JSC OGK-4
COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)
FOR THE YEAR ENDED 31 DECEMBER, 2007

JSC OGK-4
Combined and Consolidated Balance Sheet
as at 31 December 2007
(in thousands of Russian Roubles)

	Note	At 31 December 2007	At 31 December 2006
ASSETS			
Non-current assets			
Property, plant and equipment	6	31,929,729	24,045,369
Intangible assets		454,361	352,531
Investments in associates		-	36
Other non-current assets		98,888	16,887
Total non-current assets		**32,482,978**	**24,414,823**
Current assets			
Cash	23	4,138,844	778,079
Accounts receivables and prepayments	8	1,275,662	1,262,107
Inventories	7	1,947,203	1,736,032
Current income tax prepayments		-	265,694
Short-term financial assets	9	35,790,189	600,000
Total current assets		**43,151,898**	**4,641,912**
TOTAL ASSETS		**75,634,876**	**29,056,735**
EQUITY AND LIABILITIES			
Equity			
Ordinary shares (nominal value RR 49 130 626 thousand)	10	25,206,846	49,130,626
Treasury shares	10	(1,250)	-
Share premium	10	39,955,090	-
Merger reserve	10	-	(31,406,171)
Retained earnings		4,264,712	4,711,197
Total equity attributable to shareholders of JSC OGK-4		**69,425,398**	**22,435,652**
Minority interest		**-**	**-**
Total equity		**69,425,398**	**22,435,652**
Non-current liabilities			
Deferred income tax liabilities	16	3,445,244	3,651,413
Non-current debt	11	-	60
Pension liabilities	12	438,795	326,810
Other non-current liabilities		174	1,124
Total non-current liabilities		**3,884,213**	**3,979,407**
Current liabilities			
Current debt and current portion of non-current debt	13	250,290	635,002
Accounts payable and accruals	14	1,779,129	1,775,935
Current income tax liabilities	16	117,587	-
Other taxes payable	15	178,259	230,739
Total current liabilities		**2,325,265**	**2,641,676**
Total liabilities		**6,209,478**	**6,621,083**
TOTAL EQUITY AND LIABILITIES		**75,634,876**	**29, 056,735**

General Director A.V. Kitashev

Chief Accountant V.S. Chirukhin

30 June 2008

JSC OGK-4
Combined and Consolidated Income Statement
for the year ended 31 December 2007
(in thousands of Russian Roubles)

	Note	Year ended 31 December 2007	Year ended 31 December 2006
Revenues	17	31,436,578	26,110,479
Operating expenses (excluding reversal of impairment of property, plant and equipment)	18	(30,043,040)	(25,445,333)
Reversal of impairment of property, plant and equipment	6	349,846	7,166,561
Impairment of property, plant and equipment	6	-	(553,204)
Operating expenses		(29,693,194)	(18,831,976)
Other operating income		113,845	96,551
Operating profit		**1,857,229**	**7,375,054**
Finance income	19	757,178	59,855
Finance expense	19	(252,677)	(164,507)
Profit before income tax		**2,361,730**	**7,270,402**
Total income tax charge	16	(780,136)	(1,939,841)
Profit for the year		1,581,594	**5,330,561**
Attributable to:			
Shareholders of JSC OGK-4		1,581,594	5,314,024
Minority interest		-	16,537
Earnings per ordinary share for profit attributable to the shareholders of JSC OGK-4 – basic and diluted (in Russian Roubles)	20	0.030	0.185

General Director A.V. Kitashev

Chief Accountant V.S. Chirukhin

30 June 2008

JSC OGK-4
Combined and Consolidated Cash Flow Statement
for the year ended 31 December 2007
(in thousands of Russian Roubles)

	Notes	Year ended 31 December 2007	Year ended 31 December 2006
CASH FLOW FROM OPERATING ACTIVITIES:			
Profit before income tax		**2,361,730**	**7,270,402**
Adjustments for non-cash items**:**			
Depreciation	6	1,651,134	1,409,167
Reversal of impairment of property, plant and equipment	6	(349,846)	(7,166,561)
Impairment of property, plant and equipment	6	-	553,204
Provision for impairment of accounts receivable	18	(118,244)	253,625
Provision for impairment of reserves of Inventories		66,994	-
Interest income		(757,178)	(59,855)
Interest expense and effect of discounting	19	252,677	164,507
Loss on disposal of property, plant and equipment		168,463	101,888
Employee share option plan	5	249,728	-
Other non-cash items		(149,684)	(36,183)
Operating cash flows before working capital changes and income tax paid		**3,375,774**	**2,490,194**
Working capital changes:			
Decrease in accounts receivable and prepayments	8	245,962	140,859
Decrease in inventories	7	(278,165)	(676,697)
Increase / (decrease) in accounts payable and accruals		(11,458)	(130,924)
Increase in pension liabilities		37,456	17,302
Decrease taxes payable other than profits tax		(52,480)	(327,783)
Income tax paid		(603,024)	(782,577)
Net cash generated from operating activities		**2,714,065**	**730,374**
CASH FLOW FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment and other non-current assets	6	(9,464,871)	(1,091,573)
Proceeds from sale of property, plant and equipment and other non-current assets	6	50,394	48,136
Change in short-term financial assets	9	(35,183,796)	(499,012)
Interest received		540,444	47,305
Net cash used in investing activities		**(44,057,829)**	**(1,495,144)**

JSC OGK-4
Combined and Consolidated Cash Flow Statement
for the year ended 31 December 2007
(in thousands of Russian Roubles)

	Notes	Year ended 31 December 2007	Year ended 31 December 2006
CASH FLOW FROM FINANCING ACTIVITIES:			
Proceeds from short-term borrowing	13	6,913,224	2,695,157
Proceeds from long -term borrowing	11	-	147,281
Repayment of debt		(7,293,662)	(2,340,148)
Repayment of financial lease		(125)	(1,149)
Interest paid		(73,332)	(35,116)
Issue of ordinary shares	10	46,523,907	-
Cost of issuing ordinary shares	10	(1,014,221)	-
Purchase of treasury shares	10	(1,250)	-
Dividend paid to shareholders of JSC OGK-4	10	(350,012)	(424,361)
Dividend paid to minority interest shareholders	10	-	(112,665)
Net cash generated from/ (used in) financing activities		**44,704,529**	**(71,001)**
Net increase/(decrease) in cash		**3,360,765**	**(835,771)**
Cash at the beginning of the year		778,079	1,613,850
Cash at the end of the year		4,138,844	778,079

General Director A.V.Kitashev

Chief Accountant V.S.Chirukhin

30 June 2008

JSC OGK-4
Combined and Consolidated Statement of Changes in Equity
for the year ended 31 December 2007
(in thousands of Russian Roubles)

	Attributable to the shareholders of JSC OGK-4							
	Ordinary share capital	Treasury shares	Share premium	Merger reserve	Retained Earnings	Total	Minority interest	Total equity
At1 January 2006	**8,210,831**	**-**	**-**	**7,626,804**	**(39,406)**	**15,798,229**	**1,915,851**	**17,714,080**
Payment of share capital (Note 10)	40,919,795	-	-	(39,032,975)	-	**1,886,820**	(1,886,820)	**-**
Profit for the year*	-	-	-	-	5,314,024	**5,314,024**	16,537	**5,330,561**
Dividends	-	-	-	-	(563,421)	**(563,421)**	(45,568)	**(608,989)**
At 31 December 2006	**49,130,626**	**-**	**-**	**(31,406,171)**	**4,711,197**	**22,435,652**	**-**	**22,435,652**
At 1 January 2007	**49,130,626**	**-**	**-**	**(31,406,171)**	**4,711,197**	**22,435,652**	**-**	**22,435,652**
Decrease of share capital (Note 10)	(29,478,376)	-	-	31,406,171	(1,927,795)	**-**	-	**-**
Purchase of treasury shares	-	(1,250)	-	-	-	**(1,250)**	-	**(1,250)**
Employees share option plan	-	-	-	-	(249,728)	**(249,728)**	**-**	**(249,728)**
Issue of ordinary shares	5,554,596	-	39,955,090	-	-	**45, 509,686**	-	**45, 509,686**
Profit for the year*	-	-	-	-	1,581,594	**1,581,594**	**-**	**1,581,594**
Dividends	-	-	-	-	(350,012)	**(350,012)**	-	**(350,012)**
At 31 December 2007	**25,206,846**	**(1,250)**	**39,955,090**	**-**	**4,264,712**	**69,425,398**	**-**	**69,425,398**

* The amount of total recognized income for the year is equal to profit/(loss) for the year.

General Director A.V.Kitashev

Chief Accountant V.S.Chirukhin

30 June 2008

(in thousands of Russian Roubles)

Note 1. The Group and its operations

Open Joint-Stock Company "Fourth Power Generating Company on the Wholesale Energy Market" ("JSC OGK-4'' or the "Company") was established on 04 March 2005 within the framework of Russian electricity sector restructuring in accordance with Resolution No. 1254-r adopted by the Russian Federation Government on 1 September 2003.

The JSC OGK-4 primary activities are generation and sale of electricity and heat energy.

For the period from 1 September 2005 to 30 June 2006 JSC OGK-4 implemented the function of the sole executive body of JSC Surgutskaya GRES-2, JSC Berezovskaya GRES-1, Shaturskaya GRES-5, JSC Yajvinskaya GRES, and JSC Smolenskaya GRES. On 1 July 2006 these companies were reorganized and taken over by JSC OGK-4 (hereinafter referred to as the Company). Thus, the Company started to operate as a single operational company and is the successor of all rights and obligations of the companies taken over (see *Establishment of the Group* below).

Prior to 1 July 2006 the Company operated as a Group, which consisted of JSC OGK-4, its subsidiary JSC Berezovskaya GRES-1 and subsidiaries of JSC Berezovskaya GRES-1.

Since 1 July 2006 the Company operates 5 power plants as branches and does not have other material subsidiaries. All the references to "the Group" for any time after 1 July 2006 refers to the "Company" and its "branches".

The structure of the Group including all consolidated and combined entities is presented in the table below:

	Principal activity	Ownership, %	
		31 December 2007	**31 December 2006**
Subsidiaries of JSC OGK-4			
LLC "OGK-4 Finance"	Transactions with securities	100	-
JSC "Avtotransenergo"	Transportation services	100	-
LLC "Teplosbyt"	Communal services	100	-
Subsidiaries of JSC Berezovskaya GRES-1		-	-
JSC "Transavto"	Transportation services	-	99.9
JSC "SMU"	Construction and assembling services	-	99.9

The Company is registered by the District Inspectorate of the RF Ministry of Taxation of Surgut, Khanty-Mansiysk Autonomous Area - Yugra, Tyumen region. The Company's office is located at bld. 40 - 4, Bolshaya Ordynka St., 119017, Moscow, Russia.

Operating environment

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

Relations with the state and current regulation

At 31 December 2007, the Russian Open Joint Stock Company for Energy and Electrification Unified Energy System of Russia (hereinafter referred to as the RAO UES of Russia) owned 28.8%of the voting ordinary shares of JSC OGK-4 (at 31 December 2006 – 89.6%). On 15 September 2007, RAO UES concluded the sale of a controlling stake in the Company. The highest bid for purchase of the Company's shares owned by the RAO UES of Russia as the "governmental share" (being 29,848,010,945 ordinary shares which comprised about 60.8% of the authorized capital of the Company before subsequent issues) was determined. The highest price per ordinary share of the

Company – 3.3503 roubles – was offered by E.ON Russia Power GmbH. As a result of this sale, the ownership interest in the ordinary shares of the Company owned by the RAO UES of Russia was decreased from 89.6% to 28.8%. At the same time, the share of E.ON Russia Power GmbH in the authorized capital of the Company changed from 0% to 60.7524%. Official notifications of the said changes were received by the Company on 12 October 2007.

The Company's customer base includes a large number of entities controlled by the State. Furthermore, the State controls a number of the Company's fuel and other suppliers.

The Government of the Russian Federation directly affects the Company's operations through regulation by the Federal Tariff Service ("FTS"), with respect to its wholesale energy sales, and by the Regional Tariff Services ("RSTs"), with respect to its heat sales. The operations of all generating facilities are coordinated by JSC System Operator – Central Dispatch Unit of Unified Energy System ("SO-CDU") in order to meet system requirements in an efficient manner. SO-CDU has historically been controlled by RAO UES of Russia.

Tariffs which the Company 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. Historically, such tariffs have been based on a "cost-plus" system, meaning cost of service plus a margin, where costs are determined under the Regulations on Accounting and Reporting of the Russian Federation ("RAR"), a basis of accounting which significantly differs from International Financial Reporting Standards ("IFRS"). In practice, tariff decisions were impacted significantly by social and political considerations, causing significant delays in tariff determinations and tariff increases that were lower than required to compensate for cost increases.

As described in Notes 2, 22 and 23, the government's economic, social and other policies could materially effect the operations of the Group.

Industry restructuring

Electric power as a component of the energy and utilities sector is one of the primary industries and its contribution into the country's GDP is estimated at approximately 10%.

In 2007 RAO UES of Russia initiated an increase in the sale of assets sales which it planned to complete with the energy holding liquidation on 1 July 2008. Strategic investors entered the energy industry in 2007 and 11 generating companies were sold by the end of the year.

Federal Law No.35-FZ "On Electric Utilities" was amended in 2007 confirming that the reform will be continued and RAO UES of Russia would be liquidated in 2008. The amendments also tightened state control over electricity suppliers' activities in terms of price manipulation in the free market and their dominance.

In 2007 the wholesale market still operated under the NOREM rules set out by Resolution of the Russian Government No. 529 dated 31.08.2006, the level of generated electricity sold at free market prices was 5% and 10% in the first and second half of the year, respectively, with the specifics in terms of electricity volumes supplied to the population taken into account; by 2011 the rate will reach 100%.

It is expected that in 2008 a Resolution of the Russian Government will be issued on the launch of the capacity market where available capacity volumes will be allowed to be traded at the transition auctions providing for the supplies during 2009-2011 and long-term auctions for 10 years supplies, provided they pass through the competitive selection procedure in their respective free power flow zone. For the first time, the wholesale market agents will have the possibility of concluding non-regulated contracts for capacity supply.

The wholesale electricity market is expected to be fully liberalized at the end of the transition period by 2011.

Establishment of the Group

According to Resolution No. 1254-r dated 01.09.2003 which approved the structure of wholesale generating companies ("OGKs"), JSC OGK-4 was to consist of the following power stations: JSC Berezovskaya GRES-1, JSC Shaturskaya GRES-5, JSC Yajvinskaya GRES, JSC Smolenskaya

GRES and JSC Surgutskaya GRES-2.

JSC OGK-4 was founded on 4 March 2005 by RAO UES (parent company) which made the following contributions (see Note 10):

- 100% less one share of the ordinary and preference shares of JSC Berezovskaya GRES-1;
- cash funds.

On 1 July 2006 in the course of further sector restructuring, JSC OGK-4 merged with JSC Berezovskaya GRES-1 (its subsidiary), and with JSC Shaturskaya GRES-5, JSC Yajvinskaya GRES, JSC Smolenskaya GRES, JSC Surgutskaya GRES-2 by exchanging shares of these entities for ordinary shares of JSC OGK-4 (“the Merger”).

These entities had been established through a RAO UES restructuring which had spun them off from RAO UES subsidiaries.

JSC Surgutskaya GRES-2 was 100% owned by RAO UES, whilst RAO UES held controlling equity, interested in JSC Shaturskaya GRES-5, JSC Yajvinskaya GRES and JSC Smolenskaya GRES of 50.9%, 49% and 49%.

To effect the Merger, the Company issued shares to RAO UES and to the owners of JSC Shaturskaya GRES-5, JSC Yajvinskaya GRES and JSC Smolenskaya GRES’ shares from outside the RAO UES Group, with the result that it acquired 100% of the equity of each entity.

After the Merger, the share of RAO UES of Russia in the Company comprised 89.6%.

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

Note 2. Financial condition

As of December 31, 2007, the Company’s current assets exceeded its current liabilities by RR 40,826,633 thousand (as of December 31, 2006 – by RR 2,000,236 thousand).

As discussed above, the Company is affected by Government policy through control of tariffs and other factors. The FTS have not always permitted tariff increases equal to or in excess of increases in the Group’s cost and thus some tariffs are insufficient to cover all the costs of generation. Moreover, increases in these tariffs consider costs only on a Russian statutory basis and, accordingly, exclude significant additional costs recognized under an IFRS basis of accounting. As a result, tariffs may not consistently allow for an adequate return on investment and currently do not provide sufficient funds for the full replacement of property, plant and equipment. However, during 2007 and to date in 2008 the growing demand for electricity and capacity, together with the increasing portion of sales made to the free trading sector of the wholesale electricity market, have resulted in a higher rate of revenue growth (see *Industry restructuring* in Note1).

Note 3. Basis of preparation

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

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

Reclassifications. Certain reclassifications have been made to prior year data to conform to the current year presentation. None of the reclassifications made were material.

Functional and presentation currency. The national currency of the Russian Federation is the Russian Rouble ("RR"), which is the functional currency of all of the Company'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.

Predecessor accounting. In these combined and consolidated financial statements, the Group accounted for the Merger with others entities as business combinations amongst entities under common control under an accounting policy using the predecessor values method. Accordingly, assets and liabilities of the contributed entity were accounted for at the carrying value, as determined by RAO UES in its IFRS consolidated financial statements. Information in respect of the comparative period and opening balances as at 1 January 2006 has been restated as if the business combination took place at the beginning of the earliest period presented. Therefore JSC Smolenskaya GRES, JSC Yajvinskaya GRES, JSC Berezovskaya GRES-1, JSC Shaturskaya GRES-5 and JSC Surgutskaya GRES-2 were accounted in the Group's combined and consolidated financial statements effective from 1 January 2006.

The difference between the statutory nominal value (see Note 10) and the predecessor carrying values of the net assets relating to the transfer of a business from an entity under common control is recorded in equity, as a merger reserve.

Minority interest of the Group includes the proportional shares of JSC Shaturskaya GRES-5, JSC Yajvinskaya GRES and JSC Smolenskaya GRES' minority shareholders (49.1%, 51% and 51%) of their equity and results of operations up to the date of merger of JSC Shaturskaya GRES-5, JSC Yajvinskaya GRES and JSC Smolenskaya GRES with JSC OGK-4.

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

***New accounting developments*.** Certain new IFRSs became effective for the Group from 1 January 2007. Listed below are those new or amended standards or interpretations which are or in the future could be relevant to the Company's operations and the nature of their impact on the Company's accounting policies:

o IFRIC 7 "Application of the return application principle in accordance with IAS 29" (effective for annual periods beginning on 1 March 2006 or after that date, i.e. on 1 January 2007);

o IFRS 7 Financial Instruments: Disclosures and a complementary Amendment to IAS 1 Presentation of Financial Statements – Capital Disclosures;

o IFRIC 8 "Application of IFRS 2" (effective for annual periods beginning on 1 May 2006 or after that date, i.e. on 1 January 2007).

o IFRIC 9, Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006);

o IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006);

The effect of adoption of the above new or revised standards and interpretations (except IFRS

7) on the Group's financial position at 31 December 2007 and 31 December 2006 and on the results of its operations for the years then ended was not significant.

IFRS 7 introduces new disclosures relating to financial instruments. This standard does not have any impact on the classification and valuation of the Group's financial instruments.

Early application of new accounting developments. IAS 23 "Losses on Loans" (revised) shall be applied concerning the periods started on 1 January 2009 or later.

The Company resolved to start early applying the said development from 1 January 2008.

Other new standards or interpretations. The Company has not early adopted the following other new standards or interpretations:

- IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). The Standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organization for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments and specifies how an entity should report such information. The Group is currently assessing what impact the standard will have on segment disclosure in the consolidated financial statements;

- Puttable financial instruments and obligations arising on liquidation—IAS 32 and IAS 1 Amendment (effective from 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;

- IFRIC 11, IFRS 2—Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007);

- IFRIC 12, Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008).

- IFRIC 13 "Customer Loyalty Programs" (effective for annual periods beginning on or after 1 July 2008);

- IFRIC 14 to IAS 19 "Limitations for assets of pension funds with established payments, minimal requirements to funding and their connection" (effective for annual periods beginning on or after 1 January 2008).

- IAS 23, Borrowing Cost (Amendment, applies to 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 immediate recognition of borrowing costs related to assets that take a substantial period of time to get ready for use or sale as an expense.

- IAS 1 "Presentation of Financial Statements" (revised September 2007, effective for annual periods beginning on or after 1 January 2009). Major change in the standard concern the replacement of the profit and loss statement with the statement of consolidated income, which will also include non-equity changes of the capital, such as revaluation of the financial assets for sale. Alternatively, the companies will be allowed to submit two statements: independent profit and loss account and aggregate income statement. IAS 1 changes also affected the requirement to submit the financial state condition statement (balance sheet) at the beginning of the earliest comparative period each time a company announces the comparative information again due to reclassifications, changes in accounting policy of the enterprise or corrections. The Company expects that the revised IAS 1 will affect the presentation within financial statements, but will not affect the recognition and evaluation of business transactions and balances.

- IAS 27, Consolidated and Separate Financial Statements (revised January 2008; 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 any excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

• IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, goodwill will be measured as the difference at acquisition date between the fair value of any investment in the business held before the acquisition, the consideration transferred and the net assets acquired. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

• Vesting Conditions and Cancellations—Amendment to IFRS 2, Share-based Payment (issued in January 2008; effective for annual periods beginning on or after 1 January 2009). 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 is currently assessing the impact of the amended standard on its consolidated financial statements.

• Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate—IFRS 1 and IAS 27 Amendment (revised May 2008; effective for annual periods beginning on or after 1 January 2009). The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous GAAP carrying value as deemed cost in the separate financial statements. The amendment also requires distributions from pre-acquisition net assets of investees to be recognized in profit or loss rather than as a recovery of the investment. The amendments will not have an impact on the Group's consolidated financial statements.

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

Improvements to International Financial Reporting Standards (issued in May 2008). In 2007, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments issued in May 2008 consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41.

Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

Going concern. The accompanying consolidated 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 recoverability of the Company's assets, as well as the future operations of the Company, may be significantly affected by the current and future economic environment. The accompanying financial statements do not include any adjustments should the Company be unable to continue as a going concern.

Critical accounting estimates and assumptions. The Company 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 Company's assessment of whether the collectibility of specific customer accounts deteriorated compared to prior estimates. If there is deterioration in a major customer's creditworthiness or actual defaults are higher than the estimates, the actual results could differ from these estimates (see Note 8).

Provision for impairment of other assets

As of each balance sheet date the Company assesses whether there is any indication that the recoverable amount of the Company'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 income statement 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.

Tax contingencies

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

Useful lives of property, plant and equipment

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

Note 4. Summary of significant accounting policies

Principles of consolidation. The Financial Statements comprise the financial statements of JSC OGK-4 and the financial statements of those entities whose operations are controlled by JSC OGK-4. Control is presumed to exist when JSC OGK-4 controls, directly or indirectly through subsidiaries, more than 50 percent of voting rights.

Subsidiaries

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

Transactions eliminated on consolidation

(in thousands of Russian Roubles)

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

Transfers of subsidiaries between parties under common control. Transfers of investments between parties under common control are accounted for using the pooling of interest method. Under this method the financial statements of the combined entity are presented as if the businesses had been combined from the beginning of the earliest period presented. The assets and liabilities of the subsidiary transferred under common control are recognized at the predecessor entity's carrying amounts. Any difference between the carrying amount of net assets and the nominal value of share capital contributed is accounted for in these combined and consolidated financial statements as an adjustment to equity.

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.

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

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

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 on property, plant and equipment is calculated on a straight-line basis over the estimated useful life of the asset when it is available for use. For the property, plant and equipment which were subject to the third party valuation as at 31 December 1997, the depreciation rate applied is based on the estimated remaining useful lives as at the valuation date. The remaining useful lives are reviewed annually. 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	7-50	15-50
Electricity distribution	6-32	8-25
Heating network	4-20	12-20
Other	2-8	3-10

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

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

Accounts receivable and prepayments. Accounts receivable are recorded inclusive of value added taxes. 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 Company 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.

Classification of financial assets. The Company classifies its financial assets into the following measurement categories: financial assets at fair value through profit or loss, available-for-sale, held to maturity and loans and receivables.

Financial assets at fair value through profit or loss are securities or other financial assets, which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are included in a portfolio in which a pattern of short-term trading exists. The Company classifies financial assets into this category if it has an intention to sell them within a short period after acquisition.

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Company intends to sell in the near term.

Held to maturity classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company has both the intention and ability to hold to maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at each balance sheet date.

All other financial assets are included in the available-for-sale category.

Value added tax on purchases and sales. Output VAT related to sales is payable to tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice.

The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognized in the balance sheet on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT. The related deferred VAT liability is maintained until the debtor is written off for tax purposes.

Inventories. Inventories are valued at the lower of net realizable value and weighed average acquisition cost. The current value of inventories is calculated in accordance with the average weighed value method. 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 Company'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 initial recognition of such asset or liability, 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.

Uncertain tax positions. The Group's uncertain tax positions are reassessed by management at every balance sheet date. Liabilities are recorded for income tax positions that are determined by management as less likely than not to be sustained if challenged by tax authorities, based on the interpretation of tax laws that have been enacted or substantively enacted by the balance sheet date. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the balance sheet date.

Accounts payable and accrued 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.

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 yield method; any difference between the fair value at initial recognition (net of transaction costs) and the redemption amount is recognized in the income statement as an interest expense over the period of the debt obligation.

Borrowing Costs.

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

Pension and post-employment benefits. In the normal course of business the Company 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.

Group entities operate a number of defined benefit plans and define contribution plan. Define benefits plans except old-age life pensions are paid on pay-as-you-go basis. For old-age life pensions payment the Group has contracted with non-state pension fund. The Group settles its obligation in relation to former employees in case of their retirement from one of the Group's entities by purchasing annuity policies in the fund. All define benefits plans are considered to be fully unfunded. When the pension obligation is settled via a non-state pension fund, the employer buys an annuity with the amount of contributions allocated to individual accounts held by the non-state pension fund and any additional contributions that may be required from the employer to meet the cost of the benefit promise. Other defined benefit plans provided by OGK – 4 are unfunded and the cost is met directly by the employer when due.

A plan with defined payments is a pension plan defining the amount of pension allowances, which will be received by an employee in case of retirement and which usually depends on one or more factors, such as, for example, age, experience, and the salary level.

Benefit plans define the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognized in the balance sheet in respect of the defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less unrecognized past service cost, together with adjustments for unrecognized actuarial gains or losses. The defined benefit obligations are calculated using the projected unit credit method. The present value of the defined benefit obligations are determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid associated with the operation of the plans, and that have terms to maturity approximating the terms of the related pension liabilities.

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

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

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

Finance leases. Where the Company is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Company, the assets leased are capitalized in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The amount of each lease payment shall be distributed between the repaid obligation amount and financial expenses so that to secure the constant value of the interest rate for the residual financial lease due. The corresponding rental obligations, net of future finance charges, are included in debts. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest cost is charged to the income statement over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term if the Company is not reasonably certain that it will obtain ownership by the end of the lease term.

Provisions. Provisions are recorded where the Company has legal or practical obligations arisen as a result of past evens, and there is a probability that retirement of resources of the Company might be needed to repay the obligation, and reliable estimates can be made.

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

Segment reporting. The Company operates 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.

Minority interest. Minority interest represents the minority shareholders' proportionate share of the equity and results of operations of the Company's subsidiaries. This has been calculated based upon the minority interest's 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.

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.

Share-based payment transactions. The share option plan allows Group employees to acquire shares of OJSC "OGK-4". The fair value of the options is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options is measured based on the Black-Scholes formula, taking into account the terms and conditions upon which the instruments were granted.

(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.

For the purposes of preparation of statements, 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 Company 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.

Note 5. Related parties

As of 31 December 2007, the Company is controlled by E.ON AG and is included into the E.ON AG Group comprising of E.ON AG, its subsidiaries and dependent companies.

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

RAO UES of Russia

There were no accounts receivable or payable with RAO UES of Russia as of 31 December 2007 (accounts receivable from RAO UES as of 31 December 2006 were RR 30 thousand).

As of 31 December 2006, the Company had a liability to RAO UES of Russia for dividends for the 1st quarter of 2006 of 196,587 thousand roubles.

As of 31 December 2007, the Company repaid the outstanding balance on the loan received from RAO UES of Russia (as of 31 December 2006 – RR 30,438 thousand) (see Note 11).

Transactions with RAO UES's subsidiaries

Transactions with subsidiaries of RAO UES were as follows:

	9 months ended 30 September 2007	**Year ended 31 December 2006**
Electricity and heating sales	15,333,084	21,937,513
Other sales	8,358	15,365
Purchase of electricity	26,272	154,502

Other, besides RAO UES and its subsidiaries, state-controlled entities

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

(in thousands of Russian Roubles)

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

	9 months ended 30 September 2007	Year ended 31 December 2006
Electricity and heating sales	48,544	88,456
Purchase of fuel	353,142	620,536
Interest expense	-	17,849

The Company had the following significant balances with state-controlled entities:

	31 December 2006
Accounts receivable and prepayments	80,240
Accounts payable and accruals	26,233

Tax balances are disclosed in the balance sheet and Notes 8 and 15. Tax charges are recorded in the income statement and disclosed in Note 16.

Directors' compensation

Compensation is paid to members of the Management Board of the Group for their services in full time management positions. The compensation is made up of a contractual salary, non-cash benefits, and a performance bonus depending on results for the period according to Russian statutory financial statements.

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

Total remuneration in the form of salary and bonuses paid to the members of the Board of Directors and Management Board for the year ended 31 December 2007 was RR 149,103 thousand (the year ended 31 December 2006 – RR 132,913 thousand).

Remuneration for employees in the form of share purchase options

On 21 September 2007, the Board of Directors approved the Option Program of JSC OGK-4 – the Option Plan (hereinafter referred to as the Plan).

The Plan provides for provision of share purchase options to members of management bodies and employees of JSC OGK-4 (hereinafter referred to as the Plan participants).

Participation of the General Director of the Company, top managers and employees of JSC OGK-4 in the Plan and the number of shares in their option agreements is determined by resolution of the Board of Directors.

On 21 September 2007, the Board of Directors approved the current number of ordinary shares to be distributed under this Plan. 859,785,942 ordinary shares were allocated for implementation of the Plan, which comprises 1.75% of the total amount of the placed ordinary shares of JSC OGK-4.

Remuneration of participants of the Plan is made for their work in JSC OGK-4 during three years starting from the date of the relevant agreements made by them. During 2007, the following agreements were concluded with the Plan participants:

Date of Agreement	22 September 2007	23 September 2007	25 September 2007	27 September 2007	28 September 2007	29 September 2007	1 October 2007	Total
Number of shares over which options granted, pcs	691,120,507	5,207,846	13,560,052	39,304,501	37,977,973	4,176,103	68,438,960	859,785,942
Number of Plan participants	24	1	3	1	4	1	9	43

Ordinary shares, for which options are issued under this Plan, are purchased by the Group at the open market via a special company controlled by the Group. In September 2007, for the purpose of implementation the Plan a subsidiary, LLC "OGK-4 Finance", was established.

(in thousands of Russian Roubles)

In the event that by the date of shares transfer under the Plan the Company is restructured, the Plan participants will receive the right for the shares distributed among shareholders of JSC OGK-4 or into which the shares were converted.

The amount of sharers purchased by participants under the Plan implementation, who terminate their labor relationships with the Company, are entitled calculated proportionally to the amount of days during which the Plan participants was employed with the Company. In the event of violation of certain requirements of the labor agreement and termination of labor relationships by the Company, such participants of the Plan are deprived of their right for share purchase.

The option price is determined as of the date of resolution on participation in the Plan and is calculated as the weighed average price of ordinary shares of the Group for the period of 365 days prior to the date of agreements according to the data of the trading floor determined by the Group's Board of Directors.

The options may be exercised by a participant of the Plan within one month after satisfaction of the condition for entering into shareholding rights.

	Amount, pcs.	Weighed average sale price, roubles.
Options issued as of 31 December 2006	-	-
Options provided in 2007	859,785,942	-
Options lost in 2007	(5,207,846)	-
Options outstanding of 31 December 2007	854,578,096	-

The fair value of the services received in consideration of the options provided is evaluated at the fair value of the options provided. The fair value of services was evaluated according to the Black-Scholes model.

	Year ended 31 December 2007	Year ended 31 December 2006
Share price (in roubles)	1.80 – 3.80	-
Option implementation price (in roubles)	2.726	-
Expected market volatility	26.92%	-
Option term	1,096 days	-
Risk-free interest rate	5.8%	-
Fair value of the option as of the evaluation date (in roubles)	1.0325 – 1.0407	-

The volatility level applied in the option price calculation model is a standard deviation on the array of values of natural logarithm of the share's private rate to the share rate of the previous accounting period of the parent company (E`ON). Historical fluctuations of the share price were applied to determine the volatility for the whole circulation period of the shares.

Risk-free interest rate was assumed on the basis of annual profitability of coupon bonds of T-bills/federal loan bonds (issue code 25061) issued in 2007 before October with the circulation term equal to the option term.

For the options issued as of 30 June 2007, the sales price varied from 1.0325 roubles to 1.0407 roubles per share, and the weighted average term before sale comprised 1,096 days.

For the year ended 31 December 2007, the Company recorded the expenses associated with the fair value of options in the amount of 249,728 thousand roubles.

(in thousands of Russian Roubles)

Note 6. Property, plant and equipment

	Electricity and heat generation	Electricity distribution	Heating networks	Construction in progress	Other	Total
Cost						
Opening balance as of 31 December 2006	**27,338,162**	**659,246**	**643,762**	**1,292,558**	**9,716,895**	**39,650,623**
Additions	2,781	-	18,427	9,043,246	260,813	9,325,268
Transfers	103,402	-	6,049	(411,286)	301,836	-
Disposals	(107,477)	(12,214)	-	(73,341)	(117,801)	(310,832)
Closing balance as of 31 December 2007	**27,336,868**	**647 032**	**668,238**	**9,851,178**	**10,161,743**	**48,665,059**
Accumulated depreciation (including impairment)						
Opening balance as of 31 December 2006	**8,478,813**	**622,668**	**241,738**	**349,846**	**5,912,189**	**15,605,254**
Charge for the period	825,966	3,505	46,932	-	736,958	1,613,362
Reversal of impairment loss	-	-	-	(349,846)	-	(349,846)
Disposals	(27,301)	(11,866)	-	-	(94,274)	(133,441)
Closing balance as of 31 December 2007	**9,277,479**	**614,307**	**288,670**	**-**	**6,554,873**	**16,735,329**
Net book value as at 31 December 2006	**18,859,349**	**36,578**	**402,024**	**942,712**	**3,804,706**	**24,045,369**
Net book value as at 31 December 2007	**18,059,389**	**32,725**	**379,568**	**9,851,178**	**3,606,870**	**31,929,730**

(in thousands of Russian Roubles)

	Electricity and heat generation	Electricity distribution	Heating networks	Construction in progress	Other	Total
Cost						
Opening balance as of 31 December 2005	**27,218,001**	**648,255**	**550,275**	**1,402,450**	**9,670,076**	**39,489,057**
Additions	5,627	59	80,681	507,597	87,716	681,680
Transfers	447,002	13,014	23,915	(551,633)	67,702	-
Disposals	(332,468)	(2,082)	(11,109)	(65,856)	(108,599)	(520,114)
Closing balance as of 31 December 2006	**27,338,162**	**659,246**	**643,762**	**1,292,558**	**9,716,895**	**39,650,623**
Accumulated depreciation (including impairment)						
Opening balance as of 31 December 2005	14,287,148	344,548	238,512	-	6,215,567	21,085,775
Charge for the period	805,817	76,372	25,426	-	501,552	1,409,167
Reversal of impairment loss	(6,438,884)	-	(17,900)	-	(709,777)	(7,166,561)
Impairment loss	-	203,358	-	349,846	-	553,204
Disposals	(175,268)	(1,610)	(4,300)	-	(95,153)	(276,331)
Closing balance as of 31 December 2006	**8,478,813**	**622,668**	**241,738**	**349,846**	**5,912,189**	**15,605,254**
Net book value as at 31 December 2005	**12,930,853**	**303,707**	**311,763**	**1,402,450**	**3,454,509**	**18,403,282**
Net book value as at 31 December 2006	**18,859,349**	**36,578**	**402,024**	**942,712**	**3,804,706**	**24,045,369**

(in thousands of Russian Roubles)

Note 6. Property, plant and equipment (continued)

Construction in progress represents the carrying amount of property, plant and equipment that has not yet been available for use in production, including generating stations under construction.

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

No items of property, plant and equipment were pledged as security for loans as of 31 December 2007.

Operating lease

The JSC OGK-4 leases a number of land areas owned by local governments under operating leases. Land lease payments are determined by lease agreements.

Operating lease charges are payable as follows:

	As of 31 December 2007	As of 31 December 2006
Less than one year	117,365	110,023
Between one and five years	349,576	370,170
More than five years	2,977,604	2,837,635
Total	**3,444,545**	**3,317,828**

The land plots taken on lease by JSC OGK-4 are the territories where the Company's electric power stations and other assets are located. The leases typically run for an initial period of 11-49 years with an option to further extend the lease. The lease payments are subject to regular review to reflect market lease rates.

Impairment provision for property, plat and equipment

The impairment provision included in accumulated depreciation balance as of 31 December 2007 was RR 287,793 thousand, as of 31 December 2006 – RR 669,239 thousand.

As of 31 December 2007, the Company assessed whether there was any indication that an impairment loss recognized in prior periods for property, plant and equipment no longer existed. Management concluded that at that reporting date there were indications for reversing the previously recognized impairment losses including those on construction in progress. Such indicators included:

- approving the Investment program which provides putting into use of 2400 MVt modern generating capacities at the Group`s stations before 2011;

- additional issue of shares in favour of E.ON. as a result of which approximately $1,8 billion was committed to the Investment program (see Note 1);

- a fair value of PPE estimation at 30 September 2007 (for the purpose of PPA) which revealed that the value had increased by RR 81 billion;

- introduction of 6-year repair cycle for all energy capacities and of planning system for repair and emergency stop of equipment. It will allow to reduce the length and value of repair activities.

These developments resulted in a change to the assumptions that were used to determine the value in use of the assets that comprise the power generation cash generating units and a reversal of the previously recognized impairment loss to the extent of RR 349,186 thousand at 31 December 2007. A respective gain, together with a corresponding deferred tax expense of RR 83,963 thousand, was recognized in the income statement for the year ended 31 December 2007.

With effect from 1 January 2007 the Company intended to change its accounting policy from historic cost to revaluation for its property, plant and equipment. However, for the purposes of compliance with the accounting policy of the parent company, the management decided to retain the existing accounting policy of carrying property, plant and equipment based on historic cost.

(in thousands of Russian Roubles)

Thus, results of the evaluation of the fair value of the Company's property, plant and equipment conducted by an independent evaluator as at 1 January 2007 are not reflected in the annual financial statements for 2007.

Note 7. Inventories

	As of 31 December 2007	As of 31 December 2006
Fuel production supplies	1,327,330	1,093,904
Materials and supplies	393,884	397,279
Other inventories	292,983	244,849
Provision for impairment of inventory	(66,994)	-
Total	**1,947,203**	**1,736,032**

Note 8. Accounts receivable and prepayments

	31 December 2007	31 December 2006
Trade receivables	454,737	478,582
(Net of bad debt provision of RR 182,510 thousand as of 31 December 2007 and RR 294,250 thousand as of 31 December 2006)		
Advances to suppliers and prepayments	661,045	537,053
(Net of bad debt provision of RR zero as of 31 December 2007 and RR 1,282 thousand as of 31 December 2006)		
Value added tax recoverable	25,975	159,780
Due from budget (excluding VAT)	5,451	7,152
Other receivables	128,454	79,540
(Net of bad debt provision of RR 255 thousand as of 31 December 2007 and RR 5,417 thousand as at 31 December 2006).		
Total	**1,275,662**	**1,262,107**

Management has determined the bad debt provision based on specific customer identification, customer payment trends, subsequent receipts and settlements and analyses of expected future cash flows. The management of the Company believes that Company will be able to realize the net receivable amount through direct collections and other, non-cash, settlements, and that therefore the recorded value approximates their fair value.

In 2007, RR 14,185 thousand of the Company's total accounts receivable was settled via non-cash settlements (in 2006: RR 151,785 thousand).

The above accounts receivable and prepayments include amounts receivable from related parties (see Note 5).

(in thousands of Russian Roubles)

Note 9. Short-term financial assets

Name	Currency	Rating	Rating agency	Effective interest rate, %	Balance at 31 December 2007	Balance at 31 December 2006
Short-term deposits:						
JSC "KB Agroimpuls"	RR	B3	Moody's	8.00%	-	200,000
JSC "KB Agroimpuls"	RR	B3	Moody's	8.00%	-	150,000
JSC “KB Kamabank”	RR	-	-	8.00%	-	200,000
JSC “AKB Strategia”	RR	-	-	11.00%	-	50,000
JSC “Vneshtorgbank”	RR	Baa2	Moody's	9.00%	14,400,000	-
JSC “Vneshtorgbank”	RR	Baa2	Moody's	8.00%	913,919	-
AB Gazprombank (ZAO)	RR	Baa2	Moody's	7.30%	7,200,000	-
ZAO UniCredit Bank	RR	A-	Fitch Rating	7.42%	3,252,224	-
JSC Savings Bank of the Russian Federation	RR	Baa2	Moody's	7.00%	5,290,722	-
JSC Savings Bank of the Russian Federation	RR	Baa2	Moody's	6.80%	4,236,415	-
JSC “AKB Strategiya”	RR	-	-	8.50%	50,000	-
JSC AB “Urals FD”	RR	B3	Moody's	7.80%	200,000	-
Total short-term deposits					**35,543,280**	**600,000**
Promissory notes:						
JSC KB “Agroimpuls”	RR	B3	Moody's	0.00%	246,462	-
JSC Savings Bank of the Russian Federation	RR	Baa2	Moody's	0.00%	447	-
Total promissory notes:					**246,909**	**-**
Total					**35,790,189**	**600,000**

In October to December 2007, the Company deposited temporarily free cash received as a result of an additional share issue to deposit accounts with banking institutions for one year. The interest on short-term deposits are fixed and, therefore, exposes the Group to the risk of changes in market interest rates.

In 2007, the Company purchased fifteen non-interest banking promissory notes of JSC ‘’KB Agroimpuls” for the amount of RR 266,990 thousand due during 2008. The said promissory notes were purchased against repayment of the customers’ debt for electric power and capacity sold in 2006-2007 (JSC “Kalmenergosbyt”, JSC “Karachayevo-Cherkesskenergo”, JSC “Kabbalkenergo”, JSC “Sevkavkazenergo”, JSC “Dagestan ESK”, JSC “Ingushenergo”).

Promissory notes for the amount of RR 2,145 thousand were transferred as payment of Company’s debt to the customers for electric power and capacity sold in 2006-2007 (prepayments received from JSC “Sevkavkazenergo”, JSC “Karachayevo-Cherkesskenergo”) on the date of receipt of these promissory notes.

The remaining promissory notes are reflected in the statements at their fair value as of the date of purchase. The fair values of these promissory notes were determined on the basis of repayment dates and discount rates using the average rate received on deposits opened during 2007, 10.00%). The effect of discounting of these promissory notes decreased the “Revenue” item for by RR 24,077 thousand for 2007. The interest income from shortening of discounting term is reflected in the “Finance income” item. In 2007, such income comprised RR 5,694 thousand. These promissory notes for the amount of RR 246,462 thousand (less discounting effect) were registered among other current assets as of 31 December 2007.

(in thousands of Russian Roubles)

Due the fact that there is no discount term for retired promissory notes for the amount of RR 2,145 thousand, the revenue on these promissory notes is not discounted.

A promissory note of AK Savings Bank of the RF has the interest rate equal to 0.00%, but is not subject to discounting due to the short repayment term and is registered in the balance at the actual purchase price.

Note 10. Equity

Basis of presentation of movements in equity

The Group was formed by the combination of a number of businesses under common control. Because of the consequent use of the predecessor basis of accounting (see Note 3), the principal component of the net equity recognized for the Group is based on the historic carrying value of the net assets of the businesses contributed as recorded in the IFRS financial records of the predecessor enterprises, rather than the fair values of those net assets. Similarly, for the purpose of comparability, the equity of the Group has been presented for comparative periods and as at 1 January 2005 as if the current Group structure had existed from 1 January 2005 (see Note 3). As the Group was formed as a result of a series of share issues completed after 1 January 2005, the equity statement reflects additions to share capital in the amount equal to the statutory nominal value of the shares issued which is based on the fair value of the net assets of the businesses contributed. In accordance with the predecessor basis of accounting, the effect of such additions to equity is offset by a corresponding increase in the merger reserve. In addition, the equity statement also reflects the impact of distributing the minority interest to the parent company of the Group.

Merger reserve

Based on the application of predecessor accounting (see Note 3), the difference of RR 31,406,171 thousand between the value of share capital issued, the IFRS carrying values of the contributed assets and the minority interest was recorded a merger reserve within equity.

The Group, according to requirements of the legislation, reduced the share capital up to size not exceeding its contributed assets in May, 2007 in the process eliminating the Merger Reserve.

Share capital

(Number of shares unless otherwise stated)	**Ordinary shares 31 December 2007**	**Ordinary shares 31 December 2006**
Issued shares	63,017,115,839	49,130,625,974
Nominal (in roubles)	0.40	1.00

On 10 May 2007, the Company registered amendments to the Articles of Association, subject to which the nominal value of shares was decreased from 1.00 to 0.40 roubles.

A resolution on increasing of the authorized capital of the Group by placement of ordinary registered non-documentary shares in the amount of up to 23 billion pieces was approved at an extraordinary General Meeting of Shareholders on 23 April 2007. The notification of the results of the additional issue of securities (state registration number 1-02-65104-D-001D of 22 June 2007) was submitted to the Federal Service for Financial Markets (FSFM of Russia) on 16 October 2007.

On 19 October 2007, amendments to the Articles of Association of the Group were registered in connection with the placement of an additional issue of shares in the amount of 13,886,489,865 whole shares and 44,925,042,874/49,130,625,974 fractional shares out of 23,000,000,000 shares announced for placement earlier.

In accordance with the amendments made to the Articles of Association the authorized capital of the Group as at 31 December 2007comprised RR 25,206,846,335.97 shares. There are ordinary registered shares with a par value of RR 0.40 each in the amount of 63,017,115,839 whole shares and 44,925,042,874/49,130,625,974 fractional shares.

(in thousands of Russian Roubles)

Issue of shares for placement for funds

As a result of the additional issue, the Group placed 13,886,489,865 shares with a par value of RR 0.40 each. In total 60.376% of the total amount of securities possibly subject to placement were placed. The actual placement price approved by the Board of Directors comprised RR 3.3503 per share. During the additional issue, 13,849,544,048 share of the Group were placed for the benefit of E.ON Russia Power GmbH. In addition, 36945817,9143999691225 of additionally issued shares were placed as a result of exercising of the preemption right.

The gain as a result of placement of the Company's shares emission at the price exceeding their nominal value and was comprised RR 40,969,311 thousand less placement costs in the amount of RR 1,014,221 thousand reflected as a deduction from the capital.

Treasury shares

In 2007, the Company repurchased 568,243 ordinary shares or 0.001% of the share capital as of 31 December 2007. The shares were repurchased by the Company at a price exceeding their nominal price by RR 2.20 per share according to the fair value evaluation statement No.A_6769/07 as of 1 January 2007.

The consideration paid for the purchase of the treasury shares is reflected in these statements as a deduction from the capital.

Shares were repurchased from shareholders of JSC OGK-4 who voted against the resolutions on reorganization of the Company or who did not take part in voting at the extraordinary General Meeting of Shareholders held on 5 October 2007.

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.

As of the beginning of 2007, there were liabilities in respect of paying unpaid dividends of the merged companies of RR 204,853 thousand to participants.

These liabilities comprised RR 11,219 thousand as of 31 December 2007, including RR 6,689 thousand of unpaid dividends of the merged companies.

Note 11. Non-current debt

Name	Currency	Effective interest rate, %	Maturity	31 December 2007	31 December 2006
RAO UES of Russia	RR	25%	2006-2007	-	30,438
Finance lease	RR	13%	2006-2008	60	3,919
Total non-current debt				**60**	**34,357**
Less: current portion of non-current debt				-	(30,438)
Less: current portion of non-current finance lease				(60)	(3,859)
Total				**-**	**60**

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

(in thousands of Russian Roubles)

Note 12. Pension liabilities

The tables below provide information about the benefit obligations, plan assets and actuarial assumptions used for twelve months ended 31 December 2007 and 2006. Amounts recognized in the Combined and Consolidated Balance Sheet:

	31 December 2007	31 December 2006
Present value of defined benefit obligations (DBO)	822,503	1,056,910
Fair value of plan assets	-	-
Present value of unfunded obligations	822,503	1,056,910
Unrecognized actuarial losses	(130,599)	(291,342)
Unrecognized past service cost	(253,109)	(438,758)
Net liability in balance sheet	**438,795**	**326,810**
Employees' average remaining working life (years)	12	12

Amounts recognized in the Combined and Consolidated Income Statement:

	31 December 2007	31 December 2006
Current service cost	94,622	72,086
Interest cost	74,529	51,786
Expected return on plan assets	-	-
Net actuarial losses recognized in year	12,698	2,867
Amortization of past service cost	73,126	73,126
Curtailment gain	(291,760)	-
Immediate recognition of vested prior service cost	126,748	-
Other	66,624	-
Net expense recognized in the income statement	**156,587**	**199,865**

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

	31 December 2007	31 December 2006
Present value of defined benefit obligations (DBO) at beginning of year	1,056,910	778,353
Service cost	94,622	72,086
Interest cost	74,529	51,786
Plan participants' contributions	-	-
Actuarial (gain)/loss	(49,088)	285,462
Past service cost	218,151	-
Benefits paid	(44,602)	(130,777)
Settlement and curtailment gain	(594,644)	-
Other	66,624	-
Present value of defined benefit obligations (DBO) at the end of year	**822,503**	**1,056,910**

Principal actuarial assumptions are as follows:

	31 December 2007	31 December 2006
Inflation	5.00%	5.00%
Nominal discount rate	6.60%	6.60%
Nominal expected return on plan assets	n/a	n/a
Nominal salary increase (prior to benefit commencement)	9.20%	9.20%

(in thousands of Russian Roubles)

Nominal increase in pensions-in-pay (after benefit commencement)	n/a	6.60%
Nominal increase in financial support benefits	5.00%	5.00%
Staff turnover	2.50%	2.50%

Actuarial gains and losses arising during this period correspond to experience adjustments in full.

	31 December 2007	**31 December 2006**
Present value of defined benefit obligations (DBO)	822,503	1,056,910
Fair value of plan assets	-	-
(Surplus)/deficit in plan	822,503	1,056,910
Gains/(losses) arising from experience adjustments on plan liabilities	49,088	(285,462)
Gains/(losses) arising from experience adjustments on plan assets	-	-

According to IAS 19 past service cost should be recognized as an expense on a straight-line basis over the average period until the benefits become vested. In the table below we summarize the schedule for the initial past service cost and its amortization during 2006 - 2007.

Amortization plan

Benefit	Unrecognized amount as of 31 December 2005	Amortization to be recognized during 2006	Unrecognized amount as of 31 December 2006	Amortization to be recognized during 2007	Initial past service cost	Recognition during regulation	Unrecognized amount as of 31 December 2007
Regular old age pension via NPF	511,884	(73,126)	438,758	(73,126)	91,403	(203,927)	253,109

Expected payments under the schemes in 2008 are RR 116,041 thousand.

Note 13. Current debt and current portion of non-current debt

Name	**Currency**	**Effective interest rate, %**	**31 December 2007**	**31 December 2006**
AB Gazprombank	RR	7-8%	-	400,308
ZAO Unicreditbank	RR	6.4-7.5%%	250,230	200,397
Current portion of non-current debt	RR		60	34,297
- debt	RR	15 %	-	30,438
- finance lease	RR	-	60	3,859
Total			**250,290**	**635,002**

The Company is exposed to fair value interest rate risk as all of its borrowings are at fixed interest rates.

(in thousands of Russian Roubles)

Note 14. Accounts payable and accruals

	31 December 2007	31 December 2006
Trade payables	1,051,961	1,270,056
Accrued liabilities and other creditors	715,949	301,026
Provision for tax claims	-	-
Dividends payable	11,219	204,853
Total	**1,779,129**	**1,775,935**

Note 15. Taxes payable

	31 December 2007	31 December 2006
Value added tax	12,252	12,866
Property tax	84,107	152,155
Employee taxes	22,651	30,566
Other taxes	59,249	35,152
Total	**178,259**	**230,739**

As of 31 December 2007 included in the payable for value added tax is RR 12,252 thousand of deferred VAT which only becomes payable to the authorities when the underlying receivables balance is either recovered or written off (31 December 2006: RR 12,866 thousand)

Note 16. Income tax

Income tax charge

	Year ended 31 December 2007	Year ended 31 December 2006
Current income tax charge	(986,305)	(463,857)
Deferred income tax benefit /(charge)	206,170	(1,475,984)
Total	**(780,135)**	**(1,939,841)**

During the year ended 31 December 2007 the Group entities were generally subject to a 24% income tax rate on taxable profits.

During calculation of the income tax to regional budget on the separated division Yajvinskaya GRES branch, the Company applies preferential rate, as a result of which the tax rate of the branch comprises 20% (instead of 24%).

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.

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

	Year ended 31 December 2007	Year ended 31 December 2006
Profit before income tax	**2,361,730**	**7,270,402**
Theoretical tax charge at the statutory tax rate of 24%	(566,815)	(1,744,897)
Tax effect of items which are not deductible or assessable for taxation purposes	(213,321)	(194,944)
Total income tax charge	**(780,135)**	**(1,939,841)**

(in thousands of Russian Roubles)

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%, the rate applicable when the temporary differences will reverse.

Deferred tax	**31 December 2007**	**Movement for the year recognized in the income statement in 2007**	**31 December 2006**
Trade receivables	112,049	104,176	7,873
Inventories	15,320	12,167	3,153
Property, plant and equipment	-	-	-
Pension liabilities	105,311	26,877	78,434
Accounts payable and other accruals	125,828	96,994	28,834
Property, plant and equipment	(3,780,759)	(11,037)	(3,769,722)
Other	(22,993)	(23,007)	15
Deferred tax at the end of the year	**(3,445,244)**	**206,170**	**(3,651,413)**

Deferred tax	**31 December 2006**	**Movement for the year recognized in the income statement in 2006**	**31 December 2005**
Trade receivables	7,873	2,013	5,860
Inventories	3,153	(1,224)	4,377
Property, plant and equipment	-	(45,285)	45,285
Pension liabilities	78,434	16,581	61,853
Accounts payable and other accruals	28,834	(25,951)	54,785
Property, plant and equipment	(3,769,722)	(1,432,261)	(2,337,461)
Other	15	10,143	(10,128)
Deferred tax at the end of the year	**(3,651,413)**	**(1,475,984)**	**(2,175,429)**

Note 17. Revenues

	Year ended 31 December 2007	**Year ended 31 December 2006**
Electricity	30,633,361	25,157,777
Heating	635,478	564,601
Other	167,739	388,101
Total	**31,436,578**	**26,110,479**

(in thousands of Russian Roubles)

Note 18. Operating expenses (except for reversal of losses on impairment of property, plant and equipment)

	Year ended 31 December 2007	Year ended 31 December 2006
Fuel	17,301,602	14,743,861
Repairs and maintenance	2,076,198	2,830,927
Employee benefits	3,449,715	2,411,312
Depreciation	1,651,134	1,409,167
Purchased power and electricity	2,236,879	787,371
Taxes other than income tax	471,838	411,643
Bank services	232,084	274,015
Provision for impairment of accounts receivable	(118,245)	253,625
Raw materials and supplies	413,312	222,963
Operational dispatch management	471,985	375,018
Water usage expenses	221,692	179,605
Transportation expenses	273,578	143,689
Guarding expenses	239,374	196,012
Rent expenses	144,180	130,482
Loss on disposals of property, plant and equipment	168,463	101,888
Insurance cost	93,247	86,640
Social expenses	47,706	34,297
Other expenses	668,298	852,818
Total	**30,043,040**	**25,445,333**

Employee benefits expenses comprise the following:

	Year ended 31 December 2007	Year ended 31 December 2006
Salaries and wages, payroll taxes	3,112,783	2,266,100
Non-governmental pension fund expenses	87,204	145,212
Remuneration for employees in the form of share purchase options	249,728	-
Employee benefits	**3,449,715**	**2,411,312**

Note 19. Finance income and expense

Finance income

	Year ended 31 December 2007	Year ended 31 December 2006
Effect of liability discounting	6,393	-
Interest income (borrowings and restructured liability)	622,726	59,855
Exchange gains	128,059	-
Total	**757,178**	**59,855**

(in thousands of Russian Roubles)

Finance expense

	Year ended 31 December 2007	Year ended 31 December 2006
Effect of liability discounting	76,914	6,173
Interest expense (borrowings and restructured liability)	132,858	158,334
Exchange losses	42,905	-
Total	**252,677**	**164,507**

Note 20. Basic and diluted earnings per share payable to shareholders of JSC OGK-4

Basic earning per share is calculated by dividing the net profit for shareholders of the Company by weighed average amount of ordinary shares in circulation excluding treasury stock.

	Year ended 31 December 2007	Year ended 31 December 2006
Gross weighted average number of ordinary shares issued	52,136,195,014	28,670,728,367
Correction for weighted average number of treasury stock	(68,028)	-
Net weighted average number of ordinary shares issued during the year	52,136,126,986	28,670,728,367
Profit attributable to the shareholders of JSC OGK-4 (thousands of RR)	1,581,594	5,314,024
Earnings per ordinary share for profit attributable to the shareholders of JSC OGK-4 – basic (in RR)	**0,030**	**0.185**

The profit for share is calculated by division of the net profit attributable to shareholders of the Company by the weighed average number of shares issued increased by the number of additional ordinary shares which would be issued in case of conversion of all contracts with diluting effect into ordinary shares.

In 2007, options for purchasing shares provided to employees by the Company (see Note 5) were attributed to contracts with the potential diluting effect. In 2006, there were no ordinary shares with the potential diluting effect with the Company, therefore, the diluted earning per share coincided with basic earning per share.

	Year ended 31 December 2007	Year ended 31 December 2006
Weighted average number of ordinary shares issued during the year	52,136,126,986	28,670,728,367
Correction for weighted average number of shares, which would be issued at average market price	21,399,712	-

(in thousands of Russian Roubles)

Weighted average number of ordinary shares issued during the year	52,157,526,698	28,670,728,367
Profit attributable to the shareholders of JSC OGK-4 (thousands of RR)	1,581,594	5,314,024
Diluted earning per share (in RR)	**0,030**	**0.185**

Note 21. Commitments

Sales commitments. The Company sells electricity on the two wholesale market sectors: free trading sector and regulated trading sector.

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

Fuel commitments. The Company concluded a number of contracts for fuel supply (natural gas, peat, fuel oil, coal).

The principal suppliers of fuel are: JSC Surgutneftegaz, JSC Novatek, LLC Smolenskregiongaz, LLC Permregiongaz, LLC Mosregiongaz. Agreements with them were concluded in 2007 for the term of 5 years and for the total amount of RR 155,390,120 thousand, VAT exclusive. The principal supplier of brown coal and coal is JSC Siberian Coal and Energy Company. Agreements with this supplier were concluded for the term from one to three years for the total amount of RR 7,575,847 thousand, VAT exclusive.

Prices under the Company's natural gas and coal contracts are generally determined by reference to base amounts adjusted to reflect provisions for changes in regulatory prices, published inflation indices and current market prices.

Capital commitments. During 2007, agreements for designing and supply of equipment and materials, as well as for construction and commissioning of a one-shaft combined cycle power plants with the capacity of 400 MW (turnkey construction) for the Shaturskaya GRES subsidiary were made with General Electric International Inc. registered in the state of Delaware, USA, for the amount of RR 2,931,674 thousand and with Gama Guc Sistemleri Muhendislik ve Taahhut A.S. for the amount of RR 4,548,382 thousand with an effective term by 2009.

Agreements for designing, supply of equipment and materials, construction and commissioning of one-shaft combined cycle power plants with the capacity of 2*400 MW (turnkey construction) for the Surgutskaya GRES subsidiary were made with General Electric International Inc. registered in the state of Delaware, USA, for the amount of RR 6,507,012 thousand and with Gama Guc Sistemleri Muhendislik ve Taahhut A.S. for the amount of RR 9,924,018 thousand with an effective term by 2010.

The signing stage of the contract for completion of construction of power unit No.3 based on STU-800 for the supply of equipment including service equipment, including a portion of design work for Berezovskaya GRES subsidiary is currently under way with JSC “KATEKenergoremont”; the contract is effective from 2008 to 2010; the amount of the contract is RR 11,536,440 thousand, net of VAT. Tender bids to win the contract for design, supply of equipment and materials, construction and commissioning of one-shaft combined the cycle power plants with the capacity of 400 MW (turnkey solution) for Yaivinskaya GRES subsidiary are now being reviewed; the contract will be effective from 2008 to 2011: the amount of the contract is RR 12,622,400 thousand, net of VAT.

As of 31 December 2007, total obligations of the Company to contractors and suppliers under existing agreements for capital construction amounted to RR 48,069,927 thousand.

Note 22. Contingencies

Political environment. The operations and earnings of the Company 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 the Russian Federation.

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

Social obligations. The Company is responsible to the community of the regions of its business for contributing to development of favorable living conditions, creation of jobs and minimization of the hazard to the environment, as well as to the public and governmental authorities for due payment of taxes, support of public important initiatives, and participation in social and economic development of regions.

Following the principles of corporate citizenship, the Company believes it is important to make its contribution into development of regions of its presence, being one of the major investors into the social sphere of these regions. In this connection, the Company takes active part in funding of social and charity programs related to support of socially vulnerable groups of citizens, firstly, children and pensioners. A particular attention is paid to development of educational programs for schoolchildren and students; various sport events are also supported.

The Company continues the tradition of the plant included into it concerning the aid to different organizations, public associations and private persons within the regions in which it is present. The Company spent more than RR 18,289 thousand for these programs in 2007.

Legal proceedings. Group entities are party to certain legal proceedings arising in the ordinary course of business. In general those legal proceedings relate to unreasonable application of tariffs. In the opinion of management, the current legal proceedings and claims listed below, upon their final disposition, could have a material effect on the financial position of the Company.

The Company entered into joint liability agreements for potential claims related to predecessor legal entities from which the power plants Smolenskaya GRES, Yajvinskaya GRES, Shaturskaya GRES-5 and Surgutskaya GRES-2 spun-off. Such agreements were finalized with JSC Mosenergo, JSC Tyumenenergo, JSC Smolenskenergo, JSC Permenergo and their spin-offs. These agreements stipulate joint liability over the claims of those entities which were not shown in the separation balance sheets during their reorganization. There are likely risks connected with possible liability over the claims of the aforementioned companies.

Currently, on the basis of signed agreements, the Company has provided against the claim of JSC Mosenergosbyt (where the Company acts as one of the defendants) in the amount of RR 25,253 thousand and the claim of JSC Mosenergo in the amount of RR 8,452 thousand, claim from JSC Moscow Regional Grid Company in the amount of 5,115 thousand, claim from JSC Permenergo in the amount of RR 181 thousand.

The Company has also provided against the claim of JSC “Severregiongas” on charging the payment for the supplied over the quota gas with the coefficient of 1.5 (increasing) for the amount of RR 57,686 thousand.

The Company, in its turn, issued a claim to MUE “Yaivazhilkomservis” for charging the payment for thermal power for the amount of RR 15,849 thousand, claim to JSC “Sovremennye Avtomatizirovannye Sistemy (Modern Automated Systems)” for charging the penalty for delay in implementation of works for the amount of RR 3,589 thousand and other claims associated with charging indebtedness for thermal power from natural persons-consumers for the amount of RR 6,739 thousand.

As of the date of issuing these combined and consolidated financial statements management believes that it has adequately provided for all significant potential losses that may result from any such claims being asserted and contested.

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 Company may be challenged by the relevant regional and federal authorities, in particular the way of accounting for tax purposes of tariff imbalance, water tax, and property received in the course of reorganization. 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.

No disclosure has been made in respect of the possible financial effect of potential claims or disputes on these matters, as this might seriously prejudice the position of the Company.

As of 31 December 2007 management believes that its interpretation of the relevant legislation is appropriate and the Company'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. Company's 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. Company periodically evaluates its obligations under environmental regulations.

The Company developed and approved the Ecological Policy, the Concept of Implementation of the Ecological Policy, and the Program of Implementation of the Ecological Policy for 2007 to 2009. Expenses for implementation of ecological events are not economically justified as, they are not recovered by decreasing of ecological payments for discharge and emissions of pollutants. Nevertheless, realizing its responsibility for the state of the environment, the Company continues to invest significant funds into nature-protection.

The measures taken by the Company ensure that the ecological situation at branches of the Company is normal. The volume of discharge and emissions of hazardous substances, as well as stockpiling of hazardous substances by plants of the Company is below the norms established. At present, the Company is conducting an ecological audit at its subsidiaries. In 2008, the Company is planning to introduce an environment management system in compliance with the requirements of the ISO 14000 International Standard.

At the time of implementation of investment projects, the Company strives to minimize the adverse impact on the environment and comply with the international standards of environmental protection. Introduction of new capacities on the basis of state-of-art technologies will allow the Company to decrease the specific emissions of hazardous substances and meet all the necessary requirements of the nature protection law.

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 unaccrued liabilities for environmental damage.

Note 23. Financial instruments and financial risk factors

Financial risk factors. The Company's activities expose it to a variety of financial risks, including:

- Liquidity risk – the threat of temporary inability to pay financial liabilities when they fall due.
- Credit risk – the threat of non-payment by counterparties on their liabilities.
- Market risks:
  - Interest rate risk – the threat of losses as a result of increases in the interest rates paid out by the Company on the borrowed funds.
  - Currency risks – the threat of losses during implementation of foreign economic or other currency transactions associated with changing of exchange rates of foreign currencies.

(in thousands of Russian Roubles)

- Price risk:
  - the risk of decreasing of the price for electric power due to market mechanisms or intervention of the state;
  - the risk of significant increasing in the price of fuel due to macroeconomic conditions or due to the market monopolization.

The company does not hedge finance risks.

Liquidity risk. Reasonable management of liquidity risk includes support of sufficiency of funds at a certain level and access to credit resources sufficient to support the continuous character of the Company's activities. In most cases, financial obligations of the Company are of a short-term nature.

The Company has credit lines/limits to secure the operational activities with sufficient funds. As of 31 December 2007, the total amount of credit lines/limits comprised RR 250,290 thousand.

The table below demonstrates the analysis of obligations of the Company according to payback terms. The amount of the indebtedness represents non-discounted value of obligations stipulated by the terms of agreements starting from the reported date.

At 31 December 2007	**Less than 1 year**	**1 to 2 years**	**2 to 5 years**
Loans and borrowings	250,290	-	-
Trade and other accounts payable	1,779,129	-	-
At 31 December 2006	**Less than 1 year**	**1 to 2 years**	**2 to 5 years**
Loans and borrowings	635,002	-	-
Trade and other accounts payable	1,775,935	60	-

As is evident from the table, 100% of accounts payable are of a short-term nature and arise from the Company's agreements with suppliers of fuel and providers of production-related services.

Credit risk. Financial assets which potentially subject the Company to concentrations of credit risk consist principally of trade receivables (in the amount of RR 637,247 thousand), bank deposits (in the amount of RR 35,543,280 thousand), debt securities (in the amount of RR 246,909 thousand) and cash (in the amount of RR 4,139,544 thousand) in the total amount of RR 40,566,980 thousand. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Company beyond the provision for impairment of accounts receivable already recorded.

Accounts receivable and financial assets are disclosed in Notes 8 and 9 respectively.

The Company placed money recourses with the following banks:

Name	**Rating**	**Rating agency**	**At 31 December 2007**	**At 31 December 2006**
JSC "KB Agroimpuls"	B3	Moody's	4,083,304	769,159
JSC Savings Bank of the Russian Federation	B3	Moody's	5,033	2,890
ZAO ABN AMRO Bank			284	-
JSC "Vneshtorgbank"	Baa2	Moody's	7	-
AB Gazprombank (ZAO)	Baa2	Moody's	3	57
ZAO UniCredit Bank	A-	Fitch Rating	7	-
Settlement Chamber RTC (LLC)	-	-	50,120	5,843
JSC KB Eurofinance Mosnarbank	Ba3	Moody's	-	9
Cash			86	121
Total funds			**4,138,844**	**778,079**

Management believes that the majority of customers, balances of which are included into trade receivables, comprise a single class, as they bear the same characteristics. Those customers belong to the same wholesale market of electric power (NOREM), which is regulated by NP ATS (Non-commercial Partnership "Administrator of Trade System").

(in thousands of Russian Roubles)

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

The Company tested trade receivables for impairment, and the results are as follows:

	At 31 December 2007	**At 31 December 2006**
Current	200,211	462,984
Overdue but not impaired	254,526	15,598
Impaired	182,510	294,250
Total trade receivables	**637,247**	**772,832**

As at 31 December 2007 trade receivables of RR 254,526 thousand (as at 31 December 2006: RR 15,598 thousand) were past due but not impaired. These relate to a number of independent customers with no recent history of default. The aging analysis of these trade receivables is given in the table below.

31 December 2007	**Between 1 and 3 months**	**Between 3 and 12 months**	**Beyond 12 months**
Trade receivables	-	249,714	4,812

31 December 2006	**Between 1 and 3 months**	**Between 3 and 12 months**	**Beyond 12 months**
Trade receivables	-	15,598	-

	2007	**2006**
Balance as of 1 January	301,010	50,136
Additional Trade receivables impairment reserve accrued	109,401	289,571
Trade receivables retired during the reported period as bad	(1,343)	(29,467)
Release of unused reserve	(226,303)	(9,230)
Balance as of 31 December	**182,765**	**301,010**

The impairment provision in the amount RR 109, 401 thousand is created as the Company's management considers the collection of Nurenergo`s debt to be doubtful. The impairment provision in the amount RR 226,303 thousand is reversed in connection with the collection of past-due receivables.

Due to the absence of the independent evaluation of the buyers and customers' solvency, the credit risk is evaluated at the stage of conclusion of the agreement with the potential debtor. The Company evaluates the financial position and the credit history of the counteragent. The existing receivables are constantly monitored in relevant divisions of the Company, and collection measures are taken regularly.

The Board of Directors of the Company approved the list of banks to place deposits with deposit placement rules. Besides, the Company continuously assesses the financial position of the banks, ratings prepared by independent agencies, past practice and other factors.

Investments into debt securities in the form of non-interest bearing promissory notes of AK Savings Bank of the Russian Federation and JSC KB "Agroimpulse" are deemed reliable. These banks have high reliability rating and positive business reputation.

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

Interest rate risk. The Company's operating profits and cash flows from operating activity are largely not dependent on the changes in market interest rates. The Company is only exposed to fair value interest rate risk as all of its borrowings are at fixed interest rates. The Company's significant interest bearing assets are disclosed in Note 9. These assets bear fixed interest and are thus exposed to fair value interest rate risk.

Currency risk. Profit and cash flow from current activity of the Company is largely not dependent on changing of the rate of the Russian rouble as related to exchange rates of foreign currencies. The electric and thermal power produced by the Company is sold in the territory of the Russian Federation and is paid in Russian roubles. At the end of 2007, the Company settled the payment of advances for supply of equipment to contractors in foreign currencies on three investment projects. However, the effect of change of exchange rate of the national currency as related to exchange rates of foreign currencies on the financial state of the Company is assessed as insignificant.

JSC OGK-4 is planning to assess the volume of possible financial losses from the effect of possible currency exchange risks on payments related to its investment activities. In case of revealing the necessity of hedging, development of hedging strategy for the purpose of minimization of finance risks is possible, in particular, what concerns the risks formed during purchase/sale of currencies.

Fair values. Management believes that the fair value of its financial assets and liabilities approximates their carrying amount.

Note 24. Risks associated with the capital (capital management)

Management of the Company's capital provides for: 1) meeting the requirements of the applicable law to ensure the Company's ability to continue its operations and bring income to shareholders; 2) implementation of the correspondent credit policy to support the capital structure and decrease costs for capital attraction.

The law of the Russian Federation establishes the following requirements to the capital:

- The share capital must be at least 1,000 minimal salaries as of the date of the company registration;

- If the Company's share capital exceeds the net assets of the Company, such Company must decrease its share capital to the value not exceeding its net assets;

- If the minimal approved share capital exceeds the Company's net assets, such Company shall be subject to liquidation.

As of 31 December 2007, the Company's capital complied with the aforementioned requirements for its share capital.

The Company's capital is to ensure the Company's ability to continue its operations and bring income to shareholders and remunerations to other stakeholders, as well as keeping the optimal structure to increase the returns on the capital.

To support or specify the capital structure, the Company can regulate the amount of paid out dividends, the return of the capital to shareholders, issue of new shares or sale of assets for the purpose of debts repayment.

Like other companies in this industry, the Company analyzes its capital on the basis of calculation of the debt ratio.

Debt ratio is calculated as the value of net debt compared to the total capital amount. The value of net debt is determined as the sum of borrowed assets represented in the consolidated balance sheet, less cash funds. The total capital amount is calculated as some of equity capital on the balance sheet and the value of net debt.

During 2007, there were no changes in the Company's strategy as compared to 2006 and it provides for maintenance of the debt ratio at the level not exceeding 50%. The calculation of the debt ratio as of 31 December 2007 and 31 December 2006 is represented below:

(in thousands of Russian Roubles)

	At 31 December 2007	At 31 December 2006
Borrowed assets	6 209 478	6 739 392
Cash funds	4 138 844	778 079
Net debt	2 070 634	5 961 313
Equity	69 425 398	22 435 652
Capital	71 496 032	28 396 965
Debt ratio	**3%**	**21%**

The fall in the debt ratio during 2007 was caused by the increase of cash funds due to the additional share issue in the year.

Low debt ratio witnesses the insignificant effect of the value of borrowings on profitability of the capital and low level of financial risk.

Reconciliation of Classes of Financial Instruments with Measurement Categories

For the purposes of measurement, IAS 39, Financial Instruments: Recognition and Measurement, classifies financial assets into the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss ("FVTPL"). The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2007 and 31 December 2006:

	Loans and receivables at 31 December 2007	Loans and receivables a 31 December 2006
Assets		
Trade receivables (Note 8)	1,275,662	1,262,107
Trade receivables	454,737	478,582
Accrued finance income	-	-
Short-term investments (Note 9)	35,790,189	600,000
Bank deposits	35,543,280	600,000-
Other non-current assets	98,888	16,887
Long-term loans issued	-	-
Investments in other entities	-	-
Cash (Note 23)	4,138,844	778,079
Total FINANCIAL assets	41,303,583	2,657,073
NON-FINANCIAL ASSETS	35,331,293	26,399,662
TOTAL ASSETS	75,634,876	29,056,735

All of the Group's financial liabilities as at 31 December 2007 and as at 31 December 2006 are carried at amortized cost.

Note 25. Events subsequent to the balance sheet date

Accident at the Surgutskaya GRES-2 branch

On 4 January 2008, there was a partial collapse of the roof of power unit No.6 of Surgutskaya GRES-2 which has a capacity of 800 MW. This collapse resulted in the damage to the equipment and a temporally reduction in production capacity.

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According to Act No.1 of the commission investigating the accident the reason for the collapse was the combination of several factors:

- absence of welded joints at connections of certain complex panels with support at the upper belt of structural elements and partial absence of connection elements between the panels (required in accordance with the design documentation) leading to increased designed length of elements of the compressed upper belt, which decreased their carrying capacity significantly;
- profile of actual snow load on the roof of the turbine section drastically differed from the designed one, which has led to overloading of the upper compressed belts;
- applications of corners with lowered sections in trusses over power unit No.6 which is not provided for in the design documentation;
- actual snow cover of various weight formed by layers of snow and ice.

The calculation of the damage caused is not yet finalized, as it is still being agreed with the insurance company. The Company's management expects that the damage caused by the partial fall-down of the roof will be compensated by the insurance company almost in full, according to the provisions of the insurance contract.