.54 per share totalling RR 15 544 816 thousand. Thus, the stake of the Group "MMC "Norilsk Nickel" in share capital of the Company has increased from 46.62 % to 53.83 %.

On September, 5, 2007 the sale of Company's ordinary shares (the stake of Russian Federation) at RR 4.54 per share has been completed. Within the framework of this transaction the stake of

(in thousands of Russian Roubles)

the Group “MMC “Norilsk Nickel” in share capital of the Company has increased from 53.83 % to 64.89% the stake of RAO UES has decreased from 37.1 % to 26.02 %. The Group share premium after the additional emission of shares equaled RR 63 228 766 thousand at 31 December 2007.
As at 31 December 2007 the Group “MMC “Norilsk Nickel” owns 65,15% of JSC WGC-3 ordinary shares.

So as at 31 December 2007 JSC WGC-3 is no longer controlled by RAO UES of Russia.

Transfer of shares of Company’s subsidiaries from RAO UES to the Company. In January 2005, the RAO UES of Russia transferred to the Company 99.90%, 99.90%, 51.00%, 51.00% and 55.80% of the outstanding ordinary shares of Kharanorskaya SDPP, Gusinoozerskaya SDPP, Pechorskaya SDPP, Kostromskaya SDPP and Cherepetskaya SDPP respectively. In December 2005 the RAO UES of Russia additionally transferred to the Company 49.00% of the outstanding ordinary shares of Yuzhnouralskaya SDPP.

Transactions with minorities. In December 2005, the Company exchanged its unpaid shares to the minority shareholders’ shares in the Company’s subsidiaries. Because of application of predecessor accounting, IFRS carrying value of the contributed assets were RR 10 403 761 thousand, of which RR 2 257 490 thousand were attributable to minority interest. The difference of RR 8 146 271 thousand between the nominal value of share capital paid, the IFRS carrying value of the contributed assets and the minority interest has been recorded as a merger reserve within equity attributable to the Company's shareholders.

In the year ended 31 December 2006 additional ordinary shares for RR 1 879 911 thousand were issued in order to finalize conversion of the Company’s subsidiaries shares into shares of JSC WGC-3.

On 1 April, 2006 all the shares of the Company’s subsidiaries (which were held both by the Company and by minority shareholders) were exchanged into the Company’s ordinary shares.

As the result, Kostromskaya SDPP, Cherepetskaya SDPP, Pechorskaya SDPP, Kharanorskaya SDPP, Yuzhnouralskaya SDPP and Gusinooserskaya SDPP were affiliated into JSC WGC-3, and JSC WGC-3 became an integrated operating company.

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

On 8 May 2007 the Annual General Meeting has approved the proposal to pay dividends in respect of the year ended 31 December 2006 in the amount of RR 0.023738 per ordinary share. The dividends in the amount of RR 700,001 thousand have been paid by the Company in the year ended 31 December 2007. These dividends were recognized in these consolidated financial statements. The other amounts of dividends recognized in the consolidated financial statements represented dividends paid by the Group subsidiaries to the minority shareholders.

Note 13. Income tax

Income tax charge	**Period ended 31 December 2007**	**Period ended 31 December 2006**
Current income tax charge	(1 251 920)	(258 873)
Deferred income tax (charge)/benefit	(1 235 918)	(1 356 192)
Total income tax charge	**(2 487 838)**	**(1 615 065)**

During the period ended 31 December 2007 the Group entities were subject to the 24.00% income tax rate on taxable profits. In accordance with Russian tax legislation, tax losses in different Group companies may not be offset against taxable profits of other Group companies. Accordingly, tax may accrue even where there is a net consolidated tax loss.

(in thousands of Russian Roubles)

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

	Period ended 31 December 2007	Period ended 31 December 2006
Profit / (loss) before tax	**9 215 576**	**6 015 778**
Theoretical tax (charge)/benefit at the statutory tax rate of 24%	(2 211 738)	(1 443 787)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Effect of changes in provisions for liabilities and charges	22 355	19 224
Effect of changes in provisions for impairment of accounts receivable	(132 240)	-
Effect of changes in provisions for inventories	(28 197)	-
Effect of changes in pensions liabilities	21 707	(33 983)
Non-deductible loss (written-off assets)	-	(11 576)
Tax interest and penalties forgiven	-	(89 385)
Dividends received	-	(62 400)
Other non-deductible and non-taxable items, net	(159 725)	6 842
Total income tax charge	**(2 487 838)**	**(1 615 065)**

Deferred income tax. Differences between IFRS and Russian statutory taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets and liabilities are measured at 24.00%, the rate applicable when the temporary differences will reverse.

Deferred tax liabilities

	31 December 2006	Movement for the period recognized in the income statement	Movement for the period recognized in the Statement of Changes in Equity	31 December 2007
Property, plant and equipment	(1 913 793)	(910 877)	-	(2 824 670)
Accounts payable	(9 423)	9 169	-	(254)
Other	(12 912)	4 815	(2 851)	(10 948)
Total	**(1 936 128)**	**(896 893)**	**(2 851)**	**(2 835 872)**

Deferred tax assets

	31 December 2006	Movement for the period recognized in the income statement	Movement for the period recognized in the Statement of Changes in Equity	31 December 2007
Accounts receivable including provision for impairment	181 760	(169 442)	-	12 318
Accounts payable	147 667	(126 065)	-	21 602
Inventories	60 948	(43 725)	-	17 223
Other	-	201	-	201
Total	**390 375**	**(339 031)**	**-**	**51 344**
Net deferred tax liabilities	**(1 545 753)**	**(1 235 924)**	**(2 851)**	**(2 784 528)**

(in thousands of Russian Roubles)

Deferred tax liabilities

	31 December 2005	Movement for the period recognized in the income statement	Movement for the period recognized in the Statement of Changes in Equity	31 December 2006
Property, plant and equipment	(777 151)	(1 136 642)	-	(1 913 793)
Accounts payable	-	(9 423)	-	(9 423)
Other	(345)	(4 470)	(8 097)	(12 912)
Total	**(777 496)**	**(1 150 535)**	**(8 097)**	**(1 936 128)**

Deferred tax assets

	31 December 2005	Movement for the period recognized in the income statement	Movement for the period recognized in the Statement of Changes in Equity	31 December 2006
Property, plant and equipment	388 503	(388 503)	-	-
Accounts receivable including provision for impairment	183 829	(2 069)	-	181 760
Accounts payable	21 561	126 106	-	147 667
Inventories	255	60 693	-	60 948
Other	1 884	(1 884)	-	-
Total	**596 032**	**(205 657)**	**-**	**390 375**
Net deferred tax liabilities	**(181 464)**	**(1 356 192)**	**(8 097)**	**(1 545 753)**

Note 14. Pension and post employment liabilities

The Group provides various long-term and post employment benefits including death in service and death in pension benefits, lump sum payments upon retirement and jubilee benefits to active employees. Additionally the Group provides quarterly financial support payments of a defined benefit nature to its former employees, who have reached the age of the State old age pension.

Until December 2007 there was a Defined Benefit pension plan, which was curtailed according to the decision taken on BOD Meeting of December, 28 2007. For more details refer to the Note 4.

The tables below provide information about the benefit obligation, plan assets and actuarial estimations used for the period ended 31 December 2007 and for the period ended 31 December 2006.

Amounts recognized in the Consolidated Balance Sheet:

	31 December 2007	31 December 2006
Defined benefit obligations	**278 729**	**416 721**
Fair value of plan assets	-	-
Funded status	278 729	416 721
Unrecognized net actuarial gain/(loss)	(87 649)	(126 603)
Unrecognized past service cost	(40 983)	(49 573)
Net liability in balance sheet	**150 098**	**240 545**

(in thousands of Russian Roubles)

Amounts recognized in the Consolidated Statement of Operations:

	Period ended 31 December 2007	Period ended 31 December 2006
Current service cost	29 141	5 673
Interest cost	24 294	8 895
Recognized actuarial (gain)/loss	7 601	-
Amortization of past service cost	6 451	4 846
Settlement (gain)/loss	(121 133)	-
Immediate recognition of vested prior service cost	(12 851)	-
Other		148 673
Total	**(66 497)**	**168 087**

Other category includes the result of changing estimation of prior year pension liabilities. During the year ended 31 December 2006 more detailed information about the Group's pension plans was obtained. As a result the Group's liability increased and an additional charge of RR148 673 thousand was recorded. The management has treated this as a change in estimate rather than an actuarial loss, which would be deferred, because this allows the financial statements to better reflect the position at 31 December 2006.

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

	Period ended 31 December 2007	Period ended 31 December 2006
Benefit obligations at the beginning of the period	416 721	136 673
Current service cost	29 141	5 673
Interest cost	24 294	8 895
Actuarial loss/(gain)	39 382	125 642
Past service cost	18 086	17 654
Benefits paid	(23 951)	(26 489)
Curtailment	(224 944)	-
Other	-	148 673
Benefit obligations at the end of the period	**278 729**	**416 721**

Principal actuarial estimations are as follows:

	31 December 2007	31 December 2006
Discount rate	6.60	6.60
Salary increase	9.20	9.20
Pension increase (for "qualified pension")	n/a	6.60
Financial support benefits increase	5.00	5.00
Inflation	5.00	5.00

Reconciliation of the balance sheet:

	31 December 2007	31 December 2006
Net liability at start of period	240 545	98 947
Net expense recognised in the income statement	(66 497)	168 087
Employer contributions	(23 950)	(26 489)
Net liability at the end of the period	**150 098**	**240 545**

(in thousands of Russian Roubles)

Experience adjustments:

	Period ended 31 December 2007	Period ended 31 December 2006
Present value of defined benefit obligations (DBO)	278 729	416 721
Fair value of plan assets	-	-
(Surplus)/deficit in plan	278 729	416 721
Gains/(losses) arising of experience adjustments on plan liabilities	(39 382)	(54 445)
Gains/(losses) arising of experience adjustments on plan assets	-	-

Sensitivity of Defined Benefit Obligation to changes in assumptions:

	Increase	effect on DBO 2007
Discount	+1.00%	-11.00%
Salary growth	+1.00%	+ 9.00%

Note 15. Current debt

Name of creditor	Currency	Effective interest rate, %	31 December 2007	31 December 2006
Corporate bonds	RR	6.75-8.25	-	3 000 000
Alfa-bank	RR	7.00-11.20	-	700 000
Ukhtabank	RR	12.00	-	4 008
Total			**-**	**3 704 008**

On October 24, 2006 the Board of Directors approved the issuance of non-convertible interest bearing bonds. A notional quantity of 3 000 000 of such bonds were issued on December 15, 2006 at par. Each individual bond has a face value of RR 1000 and was issued for a 5 year term. Interest on the bonds was payable every 6 months. The interest rate was set at the discretion of the Board of Directors of the Company at least 10 days in advance of the coupon period. The third coupon rate was set at 8.25 % per annum. Holders of the bonds could demand repayment at each coupon date.

Bonds have been secured by the guarantee of ZAO “Business-Effect”, which was to discharge the Group’s obligation for holders in case the Group’s disclaimer of liability or exceeding of the time limit to pay.

On June, 21 2007 the conditions of early redemption of bonds took place. Some holders used their right for early redemption with following conditions: par value: RR 1 250 000 thousand; value of realization: RR 1 251 388 thousand. Difference RR 1 388 thousand was coupon interest for 6 days (from the beginning of the second coupon period and the date of redemption). The initial coupon rate was set at 7.00% per annum.
On December, 14 2007 WGC-3 has paid the coupon interest totalling RR 58 905 thousand. The second coupon rate was set at 6.75% per annum.

On December, 20 2007 the conditions of early redemption of bonds took place. The rest of the holders used their right for early redemption with following conditions: par value: RR 1 750 000 thousand; value of realization: RR 1 752 380 thousand. Difference RR 2 380 thousand was coupon interest for 5 days (from the beginning of the third coupon period and date of redemption). The third coupon rate was set at 8.25 % per annum.
Short-term loans issued to the Group were unsecured as at 31 December 2006.

(in thousands of Russian Roubles)

Note 16. Accounts payable and accruals

	31 December 2007	31 December 2006
Accrued liabilities and other payables	386 744	304 834
Advances from customers	15 959	41 278
Trade payables	1 230 995	1 354 382
Dividends payable	9 800	1 628
Total	**1 643 498**	**1 702 122**

Note 17. Provision for liabilities and charges

Movements in provision for liability and charges are as follows:

	Note	Tax Risks	Legal claims	Total
Carrying amount at 31 December 2006		**164 761**	**68 582**	**233 343**
Additions charged to profit or loss	18	32 955	(30 946)	2 009
Reversal of provision	18	(78 153)	(17 000)	(95 153)
Carrying amount at 31 December 2007		**119 563**	**20 636**	**140 199**

All of the above provisions were classified as current liabilities because the Group does not have any rights to defer settlements beyond one year. Expected timing of the cash outflows is indicated below.

Tax risks. Management assessed, based on their interpretation of the relevant tax legislation, that it is probable that certain tax positions taken by the Group would not be sustained, if challenged by the tax authorities. Accordingly, Group created provisions for the associated not assessed taxes and the related penalties and interest. The balance at 31 December 2007 is expected to be either fully utilised or released within one year.

Legal claims. Provision for legal claims relates to the claims brought against the Group by fuel suppliers and services providers. The balance at 31 December 2007 is expected to be utilised within a year. In the directors' opinion, after taking appropriate legal advice, the outcome of these legal claims will not give rise to any significant loss beyond the accrued amounts.

Note 18. Taxes payable

	31 December 2007	31 December 2006
Water usage tax	218 506	157 346
Value added tax	65 703	39 221
Unified social tax	23 329	26 130
Property tax	67 919	84 885
Land tax	8 013	12 985
Income tax	28 982	15 380
Fines and interest	52	16 929
Other taxes	20 153	26 276
Total	**432 657**	**379 152**

Starting from 1 January 2006 VAT is payable to tax authorities on accrual basis, while VAT originated prior to 1 January 2006 is payable to tax authorities as far as cash receipt from customers or appropriate accounts receivable write-off but not later than the first tax period for year 2008.

The principal tax liabilities past due, excluding the amounts which have been restructured, accrue interest each day at one three hundredth of the current refinance rate of the Central Bank of the Russian Federation. As at 31 December 2007 and 31 December 2006 the refinance rate was 10.00 and 11.00 % respectively. Interest does not accrue on tax fines and interest.

(in thousands of Russian Roubles)

Note 19. Operating expenses

	Notes	Period ended 31 December 2007	Period ended 31 December 2006
Fuel		(13 874 029)	(12 533 733)
Purchased electricity		(8 110 359)	(2 469 577)
Employee benefits		(3 324 614)	(2 580 959)
Depreciation	6	(1 233 387)	(1 093 393)
Taxes other than income tax		(1 073 870)	(1 009 339)
Repairs and maintenance		(793 252)	(658 623)
Raw materials and supplies		(640 062)	(708 545)
Transportation of gas		(485 113)	(283 333)
Transmission fees		(450 980)	(358 344)
Consulting, legal and audit services		(301 059)	(154 108)
Impairment of accounts receivable		(275 984)	(147 240)
Insurance cost		(187 709)	(147 388)
Loss on disposal of fixed assets		(133 264)	(162 743)
Security services		(117 080)	(107 053)
Rent		(108 828)	(75 006)
Fire protection		(67 212)	(62 500)
Transportation services		(43 039)	(44 183)
Water usage expenses		(33 176)	(26 202)
Telecommunication services		(27 610)	(19 877)
Social overhead costs		(26 419)	(26 636)
Charity expenses		(24 496)	(19 519)
Bank services		(12 243)	(335)
Loss related to restructuring process		(407)	(47 427)
Writing off of non-core assets		(76)	(1 681)
(Loss)/gain on disposal of material assets		-	7 500
Write-down of inventories		18 621	(175 675)
Change in provision for liabilities and charges	17	93 144	80 099
Other expenses		(417 949)	(630 007)
Total operating expenses		**(31 650 452)**	**(23 455 828)**

Employee benefits expenses comprise the following:

	Period ended 31 December 2007	Period ended 31 December 2006
Salaries and wages, payroll taxes	(3 258 931)	(2 305 356)
Financial aid to employees and pensioners	(100 563)	(79 016)
Non-governmental pension fund expenses	34 880	(196 587)
Employee benefits	**(3 324 614)**	**(2 580 959)**

Note 20. Other operating income

	31 December 2007	31 December 2006
Forgiveness of tax penalties	-	134 137
Other operating income	35 687	87 681
Total	**35 687**	**221 818**

Note 21. Finance income

	Period ended 31 December 2007	Period ended 31 December 2006
Interest income on bank deposits	3 203 204	-
Interest income on promissory notes	238 932	-
Interest income on bank account contracts	300 730	12 152
Discount effect	-	27 615
Other	10 955	5 718
Total finance income	**3 753 821**	**45 485**

Note 22. Finance costs

	Period ended 31 December 2007	Period ended 31 December 2006
Interest expense	(211 310)	(214 225)
Other	(28 532)	(1 988)
Total finance cost	**(239 842)**	**(216 213)**

Note 23. Earning per ordinary share for profit/(loss) attributable to the shareholders of JSC WGC-3 – basic and diluted

	Period ended 31 December 2007	Period ended 31 December 2006
Profit attributable to the shareholders of JSC WGC-3 (thousands of RR)	6 727 738	4 400 713
Weighed average number of ordinary shares issued (thousands of shares)	42 987 999	29 024 459
Earning per ordinary share for profit attributable to the shareholders of JSC WGC-3 – basic and diluted (in thousands of RR)	**0.157**	**0.152**

Note 24. Commitments

Sales commitments. The Group's entities sell electricity on the two wholesale market sectors: unregulated market and regulated trading sector. The tariffs for the electricity sold/purchased in the regulated trading sector (including the sector of deviations) are set by the Federal Service on Tariffs.

The Group has entered into a number of annual electricity sales agreements with CJSC Center for Financial Settlements, CJSC INTER RAO UES, retail companies and large industrial customers.

Fuel commitments. The Group has a number of outstanding contracts to purchase natural gas and coal. The volume of gas supplied by Gazprom at regulated tariffs is subject to pre-agreed limits. Such limits are typically less than SDPPs require for their generating operations, and any gas required in excess of those limits may only be obtained at non-regulated prices, either from Gazprom or an independent producer. The gas industry is highly regulated by the Russian government, which regularly increases prices for natural gas supplied by Gazprom. In contrast to gas, coal prices are not regulated.

Capital commitments. Future capital expenditure for which contracts have been signed amounted to RR 3 570 488 thousand at 31 December 2007 (at 31 December 2006: RR 1 781 256 thousand).

Note 25. Contingencies

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

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

Legal proceedings. The Group entities are party to certain legal proceedings arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding and not provided for which, upon final disposition, will have a material adverse effect on the financial position of the Group.

Tax contingencies. Russian tax, currency and customs legislation is subject to varying interpretation, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities, in particular the way of accounting for tax purposes of tariff imbalance, water tax, deductibility of certain expenses and property received in the course of reorganisation. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years proceeding the year of review. Under certain circumstances review may cover longer periods.

As at 31 December 2007 management believes that its interpretation of the relevant legislation is appropriate and the Group's tax currency and customs positions will be sustained. Where management believes it is probable that a position cannot be sustained, an appropriate amount has been accrued for in these Financial Statements.

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

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

Potential liabilities might arise as a result of changes in legislation and regulation or civil litigation. The impact of these potential changes cannot be estimated, but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

Note 26. Financial instruments and financial risks

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

Credit risk. Financial assets, which potentially subject the Group to concentrations of credit risk, consist principally of trade receivables. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provision for impairment of receivables already recorded.

(in thousands of Russian Roubles)

The cash has been deposited in the financial institutions with no more than minimal exposure to the default risk at the time of account opening.

Credit risk is managed on a Group basis. For wholesale customers there is no independent rating and therefore Group assesses the credit quality of the customer, taking into account its financial position, past experience and other factors.

The table below shows the balance of the ten major counterparties at the balance sheet date:

Narrative	Rating	Rating agency	Currency	31 December 2007	31 December 2006
Accounts receivable					
CJSC Center of financial settlements	unrated	-	-	485 502	239 796
OJSC Komienergo energy distribution company	unrated	-	-	51 800	2 111
OJSC Arkhangelskaya energy distribution company	unrated	-	-	30 739	-
OJSC "Zhilservis"	unrated	-	-	19 287	4
State Enterprise " Kommunalschik"	unrated	-	-	14 476	10 832
OJSC Nurenergo	unrated	-	-	13 905	9 917
OJSC Dagestanskaya energy distribution company	unrated	-	-	1	35 374
OJSC InterRAO	unrated	-	-	-	67 316
OJSC Novosibirskenergo	unrated	-	-	-	18 878
OJSC Ulyanovskenergo	unrated	-	-	-	17 115
Total accounts receivable				**615 710**	**401 343**
Loans issued					
OAO Torgovo-stroitelniy bank	unrated	-	-	1 660	1 660
Total				**1 660**	**1 660**
Deposits and promissory notes					
VTB	BBB+ stable	S&P	local	36 500 000	-
Rosbank	BBB+ stable	S&P	local	20 950 000	-
Alfa-bank	BBB stable	S&P	local	13 300 000	-
Gazprombank	BBB - stable	S&P	local	3 000 000	-
Sberbank	BBB+ stable	Fitch	local	1 000 000	-
Total deposits and promissory notes				**74 750 000**	-

Interest rate risk. The Group's operating profits and cash flows from operating activity are largely not dependent on the changes in market interest rates. At 31 December 2007 the Group has significant short-term interest-bearing assets. The interest rates on these assets are fixed; these are disclosed in Note 10. They are not exposed to significant interest rate risk through market value fluctuations as the interest-bearing assets are short-term.

The Group has no interest-bearing short-term borrowings exposed to interest rate risk through market value fluctuations.

Interest rate risk is monitored by the Board of Directors who approve the maximum acceptable level of weighted average borrowing cost for a certain period (usually a quarter).

Currency risk. The Group's net exposure to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities is kept at minimum level due to insignificant volume of foreign currency transactions and balances for the reporting period and at the year ended 31 December 2007.

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

(in thousands of Russian Roubles)

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

Narrative	Less than 1 year	between 1 and 2 years	Between 2 and 5 years	Over 5 years
At 31 December 2007				
Debt and borrowings	-	-	-	-
Trade and other payables	2 076 155	37 637	678	356
At 31 December 2006				
Debt and borrowings	3 704 008	-	-	-
Trade and other payables	2 081 274	37 076	39 127	-

Fair values. Management believes that the fair value of its financial assets and liabilities approximates their carrying amount. The carrying value less impairment provision for trade receivables and payables are assumed to approximate their fair values due to their short-term nature.

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

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

Recent volatility in global financial markets. In 2007 there has been a sharp rise in foreclosures in the US subprime mortgage market. The effects have spread beyond the US housing market as global investors have re-evaluated their exposure to risks, resulting in increased volatility and lower liquidity in the fixed income, equity, and derivatives markets.

Debtors of the Group may be affected by the lower liquidity situation which could in turn impact their ability to repay the amounts owed. Deteriorating operating conditions for debtors may also have an impact on management's cash flow forecasts and our assessment of the impairment of financial and non-financial assets. To the extent that information is available, management have properly reflected estimates in our impairment assessments, however management is unable to reliably estimate the effects on the Group's financial position of any further deterioration in the liquidity of the financial markets or their increased volatility.

Note 27. Capital risk management

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

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings shown in the consolidated balance sheet less cash and cash equivalents. Total capital is calculated as equity, shown in the consolidated balance sheet, plus net debt.

Taking into consideration the absence of borrowings as at 31 December 2007 and the significant amount of short-term bank deposits the Group is not exposed to the capital risk at 31 December 2007. As at 31 December 2006 the Group's gearing ratio was 18%.

Note 28. Post balance sheet events

The shareholders of WGC-3 at their Extraordinary Meeting of November, 30 2007 have taken the following decisions related to the Company's reorganization process:

- the reorganization of the Company by means of a spin-off of the Company from RAO UES and a subsequent merger with WGC-3 Holding. The shareholders of WGC-3 Holding are the minority (non-State) shareholders of RAO UES;
- the increase in the paid-up capital of the Company resulting in the issuance of 19 456 985 ordinary shares at RR 1.00 per share totalling RR 19 456 985 by the means of conversion of ordinary and preference shares of WGC-3 Holding into the ordinary shares of JSC WGC-3.

The Board of Directors at their meeting of February, 27 2008 has approved the issuance of the ordinary shares and securities prospectus.

The Board of Directors at their meeting of March, 26 2008 has taken a decision to put into the force the new Regulations to the Group dividend policy, which introduce the new basis for calculation of annual dividends. The Group annual dividends will be calculated as 25% of Group consolidated net profit in accordance with IFRS less profit from financing activities. The source for dividend distribution is statutory net profit which is in compliance with Russian statutory legislation.