Yenisei Territorial Generation Company (TGC-13)

Consolidated financial statements
for the year ended 31 December 2007

ZAO KPMG
Naberezhnaya Tower Complex, Block C
18 Krasnopresnenskaya Naberezhnaya
Moscow 123317
Russia

Telephone +7 (495) 937 4477
Fax +7 (495) 937 4400/99
Internet www.kpmg.ru

Independent Auditors' Report

To the Board of Directors of Open Joint-Stock Company "Yenisei Territorial Generation Company (TGC-13)"

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Open Joint-Stock Company "Yenisei Territorial Generation Company (TGC-13)" and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

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

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

ZAO KPMG, a company incorporated under the Laws of the Russian Federation and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative.

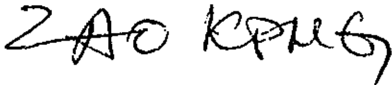
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Basis for Qualified Opinion

We did not observe the counting of inventories stated at 374 739 thousand roubles as at 1 January 2006, because we were engaged as auditors of the Group only after that date. It was impracticable to satisfy ourselves as to those inventory quantities by other audit procedures. Accordingly, we were unable to determine whether any adjustments might be necessary to operating expenses, income tax benefit and net loss for the year ended 31 December 2006.

Qualified Opinion

In our opinion, except for the effects on the corresponding figures of such adjustments, if any, that might have been determined to be necessary had it been practicable to obtain sufficient appropriate audit evidence as described in the Basis for Qualified Opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2007, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.



ZAO KPMG
21 March 2008

Yenisei Territorial Generation Company (TGC-13)
Consolidated income statement for the year ended 31 December
Millions of Russian Roubles, unless otherwise stated

	Notes	2007	2006 (restated)
Revenue	5	12,375	9,956
Operating expenses	6	13,780	11,699
Other operating income	7	165	136
Operating loss		**(1,240)**	**(1,607)**
Finance income		14	25
Finance expenses	8	176	134
Income from associate	10	103	149
Loss before tax		**(1,299)**	**(1,567)**
Income tax benefit	23	225	293
Loss for the year		**(1,074)**	**(1,274)**
Basic and diluted loss per share (in Russian Roubles)		(0.008)	(0.010)

Deputy General Director V.B. Fait

Chief Accountant M.V. Bazhenova

21 March 2008

Yenisei Territorial Generation Company (TGC-13)
Consolidated balance sheet as at 31 December
Millions of Russian Roubles

	Notes	2007	2006 (restated)
ASSETS			
Non-current assets		31,825	32,003
Property, plant and equipment	9	29,257	29,677
Investment in an associate	10	1,303	1,213
Other investments	11	732	732
Deferred tax assets	23	278	217
Intangible assets	13	130	22
Trade and other receivables	12	55	80
Other non-current assets	14	70	62
Current assets		2,345	1,573
Inventories	15	720	585
Trade and other receivables	12	1,024	437
Other current assets	14	65	79
Cash and cash equivalents	16	536	451
Non-current assets classified as held for sale		–	21
TOTAL ASSETS		34,170	33,576
EQUITY AND LIABILITIES			
Equity		25,282	26,438
Share capital	17	1,292	1,292
Additional paid-in capital	17	778	773
Treasury shares		(4)	–
Retained earnings		23,216	24,373
Non-current liabilities		5,363	4,844
Deferred tax liabilities	23	4,444	4,669
Long-term borrowings	18	758	2
Liabilities under pension plans	19	127	122
Provisions	20	34	51
Current liabilities		3,525	2,294
Short-term borrowings	18	2,052	1,340
Trade and other payables	21	1,059	685
Provisions	20	36	19
Taxes payable	22	378	240
Non-current liabilities classified as held for sale		–	10
TOTAL EQUITY AND LIABILITIES		34,170	33,576

	Notes	2007	2006 (restated)
CASH FLOW FROM OPERATING ACTIVITIES			
Loss before tax		**(1,299)**	**(1,567)**
Adjustments for:			
Depreciation, amortisation and impairment	6	1,949	1,931
Allowance for impairment of accounts receivable	6	36	82
Income from associate	10	(103)	(149)
Financial income		(14)	(25)
Financial expenses	8	176	134
Adjustments for other non-cash transactions		11	50
(Increase)/decrease in trade and other receivables		(342)	174
Increase in inventories		(142)	(211)
Increase in other assets		(242)	(46)
Increase/(decrease) in trade and other payables		443	(120)
Increase in other liabilities		29	114
Net cash inflow from operating activities before interest and income tax paid		**502**	**367**
Interest paid		(153)	(114)
Income tax paid	23	(19)	(120)
Net cash generated from operating activities		**330**	**133**
CASH FLOW FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment		(1,610)	(773)
Acquisition of intangible assets		(110)	(23)
Proceeds from sale of property, plant and equipment		77	11
Disposal of subsidiary		10	–
Loans granted		(3)	(1)
Dividends received	10	13	7
Net cash used in investing activities		**(1,623)**	**(779)**
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from loans and borrowings		4,739	3,412
Repayment of loans and borrowings		(3,279)	(2,630)
Additional share issue		5	–
Dividends paid	17	(83)	(25)
Acquisition of treasury shares		(4)	–
Net cash generated from financing activities		**1,378**	**757**
Net increase in cash and cash equivalents		**85**	**111**
Transfers to assets for disposal		–	(2)
Cash and cash equivalents at the beginning of the year		451	342
Cash and cash equivalents at the end of the year	16	**536**	**451**

Yenisei Territorial Generation Company (TGC-13)
Consolidated statement of changes in equity for the year ended 31 December
Millions of Russian Roubles

	Share capital	Additional paid-in capital	Treasury shares	Retained earnings	Total equity
At 1 January 2006 (restated)	**1,092**	**973**	**–**	**25,672**	**27,737**
Loss for the year	–	–	–	(1,274)	**(1,274)**
Issue of shares during changes to capital structure	200	(200)	–	–	**–**
Dividends to shareholders	–	–	–	(25)	**(25)**
At 31 December 2006 (restated)	**1,292**	**773**	**–**	**24,373**	**26,438**
Issue of shares	–	5	–	–	**5**
Loss for the year	–	–	–	(1,074)	**(1,074)**
Acquisition of treasury shares	–	–	(4)	–	**(4)**
Dividends to shareholders	–	–	–	(83)	**(83)**
At 31 December 2007	**1,292**	**778**	**(4)**	**23,216**	**25,282**

1 BACKGROUND

(a) The Group and its operations

As at 31 December 2007 the Open Joint Stock Company ("OJSC") Yenisei Territorial Generation Company (TGC-13) Group (hereinafter the "Group") comprises OJSC Yenisei Territorial Generation Company (TGC-13) (hereinafter "TGC-13" or the "Company"), its subsidiaries and an associate. The Group subsidiaries as at 31 December 2007 are presented in Note 3 (a); the associate is presented in Note 10.TGC-13 was established through a spin-off on 1 July 2005 as a result of the reorganization of OJSC "Khakasenergo". At the spin-off date, TGC-13 was named OJSC "Khakasskaya Generation Company". Based on the decision taken by the Management Board of RAO UES of Russia (hereinafter "RAO UES") on 6 December 2006, OJSC "Khakasskaya Generation Company" was renamed into OJSC "Yenisei Territorial Generation Company (TGC-13)" as of 21 December 2006.

As at 31 December 2006, TGC-13 was reorganized, on the basis of a decision of the Management Committee of RAO UES in August 2006, by merging Krasnoyarsk Generation and TGC-13 into it.

Krasnoyarsk Generation was founded 1 October 2005 as the result of the reformation of Krasnoyarskenergo through a spin-off. Legal address of TGC-13: Ulitsa Bograda 144a, Krasnoyarsk, 660021 Russia.

Principal activity of the Group is generation and sales of electricity and heat.

As at 31 December 2007 57% shares of TGC-13 were owned by RAO UES, 35% shares were owned by OJSC Sibirskaya Ugolnaya Energeticheskaya Kompaniya (hereinafter "SUEK"), while the remaining 8% shares were owned by other minority shareholders.

(b) Relations with the State and its influence on the Group's activities

As at December 31, 2007 and December 31, 2006 the state-controlled RAO UES of Russia owned a controlling stake in the Company.

The Group's customer base includes a large number of entities controlled by or related to the State. Moreover, the State controls a number of the Group's suppliers.

The government of the Russian Federation directly affects the Group's operations through regulation by the Federal Service on Tariffs ("FST"), with respect to its wholesale energy sales, and by the regional services on tariffs (RSTs), with respect to its electricity and heat sales. The operations of all generating facilities are coordinated by OJSC System Operator – the Central Dispatch Unit of the Unified Electric System (SO-CDU) in order to meet system requirements in an efficient manner. SO-CDU is controlled by RAO UES of Russia.

Tariffs which the Group may charge for sales of electricity and heat are governed both 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 markup" system, that is the cost of the service plus a margin, where costs are determined in accordance with the Regulations on Accounting and Reporting of the Russian Federation, a basis of accounting which significantly differs from the International Financial Reporting Standards. In practice, tariff decisions are impacted significantly by social and political considerations, causing significant delays in tariff decisions being received and tariff increases, which are lower than required.

The government's economic, social and other policies could have a material effect on the Group's operations.

(c) Operating environment

The Russian Federation continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, restrictive currency controls, relatively high inflation, as well as tax, currency and customs legislation, which are subject to varying interpretations, and frequently occurring changes. Whilst there have been improvements in the economic trends, the future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial, and monetary measures undertaken by the government, together with tax, legal, regulatory, and political developments.

2 BASIS OF PREPARATION

(a) Statement of compliance

These consolidated financial statements (hereinafter the "financial statements") are the Group's first full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"). The Group did not prepare consolidated financial statements under previous GAAP. Therefore, no reconciliation to the previous GAAP has been presented in these financial statements.

(b) Basis of measurement

The consolidated IFRS financial statements are prepared on the historical cost basis except that derivative financial instruments, investments at fair value through profit or loss and investments available-for-sale are stated at fair value; property, plant and equipment was revalued to determine deemed cost as part of the adoption of IFRSs.

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble (RR), which is the Group's functional currency and the currency in which these financial statements are presented.

All financial information in these Financial Statements presented in RR has been rounded to the nearest million.

(d) Reclassifications of comparative information

Certain reclassifications have been made to the comparative data to conform to the shareholders reporting requirements.

3 SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies that have been applied in the preparation of the financial statements are described in Note 3(a) to 3(p).

(a) Basis of consolidation

(1) Business combinations involving entities under common control

A business combination involving entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party both before and after the business combination, and that control is not transitory.

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Company are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are restated. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the acquired entity's IFRS financial statements. The components of equity of acquired entities are added to the same components within Group equity except that any share capital of acquired entities is recognised as part of additional paid-in capital. Any cash paid for the acquisition is recognised directly in equity.

(2) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the financial statements. Unrealised gains arising from transactions with associates and jointly controlled entity are eliminated to the extent of the Group's interest in the entity. Unrealised gains resulting from transactions with associates are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

(3) Subsidiaries

Subsidiaries, which are those entities in which the Group holds more than a half of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date when control ceases. All inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies of subsidiaries are changed to ensure consistency with the policies adopted by the Group.

The Group includes the following subsidiaries:

Name	2007	2006
OAO Krasnoyarskenergoremont	100%	100%
OAO Krasnoyarskenergospetsremont	100%	100%
OAO Kyzylskaya TETs	100%	–
OAO Nazarovskoe Fishery	100%	100%

As of 31 December 2006 OJSC "Khakasskya Servisno-Remontnaya Company" was included in the Group. In June 2007 the Group sold OJSC "Khakasskya Servisno-Remontnaya Company" to third party for RUR 10 million.

In October 2007 the Group acquired 100% shares of OJSC "Kyzylskaya TETS" (hereinafter "Kyzylskaya TETS") from OJSC "Tyvaenergo" (hereinafter "Tyvaenergo"), a subsidiary of RAO UES.

The acquisition represents a transaction under common control. According to the Group accounting policy business combinations arising from transfers of interests in entities that are under control of the shareholder that controls the TGC-13 are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are restated.

The consideration for shares of Kyzylskaya TETS of RR 305 million was in the form of contribution of 44,479 ordinary shares of TGC-13 that were issued to Tyvaenergo. The share capital balance and the additional paid-in capital balance were restated as at 1 January 2006 due to issuance of 44,479 shares as consideration paid to Tyvaenergo in exchange for shares of Kyzylskaya TETs.

Since Tyvaenergo has not previously issued standalone IFRS financial statements the Group has chosen to use the provisions in IFRS 1 *"First-time adoption of IFRS"* to determine the IFRS values of the net assets acquired from Tyvaenergo on 1 September 2006.

Management commissioned an independent appraiser to appraise the property, plant and equipment acquired from Tyvaenergo. The value of the property, plant and equipment was determined to be RR 323 million.

According to the Group accounting policy the comparatives as at 31 December 2006 were restated to reflect the acquisition of Kyzylskaya TETS as follows:

	31 December 2006 (before adjustment)	Effect of acquisition of Kyzylskaya TETs	31 December 2006 (after adjustment)
Property, plant and equipment	29,339	310	29,649
Inventories	584	1	585
Other current assets (Value added tax ("VAT"))	62	17	79
Retained earnings	(24,350)	(23)	(24,373)
Net assets acquired	–	**305**	–

The comparative figures in the income statement were adjusted as follows:

	Amount of adjustment
Revenue	274
Operating expenses	(303)
Other operating income	9
Operating loss	**(20)**
Loss before tax	**(20)**
Income tax benefit	–
Loss for the year	**(20)**

In addition, the share capital balance was restated by RR 10 million and the additional paid-in capital by RR 295 million as at 1 January 2006 due to issuance of 44,479 shares with a par value of RR 226.42 towards acquisition of Kyzylskaya TETs.

(4) Associates

Associates are entities in which the Group generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control. Investments in associates are accounted for under the equity method and are initially recognized at cost, including goodwill or any excess of the Group's share in the fair value of the associate's net assets over the cost of acquisition. Subsequent changes in the carrying amount reflect the post-acquisition changes in the Group's share of net assets of the associate. The Group's share of its associate's profits or losses is recognized in the income statement, and its share of movements in reserves is recognized in equity. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognize further losses, unless the Group is obliged to make further payments to, or on behalf of, the associate.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

(b) Foreign currencies

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to RUR at the exchange rate at that date. Transactions in foreign currencies are accounted for at the rates prevailing at the date of transaction. Gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognized in the income statement.

(c) Financial instruments

(1) Recognition and derecognition of financial instruments

The Group recognizes a financial asset or a financial liability only when it becomes a party to the contractual provisions of the instrument.

At initial recognition, the Group classifies a financial instrument or its components as a financial asset, a financial liability or an equity instrument according to the underlying contract. Financial instruments that contain both a liability and an equity component are accounted for separately as financial liabilities, financial assets or equity.

The Group classifies financial instruments in one of the following categories:

- financial instruments at fair value through profit or loss;
- loans and accounts receivable;
- loans and borrowings received and trade and other payable;
- held to maturity financial assets;
- available-for-sale financial assets.

The Group determines the classification of its financial instruments upon initial recognition and, where allowed and appropriate, re-evaluates this designation at the end of each reporting period.

The Group considers whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

When financial instruments are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable acquisition or issue costs.

Subsequent measurement of financial instruments is disclosed below with respect to every financial instrument category.

The Group derecognizes financial asset if:

- the rights to receive cash flows from the financial asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Group has transferred the right to receive cash flows from the asset and has either transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability (or its part) is derecognized if the Group's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash on current accounts with banks, cash at hand, bank deposits maturing on-demand, and short-term (less than three months) and highly liquid deposits with immaterial liquidity risk. For the purpose of consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(2) Subsequent measurement of financial instruments

Held-to-maturity financial assets. Held-to-maturity investments are non-derivative financial assets which carry fixed or determinable payments and fixed maturities and which the Group has the positive intention and ability to hold to maturity.

After initial measurement held-to-maturity financial assets are measured at amortised cost using the effective interest method less allowance for impairment.

Gains and losses are recognised in the income statement as financial income and financial expenses correspondingly when the investments are impaired as well as through the amortisation process.

Gains and losses are recognised in the income statement as financial gains and losses when the investments are derecognised.

Available-for-sale financial assets. Available-for-sale financial assets are those non-derivative financial assets that are designed as available-for-sale or are not classified in any of other categories.

After initial measurement available-for-sale financial assets are measured at fair value. Investments in debt instruments that do not have a quoted market price in a active market and whose fair value cannot be reliably measured are measured at cost less allowance for impairment.

Unrealised gains or losses are recognised directly in equity in the net unrealised gains reserve.

Interest earned using the effective interest rate and dividends earned are recognised in the income statement as financial income.

When the investment is disposed of, the cumulative gain or loss previously recorded in equity is recognised in the income statement as financial income or financial expenses respectively.

Financial instruments at fair value through profit or loss. Financial instruments at fair value through profit or loss includes financial instruments held for trading and financial instruments designated upon initial recognition as at fair value through profit or loss.

Transaction costs attributable to financial instruments at fair value through profit or loss are charged directly to the income statement.

After initial measurement financial instruments at fair value through profit or loss are measured at fair value.

Gains or losses on financial instruments at fair value through profit or loss are recognised in the income statements as financial income or financial expenses.

Other financial instruments. Other non-derivative financial instruments (loans and borrowings, receivables and payables) after initial measurement are measured at amortised cost using the effective interest method.

Gains and losses through the amortisation process are recognised in the income statement as financial income and financial expenses.

(3) Impairment of financial assets

The Group recognises the loss from financial assets impairment if there is objective evidence of the impairment as the result of one or more events that occurred after the initial recognition of asset and these events have an impact on the estimated future cash flows of financial asset.

The loss from impairment of financial assets carried at amortised cost (held-to-maturity financial assets, loans and receivables) is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition).

The loss of impairment of receivables is recognised in the income statement as other operating expenses, the loss of impairment of other financial assets is recognised in the income statement as financial expenses.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is revised.
The reversal of an impairment loss of financial assets is recognised to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. Any subsequent reversal of an impairment loss of receivables is recognised in the income statement as other operating income; reversal of an impairment loss of other financial assets is recognised in the income statement as financial income, except impairment losses on available-for-sale equity instruments, which are recognized through equity.

(4) Borrowing costs

Borrowing costs are recognised as financial expenses in the period in which they are incurred.

(d) Equity

Ordinary shares. Incremental costs directly attributable to issue of ordinary shares are recognized by the Group as a deduction from equity.

Treasury shares. The Group's own equity instruments which are reacquired (treasury shares) are deducted from equity. No gain or loss is recognized in the income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments.

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

(e) Property, plant and equipment

(1) Owned assets

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

The cost of property, plant and equipment at the date of adopting IFRS, January 1, 2006, was determined by reference to its fair value at that date ("deemed cost").

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

(2) Leased assets

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Plant and equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Leases, other than finance leases, are treated as operating leases, and leased assets are not recognized in the Group's balance sheet. Operating lease payments (net of benefits granted by the lessor) are recognized in the income statement on a straight line basis over the lease term.

(3) Subsequent expenditure

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, is capitalised with the carrying amount of the component being written off. Other subsequent expenditure is capitalised if future economic benefits will arise from the expenditure. All other expenditure, including repairs and maintenance expenditure, is recognised in the income statement as an expense as incurred.

(4) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Depreciation commences on the following month of acquisition or, in respect of internally constructed assets, from the month, followed an asset is completed and ready for use. Land is not depreciated.

The useful lives of assets are determined as follows:

- Production of thermal power and electricity — 5-68 years;
- Heating networks — 5-20 years;
- Other — 2-60 years.

Depreciation methods and useful lives are reassessed by the Group annually at the balance sheet date.

(f) Intangible assets

(1) Research and development costs

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss when incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognised in profit or loss when incurred.

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

(2) Recognition and measurement of intangible assets

Intangible assets acquired separately are measured on initial recognition at the actual cost of their acquisition.

Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

The Group's subsequent expenditure on intangible assets are recognized as operating expenses in the income statement in the period when they were actually incurred and do not increase the cost of an intangible asset, unless it is probable that such costs will allow the asset to generate future economic benefits in excess of those initially determined, and such costs can be reliably measured and included in the asset.

Amortization charge on all intangible assets with finite useful lives is accrued on a straight-line basis over their useful life starting from the month following the month in which the asset is available for use.

Amortization charge is recognized in the income statement as the Group's operating expenses.

The useful lives of intangible assets are as follows:

- Patents and licenses 1-5 years;
- Development costs 1-5 years.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash generating unit level.

The gain or loss arising from the derecognition of an intangible asset is determined as the difference between the proceeds from sale or other disposal and the carrying amount of the asset, and is recognized in the income statement when the asset is derecognized.

(g) Inventories

Inventories are measured at the lower of cost and net realizable value.

The cost of inventories includes all actual acquisition costs, processing costs directly associated with manufacturing products (rendering services, performing work) and other costs incurred to bring inventories to their existing condition and location.

The cost of inventories does not include the cost of borrowings obtained to acquire such inventories.

The cost of inventories is determined using the weighted average cost method.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(h) Employee benefits

(1) Defined contribution plans

The Group recognizes contribution payable to a defined contribution plan (including the RF Pension Fund) as a liability, after deducting any contribution already paid, and as an operating expense in the period when the service was rendered, unless the contribution is included in the cost of an asset.

(2) Defined benefit plans

The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit method.

The Group's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods (using actuarial assumptions). The calculated benefit amount is further discounted in order to determine the current (present) value of the defined benefit obligation, which is recognized in the balance sheet net of unrecognized actuarial gains or losses, unrecognized past service cost and the fair value of any plan assets.

The discount rate used by the Group is the yield at the last business day of the reporting period on government securities with similar terms and conditions.

The current service cost is recognized as an operating expense in the income statement.

Interest cost computed by discounting is recognized as financial expenses in the income statement.

Return on any plan assets is recognized in the income statement as financial income.

The Group immediately recognizes all arising actuarial gains and losses in the income statement.

In case new conditions or changes are introduced to a plan, the Group determines past service cost as a positive value (when new benefits are introduced or the existing ones are increased), or as a negative value (when the existing benefits are reduced). The past service cost is recognized in the income statement on a straight-line basis over the period until the benefits become vested.

(3) Other long-term employee benefits

The Group determines the value of other long-term benefit obligations using the Projected Unit Credit Method.

The Group's net obligation in respect of other long-term benefits is calculated by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods (using actuarial assumptions). The calculated benefit amount is further discounted in order to determine the current (present) value of other long-term benefit obligation.

The discount rate used by the Group is the yield at the last business day of the reporting period on government securities with similar terms and conditions.

The current service cost is recognized as an operating expense in the income statement.

Interest cost computed by discounting is included in financial expenses in the income statement.

Actuarial gains and losses, as well as past service cost determined as a result of introducing a new or changing an existing social plan are all recognized in the income statement.

(4) Short-term employee benefits

The Group recognizes the undiscounted amount of short-term benefits payable to employees in return for services rendered as a liability, after deducting any benefit already paid, and as an operating expense in the period when the service was rendered, unless the benefit is included in the cost of an asset..

(i) Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Provisions established for a term exceeding 12 months are recorded at each balance sheet date based on discounting at a market interest rate at the last business day of the reporting period.

Where the Group expects some or all of costs required to settle a liability to be reimbursed by the other party, the reimbursement is recognized but only when the reimbursement is virtually certain to be received by the Group settling the liability. The reimbursement shall be treated as a separate asset. The amount recognized with respect to reimbursement shall not exceed the provision amount.

Provisions are revised at each balance sheet date and adjusted to reflect the best current estimate. If it is no longer probable that an outflow of resources embodying economic benefits is required to settle a liability, the provision shall be reversed.

(j) Revenue

Revenue is recognized on the delivery of electricity and heat, and on the dispatch of non-utility goods and services. Revenue amounts are presented exclusive of VAT. Revenue is based on the application of authorized tariffs for electricity and heat as approved by the Regional Energy Commission.

(k) Lease payments

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

Where the Group is a lessee in a lease which transfers substantially all the risks and rewards incidental to ownership to the Group, each lease payment is allocated between the liability and financial expenses (interest payments) so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future financial expenses, are included in loans and borrowings. The interest cost is charged to the consolidated 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 it is not reasonably certain that it will obtain ownership by the end of the lease term in the Group.

(l) Financial income and expenses

Financial income comprises interest income , finance lease income, changes in the fair value of financial assets at fair value through profit or loss, and other similar income.

Interest income is recognised as interest accrues, using the effective interest method.

Financial expenses comprise interest expense on borrowings, finance lease charges, changes in the fair value of financial assets at fair value through profit or loss, impairment loss from a loan granted and other similar costs.

Interest payments are recognised as an expense in the income statement on a straight line basis.

(m) Income tax

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

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

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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

(n) New financial reporting standards

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2007, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective.

IAS 23 *"Borrowing Costs"* (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 immediately recognizing as an expense borrowing costs that relate to assets that take a substantial time to get ready for use or sale.

IFRS 8 *"Operating Segments"* (effective for accounting periods beginning on or after 1 January 2009). The Group has not elected to adopt the standard at an earlier date.

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

(o) Seasonality

Demand for heat and electricity is subject to seasonal fluctuations and depends on weather conditions. The highest revenues from heat sales are generated in the period from October to March. Electricity sales are also subject to seasonality, though to a lesser extent, with the highest revenue period also falling on October through March. The seasonality factor affects fuel consumption and energy purchases.

Furthermore, equipment repair and maintenance costs tend to grow in the period from April to September. The seasonality of these operations does not have an impact on the accounting treatment of operating income and expenses in accordance with the Group accounting policy.

(p) Segment reporting

The Group comprises the following business segments:

Generation (heat and electricity generation) – is represented by the parent company OJSC Yenisei TGC (TGK-13);

Construction and repair – is represented by subsidiaries OJSC Krasnoyarskenergoremont and OJSC Krasnoyarskenergospetsremont.

The Group's management considered that Construction and repair is not a reportable segment as it earns the majority of its revenue from sales to other segments and its revenue, results of operations or assets do not exceed ten percent or more of the total Group's revenue, the total Group's results and the total Group's assets. For the year ended 31 December 2007, Construction and repair segment earned revenue in the total amount of RR 1 023 million (for the year 2006 – RR 1 061 million). The majority of this revenue relates to provision of construction and repair services to other entities within the Group and therefore is eliminated on consolidation.

The Group operates in Krasnoyarsk region, Republic of Khakassiya, and Republic of Tyva of the Russian Federation and does not have separate geographical segments since the sources and nature of risks are common across the regions of the Group's operating activities.

4 ACCOUNTING ESTIMATES, ASSUMPTIONS AND CRITICAL JUDGEMENTS

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

Judgments that have the most significant effect on the amounts recognized in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Allowance for impairment of accounts receivable

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

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

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

Impairment of other assets

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

Provisions

The provisions include provisions for bonuses, unused vacations, employee pension benefits and site restoration. The Group records impairment or accrues these provisions when its assessments indicate that it is probable that a liability has been incurred or an asset will not be recovered and an amount can be reasonably estimated. The Group's estimates for provisions are based on currently available facts and the Group's estimates of the ultimate outcome or resolution of the liability in the future.

Actual results may differ from the estimates and the Group's estimates can be revised in the future, either negatively or positively, depending upon the outcome or expectations based on the facts surrounding each exposure. Provisions for pension and social obligations are periodically adjusted based on updated actuarial assumptions (see Note 19 (b)).

Property, plant and equipment

Management assesses the useful lives of property, plant and equipment 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. Carrying value and depreciation of property, plant and equipment are significantly affected by the above estimates, and actual results may differ from those estimates. Any changes to these estimates may have significant impact on these financial statements.

5 REVENUE

	2007	2006
Heat	5,812	5,622
Electricity	3,413	3,218
Capacity (power)	2,630	655
Chemically treated water	238	219
Maintenance, repair and construction work	111	151
Other water and condensate	36	73
Other sales	135	18
Total	12,375	9,956

6 OPERATING EXPENSES

	2007	2006
Fuel costs	3,733	3,236
Wages and other benefits to employees and related taxes	2,606	2,408
Purchased heat and electricity	2,107	1,296
Depreciation, amortisation and impairment of property, plant, and equipment and intangible assets	1,949	1,931
Repairs and technical maintenance	962	623
Transmission of heat and electricity	604	430
Other materials	437	297
Insurance	231	171
Other taxes and duties, except profits tax	227	238
Security costs	136	126
Water usage	135	173
Rent	79	80
Advisory, legal and information services	65	55
Allowance for impairment of accounts receivable	36	82
Environmental expenditures	25	29
Communications services	14	27
Fines, late payment interest and forfeits under contracts	–	39
Other operating expenses	434	458
Total	13,780	11,699

7 OTHER OPERATING INCOME

	2007	2006
Lease of property	36	27
Other operating income	129	109

Total	**165**	**136**

8 FINANCE EXPENSES

	2007	2006
Interest expenses – loans and borrowings	155	116
Other finance expenses	21	18
Total	**176**	**134**

9 PROPERTY, PLANT AND EQUIPMENT

	Heat and electricity generation	Heating networks	Other	Construction in progress	Total
Cost					
At 1 January 2006	**16,957**	**8,221**	**5,462**	**1,032**	**31,672**
Additions	30	–	75	680	785
Transfers from construction-in-progress	120	61	132	(313)	–
Disposals	(7)	–	(7)	(749)	(763)
Reclassification to non-current assets classified as held for sale	–	–	(19)	–	(19)
At 31 December 2006	**17,100**	**8,282**	**5,643**	**650**	**31,675**
Additions	7	–	86	1,517	1,610
Transfers from construction-in-progress	203	177	272	(652)	–
Disposals	(26)	(1)	(50)	(21)	(98)
At 31 December 2007	**17,284**	**8,458**	**5,951**	**1,494**	**33,187**
Accumulated depreciation					
At 1 January 2006	–	–	72	–	72
Depreciation charge	1,167	546	218	–	1,931
Disposals	–	–	(3)	–	(3)
Reclassification to non-current assets classified as held for sale	–	–	(2)	–	(2)
At 31 December 2006	**1,167**	**546**	**285**	–	**1,998**
Depreciation charge	1,081	587	279	–	1,947
Disposals	(2)	–	(13)	–	(15)
Reclassifications	(102)	27	75		
At 31 December 2007	**2,144**	**1,160**	**626**	–	**3,930**
Net book value at 1 January 2007	**15,933**	**7,736**	**5,358**	**650**	**29,677**
Net book value at 31 December 2007	**15,140**	**7,298**	**5,325**	**1,494**	**29,257**

As at 31 December 2007 construction-in-progress includes advances for capital expenditures of RR 381 million (2006: RR 27 million).

(a) Determination of deemed cost

Determination of deemed cost made as at January 1, 2006 is based on the two approaches as follows.

The deemed cost of property, plant and equipment of TGC-13 is considered as the fair value of the assets measured by the independent assessment.

In 2007 the Group's management commissioned an independent appraiser to appraise property, plant and equipment as at 1 January 2006 in order to determine its deemed cost on the date of the Group's adoption of IFRSs. The fair value of property, plant and equipment of OJSC "Khakasskaya Generation Company" and OJSC "Krasnoyarskaya Generation" was determined to be RR 2,064 million and RR 28,699 million, respectively. In addition, the deemed cost of property, plant and equipment of OJSC "Krasnoyarskenergoremont", OJSC "Krasnoyarskenergospetsremont" and other subsidiaries was determined based on statutory independent appraisal.

The majority of the Group's property, plant and equipment is specialised in nature and is rarely sold on the open market other than as part of a continuing business. The market for similar property, plant and equipment is not active in the Russian Federation and does not provide a sufficient number of sales of comparable property, plant and equipment for using a market-based approach for determining fair value.

Consequently the fair value of property, plant and equipment was primarily determined using depreciated replacement cost. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation, and obsolescence.

The depreciated replacement cost was estimated based on internal sources and analysis of the Russian and international markets for similar property, plant and equipment. Various market data were collected from published information, catalogues, statistical data etc, and industry experts and suppliers of property, plant and equipment were contacted both in the Russian Federation and abroad.

The following key assumptions were used in performing the cash flow testing:

- Cash flows were projected based on actual operating results and the ten-year business plan;
- Total revenue (heating and electricity) was projected at RR 9,535 million in the first year of the business plan. Management plans to achieve revenue volume of RR 32,087 million by the tenth year of the business plan, based on projected annual average volume growth of electricity sale by 2%, and annual average growth of electricity tariffs in regulated sector by 6%, of electricity tariffs in free market by 21% and of heat tariffs by 5%;
- A discount rate of 13% was applied in determining the recoverable amount of the assets. The discount rate was estimated based on a possible range of equity cost (from 14% in the first year to 15% in the tenth year) and cost of borrowings of 7%.

(b) Impairment testing

Management has used various assumptions in the calculation of the recoverable value of property, plant and equipment. Variations in these assumptions may give rise to a significantly different amount of the impairment provision. In management opinion, no indicators of impairment exist as at the reporting date.

10 INVESTMENT IN AN ASSOCIATE

The Group owns a 25% equity share in OAO Krasnoyarskaya GES.

The value of the investment in the associate as of 1 January 2006, the date of the Group's transition to IFRS, was determined as the Group's share in the value of the associate's net assets. The difference identified at recognition was included in retained earnings.

The table below contains financial information of OAO Krasnoyarskaya GES:

	2007	2006
Current assets	452	549
Non-current assets	5,135	4,591
Current liabilities	(217)	(236)
Non-current liabilities	(3)	(8)
Sales revenue	1,973	1,953
Profit for the year	412	594

The table below contains information on the Group's investment in OAO Krasnoyarskaya GES:

At 1 January 2006	**1,071**
Share in profit for the year	149
Dividends received	(7)
At 31 December 2006	**1,213**
Share in profit for the year	103
Dividends received	(13)
At 31 December 2007	**1,303**

11 OTHER INVESTMENTS

The Group holds a 43% stake in the general partnership Zheleznogorskaya TETs, established within FGUP Rosatomstroy. The agreement to establish Zheleznogorskaya TES was signed in February 2006.

Zheleznogorskaya TES was established for the purpose of implementing a project aimed at creating a source of heat and electricity in the Krasnoyarsk region that would replace the currently existing industrial graphite-uranium reactor. Zheleznogorskaya TES is being built on the basis of Sosnovoborskaya TES, and is expected to be completed by 2010.

The ultimate interest of the Group in Zheleznogorskaya TES as of the construction completion date will be 6%. The Group does not exercise significant influence or joint control over the financial and operating policies of Zheleznogorskaya TES.

The investment is recognized as available-for-sale financial asset measured at cost.

12 TRADE AND OTHER RECEIVABLES

	2007	2006
Non-current		
Trade receivables (net of impairment allowance)	55	56
Advances to suppliers	–	24
Total non-current accounts receivables	**55**	**80**
Current		
Trade receivables (net of impairment allowance)	593	290
Advances to suppliers	413	132
Other receivables (net of impairment allowance)	18	15
Total current trade and other receivables	**1024**	**437**

Management has determined the allowance based on the financial soundness of individual customers, receipt and settlement prospects and trends, and analysis of expected future cash flows. Based on the expected collection timeframe, the discount rate of 12%-15% has been used to estimate the present value of future cash flows. The result of discounting was recognized as a charge to establish the allowance for impairment of accounts receivable.

Part of trade receivables and other receivables was restructured and, as a result, is due within the period exceeding 12 months from the balance sheet date. The result of discounting was recognized as a charge to establish the allowance for impairment of accounts receivable.

The table below provides information about the changes in impairment allowance of receivables:

	2007	2006
At 1 January 2007	**187**	**111**
Impairment charge for the year	31	76
At 31 December 2007	**218**	**187**

13 INTANGIBLE ASSETS

	Patents and licenses	Development costs	Total
Historical cost			
At 1 January 2006	2	7	9
Additions	1	28	29
Disposals	(1)	(10)	(11)
At 31 December 2006	2	25	27
Additions	4	106	110
At 31 December 2007	6	131	137
Accumulated amortization			
At 1 January 2006	–	(1)	(1)
Amortisation charge	(1)	(1)	(2)
Disposals	–	(2)	(2)
At 31 December 2006	(1)	(4)	(5)
Amortisation charge	(1)	(1)	(2)
At 31 December 2007	(2)	(5)	(7)
Net book value at 31 December 2006	1	21	22
Net book value at 31 December 2007	4	126	130

14 OTHER ASSETS

	2007	2006
Other non-current assets		
Input VAT refundable	51	50
Other	19	12
Total other non-current assets	70	62
Other current assets		
Input VAT refundable	61	41
Other	4	38
Total other current assets	65	79

15 INVENTORIES

	2007	2006
Industrial fuel supplies	500	438
Materials and supplies	228	151
Total inventories	728	589
Less: Provisions for obsolescence of inventories	8	4
Total	720	585

16 CASH AND CASH EQUIVALENTS

	2007	2006
Short-term bank deposits (RR)	434	350
Cash in bank accounts (RR)	102	101
Total	536	451

17 EQUITY

(a) Share capital

The Group's share capital as at 31 December 2006 was RR 1,292 million (total number of shares – 5,705,437 with a par value of RR 226.42 each).

In October 2007 the extraordinary general meeting approved the following decisions:

- a split of ordinary shares: one share with a par value of RR 226.42 is converted into 22,642 ordinary shares with a par value of RR 0.01;
- increase of the share capital through an additional issue of 30,204,428,000 ordinary shares. In February 2008 this additional issue was registered and the shares are expected to be realised through public offering.

As a result, the Group's share capital as at 31 December 2007 was RR 1,292 million, comprising 129,182,511,799 ordinary shares with a par value of RR 0.01.

(b) Additional paid-in capital

As described in Note 3(a)(3), in 2007 the Group issued 44 479 shares towards acquisition of Kyzylskaya TETs with the effect on additional paid-in capital of RR 295 million. The transaction, which was a business combination under common control, was accounted for retrospectively. Accordingly, additional paid-in capital balance as at 1 January 2006 was restated. In 2007, the Group issued 839 new shares for cash with the effect on additional paid-in capital of RR 5 million.

(c) Paid and declared dividends

Distribution and other use of profit are based on the Company's financial statements prepared in accordance with Russian accounting principles. Russian legislation identifies the basis of distribution as retained earnings.

During 2007 the Company declared and paid interim dividends for the first quarter of 2007 in the amount of RR 15 per ordinary share, to a total of RR 83 million.

In 2006 the Company declared and paid dividends for the year ended 31 December 2005 in the amount of RR 30 per ordinary share, to a total of RR 15 million.

In 2006 the Company declared and paid dividends for the first quarter of 2006 in the amount of RR 20 per ordinary share, to a total of RR 10 million.

18 BORROWINGS

	Effective interest rate	Maturity	2007	2006
Long-term borrowings	9%–10%	2009	758	2
Short-term borrowings	8% – 9% (2006: 10% – 16%)		2,052	1,340

All Group's borrowings are denominated in RR and majority of them bear a fixed interest rate.

The effective interest rate is the market interest rate applicable to the loan on the date of its receipt for fixed-rate loans or the current market rate for loans with a floating interest rate.

In 2007 the Group concluded an agreement with OAO Alfa-bank on the provision of a credit line (unsecured, with a limit up to RR 900 million) for the period from May 2007 to May 2009 in order to finance its investment activities. In 2007 the Group received RR 900 million under this agreement at a floating interest rate of MOSIBOR1M+3.8%.

At 31 December 2007 all borrowings were unsecured. At 31 December 2006 borrowings were secured by inventories with the collateral value of RR 81 million.

19 LIABILITIES UNDER PENSION PLANS

The Group offers the following long-term pension and social benefit programs:

- defined contribution pension plan (Non-State Pension Fund Elektroenergetiki); and
- defined benefit pension plans governed by the collective bargaining agreements and including one-time death benefits for employees, one-time retirement or disability benefits, and financial support for veteran employees and pensioners.

In 2007 contributions to the Non-State Pension Fund Elektroenergetiki of RR 20 million were recognised as operating expenses in the income statement when they are incurred (in 2006 contributions to the Non-State Pension Fund Elektroenergetiki amounted to RR 4 million).

Liabilities under the defined benefit pension plans were assessed by an independent professional actuary using the projected unit credit method.

The table below presents the amounts of liabilities under defined benefit pension plans shown in the balance sheet:

	2007	2006
Present value of liabilities on the defined benefit pension plan	138	132
Fair value of plan assets	–	–
Unrecognized actuarial gains and losses	–	–
Net liabilities on the defined benefit pension plan	138	132
Less: current portion of liabilities	11	10
Non-current portion of liabilities	127	122

(a) Change in the carrying value of liabilities under defined benefit pension plans

	2007	2006
At 1 January	132	128
Current service cost	6	7
Interest expense	10	10
Actuarial gains	(5)	(8)
Employee benefits	(5)	(5)
At 31 December	138	132

In 2007 current service cost and actuarial gains in the amount of RR 6 million were recognised as wages and other benefits to employees and related taxes in the income statement (2006: RR 7 million).

In 2007 actuarial gains in the amount of RR 5 million were included in other operating income in the income statement (2006: RR 8 million).

In 2007 interest expense in the amount of RR 10 million was included in financial expenses in the income statement (2006: RR 10 million).

(b) Main actuarial assumptions

The table below presents the main actuarial assumptions used:

	2007	2006
Annual discount rate	9%	8%
Wage growth, per year	13%	11%
Annuity cost calculation rate	6%	5%
Staff turnover, per year	10%	10%

20 PROVISIONS

	2007	2006
Non-current		
Site restoration provisions	34	51
Total non-current provisions	**34**	**51**
Current		
Current portion of site restoration provisions	22	9
Current portion of obligations on pension plans	11	10
Provisions for court proceedings	3	–
Total current provisions	**36**	**19**

Site restoration provision is recognised based on the expected costs and timeframes of site restoration efforts to be taken by the Group after the use of ash dumps stipulated by the environmental supervisory authorities to prevent environmental pollution.

Site restoration provision was estimated as at 1 January 2006 using a discount rate equal to the average market interest rate for long-term securities (9%). Expenses on creating the provisions were charged to retained earnings.

The changes in site restoration provision were as follows:

	2007	2006
At 1 January	**60**	**61**
Accretion expense	5	5
Payments	(9)	(6)
At 31 December	**56**	**60**
Less: Current portion of site restoration provision	22	9
Non-current portion of site restoration provision at 31 December	**34**	**51**

21 TRADE AND OTHER PAYABLES

	2007	2006
Trade payables	563	253
Payable to employees	245	208
Advances received	219	210
Other payables	32	14
Total	**1,059**	**685**

22 TAXES PAYABLE

	2007	2006
Value added tax	142	87
Water usage charge	61	42
Income tax payable	51	9
Property tax	49	47
Unified social tax	43	35
Other taxes payable	32	20
Total	**378**	**240**

23 INCOME TAX

	2007	2006
Income tax benefit		
Current Income tax expense	61	29
Deferred income tax benefit	(286)	(322)
Total income tax benefit	**(225)**	**(293)**

A reconciliation of theoretical income tax, calculated at the rate effective in the Russian Federation to the amount of actual income tax benefit recorded in the income statement is as follows:

	2007	2006
Loss before tax	**(1,299)**	**(1,567)**
Theoretical income tax at 24%	(312)	(376)
Tax effect of non-deductible expenses and non-taxable items:		
– Disposal of other assets	20	23
– Other non-deductible differences	67	60
Total income tax benefit	**(225)**	**(293)**

The tax effects of temporary differences that give rise to deferred taxation are presented below:

	2007	2006
Tax effect of deductible temporary differences		
Accounts receivable and loans issued	55	46
Obligations on long-term employee benefits	36	33
Property, plant and equipment	33	21
Provisions on bonuses and unused vacation	25	19
Site restoration provisions	13	15
Tax losses	–	59
Other	116	24
Deferred tax assets	**278**	**217**
Tax effect of taxable temporary differences		
Property, plant and equipment	(4,110)	(4,392)
Investments in associates	(283)	(258)
Other	(51)	(19)
Deferred tax liabilities	**(4,444)**	**(4,669)**
Net deferred tax liabilities	**(4,166)**	**(4,452)**

24 FINANCIAL INSTRUMENTS AND FINANCIAL RISKS

The Group's activities expose it to a variety of financial risks, including credit risk, liquidity risk, and market risk. The Group does not hedge these risks.

(a) Credit risk

Financial assets on which potential credit risk may arise for the Group are mainly trade receivables. Credit risks related to receivables are periodically reviewed, at least as at the reporting date, to assess the need to create allowance for impairment of receivables. Gross receivables less the allowance for impairment of receivables represent the maximum amount exposed to credit risk. Although collection of receivables can be influenced by economic factors, Group management believes that there is no significant risk of loss to the Group beyond the allowance for impairment of receivables already recorded.

The Group's maximum exposure to credit risk is equal to the carrying amount of each financial asset in the consolidated balance sheet.

	2007	2006
Trade and other receivables (net of impairment allowance)	666	361
Short-term bank deposits	434	350
	1100	**711**

The table below analyses the Group's trade and other receivables into relevant groupings based on the past due periods.

	2007		2006	
	Gross	Impairment allowance	Gross	Impairment allowance
Not past due	613	–	278	–
Past due for less than 3 months	38	3	24	8
Past due for 3 to 12 months	22	4	38	15
Past due for more than one year	211	211	208	164
Total	**884**	**218**	**548**	**187**

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group monitors the risk of cash shortfalls by means of current liquidity planning. This instrument is used to analyze payment dates associated with financial assets, and also forecast cash flows from operating activities.

The tables below show the Group's financial liabilities grouped by the relevant period to maturity, as established in the contract, from the balance sheet date; the amounts of liabilities are based on the contractual undiscounted cash flows.

	Carrying value	Contracted cash flows	Less than 6 months	6-12 months	1-2 years
At 31 December 2007					
Trade and other payables	595	595	590	5	–
Loans and borrowings	2,810	2,810	341	1,711	758
Total	**3,405**	**3,405**	**931**	**1,716**	**758**
At 31 December 2006					
Trade and other payables	267	267	267	–	–
Loans and borrowings	1,342	1,342	1,080	260	2
Total	**1,609**	**1,609**	**1,347**	**260**	**2**

(c) Market risk

Market risk is the risk that changes in market trends (such as changes in interest rates or equity prices) will affect the Group's income or the value of its financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimizing the return on risk.

The Group sees material market risk principally in the risk of a change in interest rates.

Interest rate risk

The Group's income and operating cash flows are largely independent of changes in market interest rates. The Group is exposed to interest rate risk only through market value fluctuations of interest-bearing loans and borrowings. The interest rates on most long- and short-term loans and borrowings are fixed (see note 8). The Group has no significant interest-bearing assets. Currently the Group does not have a distinct management program focusing on the unpredictability of the financial markets, and does not seek to minimize potential adverse effects from its financing activities.

Fair value sensitivity analysis for fixed-rate instruments

The Group does not account for any fixed-rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rates as at the reporting date would not affect profit or loss indices and equity of the Group.

(d) Fair value of financial instruments

Management believes that the fair value of the Group's financial assets and liabilities corresponds to their carrying value.

Basis for determining the fair value of financial instruments

The following methods and assumptions were used when estimating the fair value of financial instruments.

Trade and other receivables. The fair value of trade and other receivables is estimated as the present value of future cash flows discounted at the market interest rate as at the reporting date.

Other investments. Available-for-sale financial assets are measured at cost less impairment losses, since the fair value of these assets cannot be reliably measured on the reporting date.

Financial liabilities. Fair value is calculated based on the present value of future principal and interest cash flows discounted at the market interest rate on the reporting date. The market interest rate for financial lease liabilities is determined based on information on similar leases.

Interest rates used to determine fair value. The interest rates used to discount estimated cash flows, where applicable, are based on the government yield curve on the reporting date plus the corresponding constant credit spread, and are as follows:

	2007
Trade and other receivables	12–14%
Trade and other payables	12–14%
Loans and borrowings	9–12%

(e) Capital risk management

The Group's principal objective when managing capital risk is to sustain its creditworthiness and a normal level of capital adequacy for doing business as a going concern, in order to ensure returns for shareholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of borrowed capital.

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

The Group defines capital as shareholders' equity.

25 CONTINGENCIES AND COMMITMENTS

(a) Capital commitments

	2007	2006
Contracted capital commitments	2,955	386

(b) Insurance

The Group insures some of its assets, operations, civil liability and other business risks. The Group may be exposed to operating risks for which it does not have insurance

(c) Legal proceedings

The Group is involved in a number of legal proceedings arising in the ordinary course of business. According to Group management, there are no current legal proceedings or other outstanding claims whose outcome could have a material adverse effect on the financial position of the Group.

(d) Taxation

Russian tax, currency and customs legislation is subject to varying interpretation and frequent changes. Group management's interpretation of this legislation as applied to the transactions and business of the Group companies may be challenged by the relevant regional or federal authorities. Recent events in 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, late payment interest and fines may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances, reviews may cover longer periods.

As at 31 December 2007, Group management believes that its interpretation of the relevant legislation is appropriate and it is highly probable that the Group's tax, currency and customs positions will be sustained.

26 RELATED PARTIES DISCLOSURES

The parent company of TGC-13 is RAO UES. Accordingly, the Group is ultimately controlled by the Russian federal government, which holds the majority of the voting shares in RAO UES.

The following table provides information on the total amount of the Group's transactions with related parties and the related balances:

Related parties	Sales to/ purchases from related parties	Sales to related parties		Purchases from related parties		Amounts owed by related parties		Amounts owed to related parties	
		2007	2006	2007	2006	2007	2006	2007	2006
1. Entities in the RAO UES Group		5,485	4,123	433	1,713	35	4	6	3
OAO Krasnoyarskenergo	repair/services	16	540	221	1	1	–	–	1
OAO Krasnoyarskenergosbyt	electricity and power	4,693	2,942	41	1,128	8	3	1	1
OAO Khakasenergo	electricity and heat	3	2	–	–	–	–	–	–
OAO Khakasenergosbyt	electricity and heat	124	176	3	141	–	–	–	–
OAO SO-TsDU UES	construction	1	–	148	1	–		2	1
OAO Kuzbasskaya Power Distribution Company	electricity and heat	308	134	–	57	–	–	–	–
OAO Tyvaenergo	electricity and heat, other services	6	–	20	–	18	–	1	–
OAO Tyvaenergosbyt	electricity and heat, other services	20	–	–	–	8	–	–	–
OAO Tyumenskaya Power Distribution Company	electricity and heat	305	–	–	–	–	–	–	–
OAO Altaienergo	electricity sales	–	258	–	190	–	–	–	–
OAO Mosenergosbyt	sale of facilities, electricity sales	–	39	–	31	–	–	–	–
Other	electricity sales	–	30	–	162	–	1	–	–
Other	other services	9	2	–	2	–	–	2	–
OAO SUEK	coal purchases	–	–	3,384	3,438	–	–	66	133
State and municipal institutions		951	–	238	–	62	–	3	–

Terms and conditions of related-party transactions

Sales of heat and electricity to related parties are performed at the prices set by the government; other related-party transactions are based on normal market prices. Outstanding related-party balances at the end of reporting periods are unsecured, interest free and settlements are usually made in cash.

Remuneration of key management personnel

	2007	2006
Wages and other employee benefits to key management personnel	110	105