OGK-1 GROUP

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

PRICEWATERHOUSECOOPERS

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Board of Directors of Open Joint Stock Company "First Generating Company of the Wholesale Electric Power Market" (JSC "OGK-1"):

We have audited the accompanying combined and consolidated financial statements of JSC "OGK-1" and its subsidiaries (the "Group") which comprise the consolidated balance sheet as at 31 December 2007 and the consolidated statement of operations, consolidated statement of cash flows and combined and consolidated statement of changes in equity for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the accompanying combined and consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2007, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PRICEWATERHOUSECOOPERS

Emphasis of Matter

Without qualifying our opinion:

- we draw your attention to Notes 2 and 27 to the accompanying combined and consolidated financial statements. As at 31 December 2007, in accordance with the requirement of IAS 1.60(d), the Group had reclassified RR 2,200 million of debt from non-current to current as a result of its reorganisation. Subsequent to the year end, and following the expiry of the early redemption period, this debt was reclassified back to non-current; and

- we draw your attention to Notes 1, 2 and 5 to the accompanying combined and consolidated financial statements. Governmental economic and social policies affect the Group's financial position, financial performance and cash flows.

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
28 April 2008

OGK-1 GROUP
Consolidated Balance Sheet as at 31 December 2007
(in millions of Russian Roubles)

	Notes	31 December 2007	31 December 2006
ASSETS			
Non-Current Assets			
Property, plant and equipment	6	29,557	25,625
Other non-current assets	7	315	225
Total non-current assets		**29,872**	**25,850**
Current assets			
Cash and cash equivalents	8	425	549
Accounts receivable and prepayments	9	3,372	1,928
Inventories	10	2,396	2,547
Other current assets	11	286	-
Total current assets		**6,479**	**5,024**
TOTAL ASSETS		**36,351**	**30,874**
EQUITY AND LIABILITIES			
Equity	12		
Share capital		25,660	44,643
Merger reserve		(6,869)	(25,852)
Other reserves		(32)	-
Retained earnings		6,771	5,457
Total equity		**25,530**	**24,248**
Non-current liabilities			
Deferred profit tax liabilities	13	2,890	2,945
Pension liabilities	14	439	242
Non-current debt	15	521	-
Other non-current liabilities		8	8
Total non-current liabilities		**3,858**	**3,195**
Current liabilities			
Current debt and current portion of non-current debt	16	4,790	1,380
Accounts payable and accrued charges	17	1,649	1,125
Taxes payable	18	524	926
Total current liabilities		**6,963**	**3,431**
Total liabilities		**10,821**	**6,626**
TOTAL EQUITY AND LIABILITIES		**36,351**	**30,874**

ОТКРЫТОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО * ОГРН 1057200597960 * ТЮМЕНЬ *
«ПЕРВАЯ ГЕНЕРИРУЮЩАЯ КОМПАНИЯ ОПТОВОГО РЫНКА ЭЛЕКТРОЭНЕРГИИ»

Deputy General Director — Milyaev R.G.

Chief Accountant — Votintseva L.N.

28 April 2008

OGK-1 GROUP
Combined and Consolidated Statement of Operations for the year ended 31 December 2007
(in millions of Russian Roubles, except for earning per ordinary share information)

	Notes	Year ended 31 December 2007	Year ended 31 December 2006
Revenues	19	44,891	30,062
Operating expenses	20	(41,926)	(28,309)
Reversal of impairment of property, plant and equipment	6	-	8,479
Impairment of property, plant and equipment	6	-	(1,790)
Operating profit		**2,965**	**8,442**
Finance costs	21	(217)	(75)
Profit before profit tax		**2,748**	**8,367**
Total profit tax charge	13	(782)	(2,397)
Profit for the period		**1,966**	**5,970**
Attributable to:			
Shareholders of JSC OGK-1		1,966	5,929
Minority interest		-	41
Earning per ordinary share for profit attributable to the shareholders of JSC OGK-1 – basic and diluted (in Russian Roubles)	22	**0.044**	**0.247**

Deputy General Director — Milyaev R.G.

Chief Accountant — Votintseva L.N.

28 April 2008

ОТКРЫТОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО * ОГРН 10572[illegible]96 * ТЮМЕНЬ *
«ПЕРВАЯ ГЕНЕРИРУЮЩАЯ КОМПАНИЯ ОПТОВОГО РЫНКА ЭЛЕКТРОЭНЕРГИИ»

OGK-1 GROUP
Combined and Consolidated Statement of Cash Flows for the year ended 31 December 2007
(in millions of Russian Roubles)

	Notes	Year ended 31 December 2007	Year ended 31 December 2006
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before profit tax		**2,748**	**8,367**
Adjustments to reconcile profit before profit tax to net cash provided by operations:			
Depreciation of property plant and equipment	20	1,490	1,031
Reversal of impairment of property, plant and equipment	6	-	(8,479)
Impairment of property, plant and equipment	6	-	1,790
(Gain) / loss on disposal of property plant and equipment	20	(3)	335
Charge / (reversal) of write-off of inventories to net realisable value	20	1	(68)
Write-off of accounts receivable	20	16	70
Charge / (reversal) of impairment of accounts receivable	20	128	(98)
Finance costs	21	217	75
Change of pension liabilities	14	197	19
Write-off of deferred VAT		(192)	-
Other		7	(43)
Operating cash flows before working capital changes and profit tax paid		**4,609**	**2,999**
Working capital changes:			
(Increase) / decrease in accounts receivable and prepayments		(1,591)	203
(Increase) / decrease in other current assets		(286)	85
Decrease / (increase) in inventories		150	(934)
Increase in other non-current assets		(96)	(70)
Increase / (decrease) in accounts payable and accrued charges		579	(155)
Decrease in taxes payable		(7)	(152)
Increase in other non-current and pension liabilities		(1)	11
Profit tax paid		(1,041)	(833)
Net cash generated by operating activities		**2,316**	**1,154**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Additions to property, plant and equipment		(4,647)	(1,738)
Proceeds from sales of property, plant and equipment		17	-
Proceeds from sale of subsidiaries, net of cash disposed		3	-
Interest received		1	34
Net cash used by investing activities		**(4,626)**	**(1,704)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from current debt		4,200	4,142
Proceeds from non-current debt		2,200	-
Repayment of debt		(3,170)	(3,490)
Repayment of financial lease liabilities		(120)	-
Interest paid		(158)	(95)
Dividends paid		(766)	(733)
Net cash generated by financial activities		**2,186**	**(176)**
Increase / (decrease) in cash and cash equivalents		**(124)**	**(726)**
Cash and cash equivalents at the beginning of the period		**549**	**1,275**
Cash and cash equivalents at the end of the period		**425**	**549**

Deputy General Director — Milyaev R.G.

Chief Accountant — Votintseva L.N.

ОТКРЫТОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО «ПЕРВАЯ ГЕНЕРИРУЮЩАЯ КОМПАНИЯ ОПТОВОГО РЫНКА ЭЛЕКТРОЭНЕРГИИ» ОГРН 1057200597960 ТЮМЕНЬ

28 April 2008

OGK-1 GROUP

Combined and Consolidated Statement of Changes in Equity for the year ended 31 December 2007
(in millions of Russian Roubles)

	Attributable to the shareholders of JSC OGK-1						
	Ordinary share capital	**Merger reserve**	**Other reserves**	**Retained earnings**	**Total**	**Minority interest**	**Total equity**
As at 1 January 2006 as previously reported	**16,784**	**(269)**	**-**	**(247)**	**16,268**	**1,483**	**17,751**
Correction of prior period (Note 3)	-	-	-	400	**400**	-	**400**
As at 1 January 2006 (Note 3)	**16,784**	**(269)**	**-**	**153**	**16,668**	**1,483**	**18,151**
Payments of share capital (Note 12)	27,859	(26,335)	-	-	**1,524**	(1,524)	**-**
Contribution from RAO UES (Note 12)	-	752	-	-	**752**	-	**752**
Profit for the period	-	-	-	5,929	**5,929**	41	**5,970**
Dividends (Note 12)	-	-	-	(625)	**(625)**	-	**(625)**
As at 31 December 2006	**44,643**	**(25,852)**	**-**	**5,457**	**24,248**	**-**	**24,248**
As at 1 January 2007 previously reported	**44,643**	**(25,852)**	**-**	**4,917**	**23,708**	**-**	**23,708**
Correction of prior period (Note 3)	-	-	-	540	**540**	-	**540**
As at 1 January 2007 (Note 3)	**44,643**	**(25,852)**	**-**	**5,457**	**24,248**	**-**	**24,248**
Decrease in share capital (Note 12)	(18,983)	18,983	-	-	**-**	-	**-**
Provision for buy out of JSC OGK-1 shares (Note 12)	-	-	(32)	-	**(32)**	-	**(32)**
Profit for the period	-	-	-	1,966	**1,966**	-	**1,966**
Dividends (Note 12)	-	-	-	(644)	**(644)**	-	**(644)**
Other	-		-	(8)	**(8)**	-	**(8)**
As at 31 December 2007	**25,660**	**(6,869)**	**(32)**	**6,771**	**25,530**	**-**	**25,530**

ГЕНЕРИРУЮЩАЯ
КОМПАНИЯ
ОПТОВОГО
РЫНКА
ЭЛЕКТРОЭНЕРГИИ»
ТЮМЕНЬ

Deputy General Director — Milyaev R.G.

Chief Accountant — Votintseva L.N.

28 April 2008

Note 1: The Group and its operations

Open Joint-Stock Company First Power Generating Company on the Wholesale Energy Market (JSC OGK-1, or the "Company") was established on 23 March 2005 within the framework of the Russian electricity industry restructuring in accordance with Resolution No. 1254-r adopted by the Russian Federation Government on 1 September 2003.

The OGK-1 Group's (the "Group") consists of JSC OGK-1 with the following power stations: Permskaya GRES, Urengoyskaya GRES, Iriklinskaya GRES, Kashirskaya GRES, and Verkhnetagilskaya GRES, 100% subsidiary CJSC Nizhnevartovskaya GRES and two servicing subsidiaries (see also *Establishment and restructuring of the Group).*

The Group primary activities are generation and sale of electricity and heat energy, including re-sale of purchased power.

The Company is registered by the District Inspectorate of the Ministry RF of Taxation No. 3 of Tyumen region. The legal address of the Company is 1/1, Odesskaya street, Tyumen, Tyumen Region, Russian Federation.

The Company's head office is located at 13/17, Bolshaya Cheremushkinskaya street, 117447, Moscow, Russian Federation.

Operating environment of the Group. Whilst there have been improvements in economic trends in the Russian Federation, the country continues to display certain 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. As at 31 December 2007 the Russian Federation owned 52.7% of Open Joint Stock Company Energy and Electrification Unified System of Russia ("RAO UES"), which in turn owned 91.7% of voting ordinary shares of JSC OGK-1. The Government of the Russian Federation is the ultimate controlling party of the Company. RAO UES Group consists of RAO UES and its related subsidiaries, associates and jointly controlled entities.

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

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

Tariffs which the Group may charge for sales of electricity and heat are governed by regulations specific to the electricity and heat industry and by regulations applicable to natural monopolies. 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.

Starting from 2008, "cost-plus" method will be replaced by another approach: under regulated contracts, tariffs for electricity and capacity supplied by generating companies will be set according to the indexation method. Using this method, tariffs for the year 2008 were calculated by the indexation of prior year tariffs taking into consideration the inflation rate.

As discussed in Notes 2 and 24, the government's economic, social and other policies could materially effect the operations of the Group.

Industry restructuring. The Russian electric utilities industry is presently undergoing a restructuring process designed to introduce competition into the electricity sector and to create an environment in which RAO UES Group and its successor companies (including JSC OGK-1) can raise the capital required to maintain and expand current capacity.

A crucial step in developing a competitive wholesale electricity (capacity) market was the adoption of the new Wholesale Electric Power (capacity) Market (NOREM) Rules of the Transitional Period approved by

Resolution of the Government of the Russian Federation No. 529 dated August 31, 2006 and which came into force on September 1, 2006. Under the new wholesale market framework, electricity and power purchase-and-sale transactions in the regulated market sector are to be governed by a regulated bilateral contract system. From 1 September 2006, regulated contracts covered all volumes of electricity and power produced and consumed.

From 2007, the volumes of electricity (power) traded in the wholesale market at regulated prices began to be reduced. The pace of reduction was set by the Russian Federation Government according to socio-economic development forecasts. In 2007 up to 90% of the forecasted produced electricity volumes and 100% of capacity were traded at regulated prices. The period from 2006 to approximately 2011 is a transition period. After that, it is expected that a fully competitive wholesale market will be formed.

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, given 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.

Management believes that ultimately a stable regulatory regime and a competitive power market will be put in place such that the Group will be able to raise needed capital to sustain the business. However, there can be no assurance in this regard.

Establishment and restructuring of the Group. According to Resolution No. 1254-r which approved the structure of wholesale generating companies (OGKs), JSC OGK-1 is to consist of the following power stations: Permskaya GRES, Iriklinskaya GRES, Nizhnevartovskaya GRES, Kashirskaya GRES, Verkhnetagilskaya GRES and Urengoyskaya GRES.

JSC OGK-1 was founded on 23 March 2005 by RAO UES (parent company) which made the following contributions (see Note 11):

- 100% less one share of the ordinary shares of JSC Permskaya GRES;
- the property, plant and equipment of Verkhnetagilskaya GRES;
- cash funds.

On 29 September 2006 in the course of further sector restructuring, JSC OGK-1 merged with JSC Permskaya GRES, JSC Nizhnevartovskaya GRES, JSC Urengoyskaya GRES, JSC Iriklinskaya GRES and JSC Kashirskaya GRES by exchanging shares of these entities for ordinary shares of JSC OGK-1 ("the Merger"). All mentioned companies became branches of JSC OGK-1 since that date.

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

Except for JSC Kashirskaya GRES in which RAO UES held 50.9%, all the entities were 100% owned by RAO UES.

To effect the Merger, the Company issued shares to RAO UES and to the owners of JSC Kashirskaya GRES' shares from outside the RAO UES Group, with the result that it acquired 100% of each entity.

On 10 December 2007 JSC OGK-1 established 100% owned subsidiary, CJSC Nizhnevartovskaya GRES. The share capital of this entity was formed by the contribution of the property of Nizhnevartovskaya power station, a branch of JSC OGK-1. CJSC Nizhnevartovskaya GRES has been established to facilitate the investment project for the construction of a third unit of Nizhnevartovskaya power station. It is also planned that TNK-BP International Limited or its affiliated companies will participate in. For this purpose, a new subsidiary, NVGRES Holding Ltd., was set up in 2008 (see Note 27) which will issue additional shares to TNK-BP International Limited or its affiliated companies, for cash.

(in millions of Russian Roubles)

Note 2: Financial condition

As at 31 December 2007, the Group's current liabilities exceeded its current assets by RR 484 million (as at 31 December 2006 current assets exceeded its current liabilities by RR 1,593 million).

On 23 November 2007 the Extraordinary General Meeting of Shareholders of JSC OGK-1 approved the decision to merge the Company and OJSC OGK-1 Holding (see Note 12). The followings requirements are stipulated by the Federal Law "On Joint-stock Companies":

- during 30 days from the date of the Extraordinary General Meeting of Shareholders JSC OGK-1 should inform its creditors about a reorganization of the Company,
- during 30 days from the date of notification, the creditors have the right to claim the early repayment of its debts.

Therefore as at 31 December 2007 the Company did not have the right to defer repayment of non-current debts for at least twelve months after the reporting date and had to reclassify its non-current debts to current. As at 31 December 2007 the amount of reclassified non-current debts was RR 2,200 million (see Note 16).

Subsequent to the reporting date, no creditors had claimed the early repayment of non-current debts from the Company (see Note 27). Thus if the Group had not made the reclassification of non-current debt, then as at 31 December 2007 its current assets would have exceeded current liabilities by RR 1,716 million.

As discussed above, the Group is affected by Government policy through control of tariffs and other factors. The FST have not always permitted tariff increases in line with the Group's costs 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 additional costs recognised under an IFRS basis of accounting. As a result, tariffs have not consistently allowed for an adequate return on investment and historically have not provided sufficient funds for the full replacement of property, plant and equipment.

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") and related interpretations adopted by International Accounting Standards Board ("IASB").

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

Restatement of comparatives. In these combined and consolidated financial statements for the year ended 31 December 2007, the comparative Balance Sheet at 31 December 2006, the comparative balances at 31 December 2006 and 31 December 2005 in the Statement of Changes in Equity, and corresponding figures for the year ended 31 December 2006 have been restated.

Deferred tax liabilities were originally accrued in the predecessor accounts on the differences between the tax and carrying values of the construction in progress. The tax value of the construction in progress was understated at 31 December 2006 by RR 2,360 million and at 31 December 2005 by RR 1,664 million. Adjustment of the tax value of the construction in progress resulted in an increase of retained earnings at 31 December 2006 by RR 540 million and at 31 December 2005 by RR 400 million, a decrease of deferred tax liabilities at 31 December 2006 by RR 540 million and the reversal of deferred tax charge for the year ended 31 December 2006 by RR 140 million.

The effect of the restatement on those financial statements is summarised below:

	Year ended 31 December 2006	Restated Year ended 31 December 2006
Profit before profit taxes	8,367	8,367
Total profit tax charge	(2,537)	(2,397)
Profit for the period	**5,830**	**5,970**
Earning per ordinary share for profit attributable to the shareholders of JSC OGK-1 – basic and diluted (in Russian Roubles)	**0.242**	**0.247**

(in millions of Russian Roubles)

	As previously reported	Restated
Total equity as at 1 January 2006	17,751	18,151
Total equity as at 31 December 2006	23,708	24,248
Deferred tax liability as at 31 December 2006	3,485	2,945

Reclassifications. Certain reclassifications have been made to prior year data to conform to the current year presentation. In prior periods the Group accounted for certain expenses within repairs and maintenance in the statement of operations. Management considered that such expenses should be disclosed as part of employee benefit expenses and other materials (Note 20).

Before 31 December 2006, property, plant and equipment were divided into groups, according to their function, such as electricity and heat generation. This classification was used in the predecessor accounts and considered appropriate for RAO UES Group entities before the reorganization. Dividing of property, pant and equipment according to their functional area is no longer provides useful information. Management considered that classifying property, plant and equipment by their nature rather than by their function provides more useful information and is more representative of the structure of OGK-1 Group. Comparative information for 2006 has been restated in line with the new classification (see Note 6).

PPE groups for IFRS purposes in accordance with previously adopted classification	Revised starting from 1 January 2006
Electricity and heat generation	8-75
Electricity distribution	6-28
Heating network	3-18
Other	2-18

PPE groups for IFRS purposes in accordance with newly adopted classification	Revised starting from 1 January 2006
Power equipment	10-25
Production buildings	20-75
Facilities	15-41
Substations	8-25
Hydrotechnical facilities	13-67
Electricity grids and heating networks	3-28
Other	2-18

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

Predecessor accounting. The establishment of the Group is described in Note 1.

In the year 2006, 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.

The difference between the consideration paid and the predecessor carrying values of the net assets relating to the acquisition of a business from an entity under common control is recorded in equity, as a merger reserve.

Minority interest of the Group included the proportional share of Kashirskaya GRES' minority shareholders (49,1%) of its equity and results of operations up to the date of merger of JSC Kashirskaya GRES with JSC OGK-1.

Accounting for the effects of hyperinflation. The economy of 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. These new or amended standards and interpretations that are applicable for the year beginning on 1 January 2007 and their impact on the current period or any prior period are described below:

- IFRS 7 Financial Instruments: Disclosures and a complementary Amendment to IAS 1 Presentation of Financial Statements – Capital Disclosures (effective from 1 January 2007). This IFRS introduces new disclosures to improve the information disclosed in respect of financial instruments. The volume of disclosures has increased with an emphasis on quantitative aspects of risk exposures and the methods of risk management. The quantitative disclosures provide information about the extent to which the entity is exposed to risk, based on information provided internally to the entity's key management personnel. Qualitative and quantitative disclosures cover exposure to credit risk, liquidity risk and market risk including sensitivity analysis to market risk. IFRS 7 replaced IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and some of the requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The Amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The new disclosures are made in these consolidated financial statements;

- IFRIC 7, Applying the Restatement Approach under IAS 29, effective for annual periods beginning on or after 1 March 2006 (that is from 1 January 2007 for these financial statements). The interpretation clarifies application of IAS 29 in the reporting period in which hyperinflation is first identified. It states that IAS 29 should initially be applied as if the economy has always been hyperinflationary. It further clarifies calculation of deferred profit taxes in the opening balance sheet restated for hyperinflation in accordance with IAS 29.

- IFRIC 8, Scope of IFRS 2, effective for annual periods beginning on or after 1 May 2006 (that is from 1 January 2007 for these financial statements).The interpretation states that IFRS 2 also applies to transactions in which the entity receives unidentifiable goods or services and that such items should be measured as the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received (or to be received).

- IFRIC 9, Reassessment of Embedded Derivatives, effective for annual periods beginning on or after 1 June 2006 (that is from 1 January 2007 for these financial statements). The interpretation clarifies that an entity should assess whether an embedded derivative should be accounted for separately from the host contract when the entity first becomes party to the contact. Only if the contact subsequently is significantly modified should the entity reassess whether to separate the derivative or not.

- IFRIC 10, Interim Financial Reporting and Impairment, effective for annual periods beginning on or after 1 November 2006 (that is from 1 January 2007 for these financial statements). The interpretation clarifies that an entity can not reverse an impairment loss recognised in previous interim periods in respect of goodwill or an investment in a financial asset carried at cost.

The effect of adoption of the above new or revised standards and interpretations on the Group's financial position at 31 December 2007 and on the results of its operations for the year then ended was not significant.

Other new standards or interpretations. The Group 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 organisation 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.

- IFRIC 11, IFRS 2 – Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007). The interpretation addresses how to apply IFRS 2 "Share-based payment" to share-based payment arrangements involving an entity's own equity instruments or equity instruments of another entity in the same group (e.g. equity instruments of its parent).

- IFRIC 12, Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008). The interpretation addresses how service concession operators should apply existing IFRS to account for the obligations they undertake and rights they receive in service concession arrangements. It does not address accounting for the government side of service concession arrangements.
- IFRIC 13, Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008). The interpretation addresses accounting by entities that grant loyalty award credits (such as "points" or travel miles) to customers who buy other goods or services. Specifically, it explains how such entities should account for their obligations to provide free or discounted goods or services ("awards") to customers who redeem award credits.
- IFRIC 14, IAS 19 – The limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2008). The interpretation addresses when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of IAS 19; how a minimum refunding requirement might affect the availability of reductions in future contributions, and when a minimum refunding requirement might give rise to a liability.
- Amendment to 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 immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset. The revised standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. The Group is currently assessing the impact of the amended standard on its financial statements.
- Amendment to IAS 1, Presentation of Financial Statements (revised September 2007: effective for annual periods beginning on or after 1 January 2009). The main change in IAS 1 is the replacement of the statement of operations by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. It also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies or corrections of errors. The Group expects the revised IAS 1 to affect the presentation of its financial statements but to have no impact on the recognition or measurement of specific transactions and balances.
- Amendment to IAS 32 and IAS 1, Puttable financial instruments and obligations arising on liquidation (effective for annual periods beginning on or after 1 January 2009). The objective of the Amendment is to improve the financial reporting of particular types of financial instruments that represent a residual interest in the entity but are, at present, classified as financial liabilities. The amendments classify the following types of financial instruments as equity, provided they have particular features and meet specific conditions - puttable financial instruments; instruments, or components of instruments, that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation.
- Amendments to IFRS 2, Share-based Payment Vesting Conditions and Cancellations (effective for annual periods beginning on or after 1 January 2009). The amendment deals with two matters. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. It also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment.
- IAS 27 (Revised), Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 1 July 2009).
- IFRS 3 (Revised), Business Combinations (effective for annual periods beginning on or after 1 July 2009).

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

Going concern. The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realisation of assets and the satisfaction of liabilities in the normal course of business. The recoverability of the Group's assets, as well as the future operations of the Group, may be significantly affected by the current and future economic environment. The accompanying financial statements do not include any adjustments which might be necessary if the Group will be unable to continue as a going concern.

Critical accounting estimates and assumptions. The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements 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 judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Provision for impairment of accounts receivable
Provision for impairment of accounts receivable is based on the Group's assessment of whether the collectibility of specific customer accounts deteriorated compared to prior estimates. If there is a deterioration in a major customer's creditworthiness or actual defaults are higher than the estimates, the actual results could differ from these estimates (see Note 9).

Provision for impairment of other assets
At each balance sheet date the Group assesses whether there is any indication that the recoverable amount of the Group's assets has declined below the carrying value. The recoverable amount of property, plant and equipment is the higher of an asset's fair value less costs to sell and its value in use. When such a decline is identified, the carrying amount is reduced to the recoverable amount. The amount of the reduction is recorded in the statement of operations 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 Group management believes it is probable that their interpretation of the relevant legislation and the Group's tax positions cannot be sustained, an appropriate amount is accrued for in these 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-1 and the financial statements of those entities whose operations are controlled by JSC OGK-1. Control is presumed to exist when JSC OGK-1 controls, directly or indirectly through subsidiaries, more than 50.00 percent of voting rights.

Subsidiaries

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

Transactions eliminated on consolidation

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

Transfers of subsidiaries between parties under common control. Transfers of investments between parties under common control are accounted for using the predecessor basis of accounting 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 recognised 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 consolidated financial statements as an adjustment to equity.

(in millions of Russian Roubles)

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

As at 31 December 2007, the official rate of exchange, as determined by the Central Bank of the Russian Federation, between the RR and the US Dollar ("USD") was RR 24.55: USD 1.00 (31 December 2006: RR 26.33: USD 1.00), between the RR and EURO RR 35.93: EURO 1.00 (31 December 2006: RR 34.70: EURO 1.00).

Financial assets. The Group holds only financial assets classified as loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as trade and other receivables in the balance sheet.

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

Property, plant and equipment. As at 31 December 2007 property, plant and equipment are stated at the carrying value determined in accordance with the IFRS at the date of their transfer to the Group by the Predecessor, and adjusted taking into account further additions, disposals and depreciation charges. 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.

Renewals and improvements are capitalised 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 statement of operations 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 was based on the estimated remaining useful lives as at the valuation date. Remaining useful lives are reviewed annually.

The useful lives, in years, of assets by type of facility are as follows (see also Note 3):

Type of facility	Revised starting from 1 January 2006
Power equipment	10-25
Production buildings	20-75
Facilities	15-41
Substations	8-25
Hydrotechnical facilities	13-67
Electricity grids and heating networks	3-28
Other	2-18

Loan charges incurred for the financing of construction of property, plant and equipment are not capitalized within the cost of property, plant and equipment.

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. Accounts receivable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method less provision for impairment. Such provision for doubtful debtors is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the allowance is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers at the date of origination of receivables.

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 which had not been settled at the balance sheet date (deferred VAT) was recognised in the balance sheet on a gross basis and disclosed separately as an asset and liability. Where provision was made for impairment of receivables, the impairment loss was recorded for the gross amount of the debtor's balance, including VAT. The related deferred VAT liability was maintained until the debtor was written off for tax purposes.

Inventories. Inventories are recorded cost at the lower of cost and net realisable value. Cost of inventory is determined on the weighted average cost basis. Net realisable value is the estimated selling price in the ordinary course of business, less selling expenses.

Profit tax

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

Deferred profit tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. 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 utilised. 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 utilised.

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

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

Accounts payable and accrued charges. Accounts payable are stated inclusive of value added tax. Accounts payable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method.

Debt. Debt is recognised initially at its fair value. Fair value is determined using the prevailing market rate of interest for a similar instrument, if significantly different from the transaction price. In subsequent periods, debt is stated at amortised cost using the effective yield method; any difference between the fair value of the proceeds (net of transaction costs) and the redemption amount is recognised in the statement of operations as an interest expense over the period of the debt obligation.

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

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

OJSC OGK-1 operates a number of defined benefit plans: lump-sum payments at retirement, jubilee benefits, financial support for current pensioners, old age life pension program, death benefits. Defined benefits plans, except old-age life pensions, are paid on a pay-as-you-go basis. For old-age life pensions payments Group has contracted with a non-state pension fund. Group settles its obligation in relation to former employees when they retire from Group by purchasing annuity policies in the fund. All defined 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.

Defined benefit plans determine 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 recognised in the balance sheet in respect of defined benefit pension plans operated by the Group is the present value of the defined benefit obligations at the balance sheet date, together with adjustments for unrecognized actuarial gains or losses and past service cost. The defined benefit obligations are calculated using 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 statement of operations over the employees' expected average remaining working lives.

Operating leases. Where the Group 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 recognised as rental income on a straight-line basis over the lease term.

Finance leases. Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised 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 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 statement of operations 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 Group is not reasonably certain that it will obtain ownership by the end of the lease term.

Environmental liabilities. Liabilities for environmental remediation are recorded where there is a present obligation, the payment is probable and reliable estimates exist.

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

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

Segment reporting. The Group 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 JSC OGK-1 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 Group's subsidiaries. This has been calculated based upon the minority's ownership percentage of these subsidiaries. In purchases of minority interest, the difference, if any, between the carrying amount of a minority interest and the amount paid to acquire it is recorded as a loss directly in equity.

(in millions of Russian Roubles)

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

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

Interest. Interest income and expense are recognised in the statement of operations 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 collections of loans become doubtful 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.

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

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

Note 5: Related Parties

Related parties with whom the Group 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.

Transactions with RAO UES and its subsidiaries

Transactions with RAO UES and its subsidiaries were as follows:

	Year ended 31 December 2007	Year ended 31 December 2006
Electricity and heating revenues	20,449	22,278
Rent	-	225
Other sales	39	28
Purchased power expenses	-	693
Interest expenses	20	30
Other expenses	844	441

Balances with RAO UES and its subsidiaries were as follows:

	31 December 2007	31 December 2006
Accounts receivable	175	410
Dividends payable	1	203
Accounts payable	92	113

CJSC Financial Settling Center (CJSC CFR)

Starting from July 2006 one of the Company's employees is combining key management positions in JSC OGK-1 and CJSC CFR. Therefore CJSC CFR is considered as a related party.

Transactions with CJSC CFR were as follows:

	Year ended 31 December 2007	Period since 01 July 2006 to 31 December 2006
Electricity and heating revenues	14,890	4,079
Purchased power expenses	11,659	2,918

(in millions of Russian Roubles)

Balances with CJSC CFR were as follows:

	31 December 2007	31 December 2006
Accounts receivable	566	362
Accounts payable	395	375

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

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

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

	Year ended 31 December 2007	Year ended 31 December 2006
Electricity and heating revenues	331	266
Other revenues	14	36
Fuel expenses	10,990	10,472

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

	31 December 2007	31 December 2006
Accounts receivable and prepayments, gross	595	194
Provision for impairment of accounts receivable	-	(69)
Accounts payable and accruals	116	42
Current debt	1,301	-
Other non current assets	8	9

Tax balances are disclosed in the balance sheet and Notes 13 and 18. Tax transactions are disclosed in the Group's statement of operations and Notes 13 and 20.

Directors' compensation

Key management personnel (the members of the Board of Directors and the Management Board of JSC OGK-1) are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

The remuneration to the members of the Board of Directors is paid for attending the Board meetings; compensation of key management personnel (other then remuneration for attending the Board meetings) is determined by the terms of the employment contracts.

Total remuneration accrued to the members of the Board of Directors and the Management Board was as follows:

	Year ended 31 December 2007	Year ended 31 December 2006
Short-term compensations, including salary and bonuses	74	65
Remuneration for attending the Board meetings	17	19

Short-term compensations include personal income tax and are net of unaudited social tax.

(in millions of Russian Roubles)

Note 6: Property, plant and equipment

Cost

Cost	Power equipment	Production buildings	Facilities	Substations	Hydrotechnical facilities	Electricity grids and heating networks	Construction in progress	Other	Total
Opening balance as at 31 December 2006	18,857	13,824	3,542	2,115	1,145	423	4,134	828	44,868
Additions	2	3	801	2	-	-	4,535	98	5,441
Transfers	303	122	19	36	3	5	(1,254)	766	-
Disposals	-	(5)	(3)	(2)	-	-	(12)	(12)	(34)
Closing balance as at 31 December 2007	19,162	13,944	4,359	2,151	1,148	428	7,403	1,680	50,275
Accumulated depreciation (including impairment)									
Opening balance as at 31 December 2006	(8,930)	(5,481)	(1,817)	(1,074)	(391)	(151)	(1,118)	(281)	(19,243)
Charge for the period	(693)	(224)	(167)	(179)	(40)	(29)	-	(158)	(1,490)
Transfers	(2)	(1)	-	(5)	-	-	10	(2)	-
Disposals	-	2	1	1	-	-	-	11	15
Closing balance as at 31 December 2007	(9,625)	(5,704)	(1,983)	(1,257)	(431)	(180)	(1,108)	(430)	(20,718)
Net book value as at 31 December 2007	9,537	8,240	2,376	894	717	248	6,295	1,250	29,557

(in millions of Russian Roubles)

Cost	Power equipment	Production buildings	Facilities	Substations	Hydrotechnical facilities	Electricity grids and heating networks	Construction in progress	Other	Total
Opening balance as at 31 December 2005	18,122	13,600	3,396	1,936	1,103	392	3,699	727	42,975
Additions	415	142	92	107	24	17	1,791	95	2,683
Transfers	320	110	71	83	18	14	(689)	73	-
Disposals	-	(28)	(17)	(11)	-	-	(667)	(67)	(790)
Closing balance as at 31 December 2006	18,857	13,824	3,542	2,115	1,145	423	4,134	828	44,868
Accumulated depreciation (including impairment)									
Opening balance as at 31 December 2005	(11,341)	(8,025)	(2,192)	(1,218)	(588)	(208)	(939)	(615)	(25,126)
Charge for the period	(480)	(164)	(106)	(124)	(28)	(20)	-	(109)	(1,031)
Reversal of impairment loss	3,082	3,200	538	295	230	81	646	407	8,479
Impairment loss	(112)	(479)	(46)	(13)	-	(1)	(1,118)	(21)	(1,790)
Transfers	(79)	(27)	(18)	(21)	(5)	(3)	171	(18)	-
Disposals	-	14	7	7	-	-	122	75	225
Closing balance as at 31 December 2006	(8,930)	(5,481)	(1,817)	(1,074)	(391)	(151)	(1,118)	(281)	(19,243)
Net book value as at 31 December 2006	9,927	8,343	1,725	1,041	754	272	3,016	547	25,625

Construction in progress includes advances to construction companies and suppliers of property, plant and equipment of RR 2,222 million (net of VAT) and RR 703 million (net of VAT) as of 31 December 2007 and 31 December 2006 respectively.

The assets transferred to the Group upon privatization did not include the land on which the Group's buildings and facilities are situated. The Group has the option to purchase this land upon application to the state registration body or to formalize the right for rent after the right expiry date, which is 1 January 2010. As at 31 December 2007, the majority of the Group's companies have not filed any application to exercise the purchase option.

Impairment provision for property, plant and equipment

The carrying value of property, plant and equipment at 31 December 2007 and 31 December 2006 is stated net of an impairment loss of RR 2,315 million and 2,376 million respectively.

As at 31 December 2006, management reversed a previously recognised impairment losses based on their assessment that significant changes with a favorable effect on the Group that have occurred or are expected to occur in the near future in the market and economic environment in which the Group operates. Such changes include:

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

These developments resulted in a change to the assumptions that were used to determine the value in use of assets that comprise the cash generating units. An impairment review was carried out by comparing the recoverable amount of the individual cash generating units with their net book values. For the purposes of the review, each of the Group's power plants was used as the relevant cash generating unit. The recoverable amount was generally based on value in use, which was calculated based on estimated future cash flows using various assumptions including the following:

1. Electricity tariffs in the regulated sector will be increased by 19%, 20%, 22.3% for the years ended 31 December 2008, 2009 and 2010, respectively;
2. Heat tariffs will be increased by 17%, 18.2% and 18.4% for the years ended 31 December 2008, 2009 and 2010, respectively;
3. Gas price will be increased by 25%, 27.7% and 27.7% for the years ended 31 December 2008, 2009 and 2010, respectively;
4. Growth of gas prices and other operating costs will be accounted for by the Regional Tariff Service in the course of establishing regulated electricity and heat tariffs on a "cost-plus" basis;
5. Inflation rate will not exceed 7.7% per year;
6. Increase of major variable cost (except for fuel) will not exceed the inflation rate;
7. The pre-tax discount rate used to determine assets value in use is equal to 11%.

The Group recorded a reversal of the previously recognised impairment loss in the amount of RR 8,479 million. A respective gain together with a corresponding deferred tax expense of RR 1,888 million were recognised in the statement of operations for the year ended 31 December 2006.

Management's assessment indicated that the value in use of property, plant and equipment will not be lower than its net book value including the effect of reversal of impairment provision for all generating units, except for Urengoyskaya GRES. In respect of Urengoyskaya GRES, management believes this power plant will be unable to generate positive cash flow from the operations of its assets for the foreseeable future due to low installed capacity, a large portion of fixed costs, and limitations of the distribution market. As a consequence, the Group recognised an impairment loss of RR 1,790 million in respect of the property, plant and equipment of Urengoyskaya GRES with a corresponding deferred tax benefit of RR 430 million in the statement of operations for the year ended 31 December 2006.

Management believes that there were no indications of impairment of the Group's principal operating assets at 31 December 2007, as prices for gas, tariffs for electric energy and heat (in regulated sector), approved for 2007 by corresponding regulating bodies, have grown by 15.0%, 15.0% and 16.5% respectively in comparison with the year ended 31 December 2006.

(in millions of Russian Roubles)

Operating lease

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

Operating lease rentals of land are payable as follows:

	31 December 2007	31 December 2006
Less than one year	98	81
Between one year and five years	393	366
After five years	4,326	3,499
Total	**4,817**	**3,946**

The above lease agreements are usually concluded for 1-49 years and with prolongation rights. The lease payments are subject to regular review that may result in adjustment to reflect the market conditions.

Finance lease

The Group leases certain equipment under finance lease agreements. At the end of each of the leases the Group has the option to purchase the equipment at a beneficial price. At 31 December 2007 the net book value of leased property, plant and equipment was RR 788 million (as at 31 December 2006 – nil).

Note 7: Other non-current assets

	31 December 2007	31 December 2006
Pension plan assets	93	-
Software licenses	79	86
Non-current bank bills of exchange	73	76
Non-current trade receivables (Net of provision for impairment of RR 43 million as at 31 December 2007 and RR 38 million as at 31 December 2006)	46	38
Non-current value added tax recoverable	16	16
Other non-current assets	8	9
Total	**315**	**225**

Non-current trade receivables represent amounts due from consumers which according to historic conditions of contracts or restructuring terms are to be received more than one year after the reporting date. Under restructured terms these receivables are expected to be settled in the years 2008-2026. The recorded value approximates their fair value.

Bank bills of exchange	Rating	Rating agency	31 December 2007	31 December 2006
JSC CB Agropromcredit	-	-	73	68
JSB Evrofinance Mosnarbank	Ba3	Moody's	-	8
Total			**73**	**76**

Despite the fact that JSC CB Agropromcredit does not have an international credit rating, management believe the bank is a reliable counterparty that has stable positions in the financial market of the Russian Federation.

Note 8: Cash and cash equivalents

	31 December 2007	31 December 2006
Cash at bank and in hand	425	549
Total	**425**	**549**

Cash at bank	Rating	Rating agency	31 December 2007	31 December 2006
JSC Sberbank	Baa2	Moody's	6	38
JSCB Peresvet (CJSC)	-	-	380	441
Other	-	-	39	70
Total			**425**	**549**

(in millions of Russian Roubles)

Despite the fact that JSCB Peresvet (CJSC) does not have an international credit rating, management believes they are reliable counterparties that have stable positions in the financial market of the Russian Federation.

Note 9: Accounts receivable and prepayments

	31 December 2007	31 December 2006
Advances to suppliers and prepayments (Net of provision for impairment of RR 11 million as at 31 December 2006)	1,385	511
Trade receivables (Net of provision for impairment of RR 246 million as at 31 December 2007 and RR 39 million as at 31 December 2006)	961	936
Value added tax recoverable	498	67
Tax prepayments	377	299
Other receivables (Net of provision for impairment of RR 3 million as at 31 December 2007 and RR 71 million as at 31 December 2006)	151	115
Total	**3,372**	**1,928**

Management believes that the majority of customers' balances included into trade receivables comprise a single class, as they bear the same characteristics: participants of wholesale electricity market (NOREM) and the Company's related parties (see Note 5).

Management has determined the provision for impairment of accounts receivable based on specific customer identification, customers' payment trends, subsequent receipts and settlements and the analyses of expected future cash flows. The management believes that the Group will be able to realise the net receivable amount through direct collections and other non-cash settlements, and that consequently the recorded value approximates their fair value.

All impaired trade receivables and other receivables are provided for. The movement of the provision is shown in the table below:

	Year ended 31 December 2007	Year ended 31 December 2006
As at 1 January	121	219
Accrued provision	208	2
Reversal of provision	(80)	(100)
As at 31 December	**249**	**121**

As at 31 December 2007, trade and other receivables of RR 258 million (31 December 2006: RR 334 million) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The aging analysis of these receivables is as follows:

	31 December 2007	31 December 2006
Less than 3 months	70	21
3 to 6 months	44	237
6 to 12 months	41	31
More than 12 months	103	45
Total	**258**	**334**

The Group does not hold any collateral as security.

The total amount of loans and receivables as at 31 December 2007 comprises RR 1,515 million (as at 31 December 2006: RR 1,174 million) and includes current and non-current bills of exchange (Note 7 and Note 11) and trade and other receivables (except for value added tax recoverable, tax prepayments, advances to suppliers and prepayments and software licenses).

(in millions of Russian Roubles)

Note 10: Inventories

	31 December 2007	31 December 2006
Fuel production stock	1,320	1,578
Materials and supplies	1,054	953
Other inventories	22	16
Total	**2,396**	**2,547**

The above inventory balances are recorded net of an obsolescence provision of RR 10 million and RR 8 million as at 31 December 2007 and 31 December 2006, respectively.

As at 31 December 2007 and 31 December 2006 the inventory balances did not include any inventories which were pledged as collateral according to loan agreements.

Note 11: Other current assets

	31 December 2007	31 December 2006
Bank bills of exchange	273	-
Other	13	-
Total	**286**	-

Bank bills of exchange	Rating	Rating agency	31 December 2007	31 December 2006
JSC Evrofinance Mosnarbank	Ba3	Moody's	224	-
JSC Bank Alemar	-	-	49	-
Total			**273**	-

Despite the fact that JSC Bank Alemar does not have an international credit rating, management believes it is a reliable counterparty that has stable positions in the financial market of the Russian Federation.

Note 12: 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 recognised 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 and reduction in minority interest.

Share capital

(Number of shares unless otherwise stated)	Ordinary shares 31 December 2007	Ordinary shares 31 December 2006
Issued shares	44,643,192,918	44,643,192,918
Par value (in RR)	0.57478	1.00

As at 23 March 2005, the date that the Company was established, the number of issued ordinary shares amounted to 17,252,039,909 with a par value of RR 1.00 each.

In 2005 contributions to the Company's share capital were effected as follows:

- cash contributions amounted to RR 49 million;
- RR 13,523 million received by way of contribution of RAO UES' investment in JSC Permskaya GRES. The value of the investment was assessed by an independent appraiser;
- RR 3,212 million received by way of contribution of the assets of the Verkhnetagilskaya GRES, whose value was determined by an independent appraiser.

On 29 September 2006, 27,859,683,748 additional ordinary shares of JSC OGK-1 with a value of RR 1.00 each were issued and exchanged for the ordinary shares of JSC Permskaya GRES, JSC Iriklinskaya GRES, JSC Nizhnevartovskaya GRES, JSC Kashirskaya GRES and JSC Urengoyskaya GRES (See Note 1) as follows:

- ordinary shares with a value of RR 9,533 million were exchanged for the ordinary shares of the JSC Nizhnevartovskaya GRES;
- ordinary shares with a value of RR 663 million were exchanged for the ordinary shares of the JSC Urengoyskaya GRES;
- ordinary shares with a value of RR 10,090 million were exchanged for the ordinary shares of the JSC Iriklinskaya GRES;
- ordinary shares with a value of RR 7,573 million were exchanged for the ordinary shares of the JSC Kashirskaya GRES.

As at 31 December 2006, the number of issued ordinary shares is amounted to 44,643,192,918 with a par value of RR 1.00 each.

On 4 April 2007 an Extraordinary Shareholder Meeting of JSC OGK-1 decided to reduce the Company's share capital to RR 25,660 million by decreasing the nominal value of the placed shares (see Note 26).

The decrease of the share capital was performed in accordance with the requirements of the Federal Law "On Joint-stock Companies" which stipulates that the Company's net assets in accordance with Russian Accounting Rules shall be equal or exceed the Company's share capital.

As at 31 December 2007, the number of issued ordinary shares is amounted to 44,643,192,918 with a par value of RR 0.57478 each as discussed above.

Merger reserve

Based on the application of predecessor accounting (see Note 3), the difference as at 1 January 2007 of RR 25,852 million between the value of share capital issued, the IFRS carrying values of the contributed assets and the minority interest has been recorded as a merger reserve within equity.

The effect of the decrease in share capital in the amount of RR 18,983 million (see above) was offset by a corresponding movement in the merger reserve.

Contribution from RAO UES

In 2006 before the merger, JSC Nizhnevartovskaya GRES issued 27,277,796 additional ordinary shares with a par value of RR 14.7 each fully paid by RAO UES. The IFRS value of the contributed assets in the amount of RR 752 million has been recorded to the merger reserve within equity at the date of the additional contribution.

Dividends

In accordance with Russian legislation, the Group distributes profits as dividends on the basis of financial statements prepared in accordance with Russian Accounting Rules. The statutory accounting reports are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the net profit. However, this legislation and other statutory laws and regulations are open to legal interpretation and accordingly management believes at present it would not be appropriate to disclose an amount for the distributable reserves in these financial statements.

The dividends declared by the Group were recognised as a liability and deducted from equity for the year ended 31 December 2007 at the amount RR 644 million (for the year ended 31 December 2006 – RR 625 million).

Provision for buy out of JSC OGK-1 shares

On 26 October 2007 the Extraordinary General Meeting of Shareholders of RAO UES took a decision to spin-off JSC OGK-1 from RAO UES as follows:

- on 1 July 2008 OJSC OGK-1 Holding will be formed by the way of spin-off from RAO UES as a new legal entity, which will hold ordinary shares of JSC OGK-1 and certain property owned at the moment by RAO UES;
- simultaneously (the same day – on 1 July 2008) with its formation, OJSC OGK-1 Holding will be merged with JSC OGK-1, which is the surviving entity. All assets of OJSC OGK-1 Holding,

(in millions of Russian Roubles)

consisting of the ordinary shares of JSC OGK-1 and other property, will be transferred to the Company;

- upon the merger, OJSC OGK-1 Holding will cease to exist and its shares will be converted into JSC OGK-1' shares;
- each holder of RAO UES shares, except for the Russian Federation:
  - on the day of formation of OJSC OGK-1 Holding – is entitled to a number of shares in the OJSC OGK-1 Holding in proportion to the number of RAO UES shares held by such holder as at 6 June 2008;
  - upon the conversion of OJSC OGK-1 Holding' shares – becomes a shareholder of JSC OGK-1.

On 23 November 2007 the Extraordinary General Meeting of Shareholders of JSC OGK-1 approved the decision to merge the Company and OJSC OGK-1 Holding.

In accordance with the Russian legislation those shareholders who voted against the approval of the merger with JSC OGK-1 or did not participate in that shareholders meeting, had the right to demand that the Company buys back their shares within 45 days of the shareholders meeting. The re-purchase price was calculated by an independent appraiser and approved by the Board of Directors of JSC OGK-1 at the level of RR 2.518 per share.

In addition, on 28 December 2007 the Extraordinary General Meeting of Shareholders of JSC OGK-1 approved the contribution of CJSC Nizhnevartovskaya GRES' shares to the share capital NVGRES Ltd. (see Note 27) and the contract for supply of power (capacity) on the wholesale electricity and power market; similarly the Company' shareholders who voted against the approval of the merger with JSC OGK-1 or did not participate in that shareholders meeting have the right to demand the buy-out of their shares.

On 1 February 2008 and 5 March 2008 the Board of Directors of JSC OGK-1 approved the final summary reports on the buy-out of shares from the Company' shareholders on total amount RR 32 million, and the whole amount was provided in these financial statements in the balance sheet line item "Accounts payable and accrued charges" and, within equity, "Provision for buy out of OGK-1 shares".

Note 13: Profit tax

Profit tax charge

	Year ended 31 December 2007	Year ended 31 December 2006
Current profit tax charge	(837)	(877)
Deferred profit tax benefit / (charge)	55	(1,520)
Total profit tax charge	**(782)**	**(2,397)**

During the year ended 31 December 2007 the Group entities were subject to 20-24% profit tax rate on taxable profits. 20% profit tax rate was applied by Permskaya GRES due to local state tax relief of 4%.

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 charge is provided below:

	Year ended 31 December 2007	Year ended 31 December 2006
Profit before profit tax	**2,748**	**8,367**
Theoretical profit tax charge at an average statutory tax rate of 20-24 percent	(633)	(1,830)
Tax effect of items which are not deductible or assessable for taxation purposes	(149)	(567)
Total profit tax charge	**(782)**	**(2,397)**

The non-deductible expenses occurred as an result of differences between IFRS and Russian statutory taxation regulation.

(in millions of Russian Roubles)

Deferred profit 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 for profit tax purposes. Deferred profit tax assets and liabilities are measured at 20-24 percent, the rate expected to be applicable when the assets or liabilities will reverse.

Deferred profit tax liabilities

	31 December 2007	Movements for the year recognised in the statement of operations	31 December 2006
Deferred profit tax liabilities	**(3,083)**	**81**	**(3,164)**
Property, plant and equipment	(3,043)	121	(3,164)
Trade receivables	(31)	(31)	-
Other	(9)	(9)	-
Deferred profit tax assets	**193**	**(26)**	**219**
Trade receivables	-	(176)	176
Non-current debt	104	104	-
Current debt	38	38	-
Other	51	8	43
Deferred profit tax liabilities, net	***(2,890)***	***55***	***(2,945)***

	31 December 2006	Movements for the year recognised in the statement of operations	31 December 2005
Deferred profit tax liabilities	**(3,164)**	**(1,449)**	**(1,715)**
Property, plant and equipment	(3,164)	(1,449)	(1,715)
Trade receivables	-	-	-
Deferred profit tax assets	**219**	**(71)**	**290**
Trade receivables	176	(57)	233
Other	43	(14)	57
Deferred profit tax liabilities, net	***(2,945)***	***(1,520)***	***(1,425)***

Note 14: Pension liabilities

The tables below provide information about the benefit obligations and actuarial assumptions used for the year ended 31 December 2007 and 31 December 2006. Amounts recognised in the Group's consolidated balance sheet:

	31 December 2007	31 December 2006
Defined benefit obligations	535	247
Unrecognized actuarial loss	(63)	(3)
Unrecognized past service cost	(33)	(2)
Net liability in balance sheet	**439**	**242**

Amounts recognized in the combined and consolidated statement of operations:

	Year ended 31 December 2007	Year ended 31 December 2006
Current service cost	18	6
Interest cost	30	16
Net actuarial gain recognised in period	(2)	-
Amortization of past service cost	-	2
Immediate recognition of vested prior service cost	32	-
Other	148	-
Net expense recognised in the statement of operations	**226**	**24**

Other category includes the result of changing estimation of year 2006 pension liabilities. During the year ended 31 December 2007 more detailed information about the Group's pension plans was obtained. As a result the Group's liability increased and an additional charge of RR 148 million was recorded. The management has treated this as a change in estimate rather than an actuarial loss, which would be deferred, because this allows the financial statements to better reflect the position at 31 December 2007.

(in millions of Russian Roubles)

Changes in the present value of the Group's pension benefit obligations are as follows:

	31 December 2007	31 December 2006
Benefit obligation at the beginning of the period	247	228
Current service cost	18	6
Interest cost	30	16
Actuarial loss / (gain)	58	(2)
Past service cost	63	2
Benefits paid	(29)	(3)
Other	148	-
Benefit obligations at end of the period	**535**	**247**

Reconciliation of the balance sheet:

	31 December 2007	31 December 2006
Net liability at start of period	242	221
Net expense recognised in the statement of operations	226	24
Employer contributions	(29)	(3)
Net liability at end of the period	**439**	**242**

Principal actuarial assumptions are as follows:

	31 December 2007	31 December 2006
Discount rate	6.75%	6.75%
Salary increase	7.0%	7.0%
Pension increase	6.0%	5.0%
Inflation	6.0%	5.0%

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

	31 December 2007	31 December 2006
Present value of defined benefit obligations (DBO)	535	247
Gains arising of experience adjustments on plan liabilities	10	3

Note 15: Non-current debt

Name of creditor	Currency	Effective interest rate	Due	31 December 2007	31 December 2006
Finance lease liability	RR		2008-2010	711	-
Total non-current debt				**711**	-
Less: current portion of finance lease liability				(190)	-
Total				**521**	-

Note 16: Current debt and current portion of non-current debt

Name of creditor	Currency	Effective interest rate	31 December 2007	31 December 2006
CJSC ING BANK (EURASIA)	RR	MosPrime + 1.75%	1,200	-
CJSC Commerzbank	RR	MosPrime + 1.8%	1,000	-
OJSC Sberbank RF	RR	8%	1,050	-
CJSC Commerzbank	RR	7.6%-7.9%	700	572
CJSC UniCredit Bank	RR	7.15%-8.25%	400	808
OJSC Bank of Moscow	RR	7.25%	250	-
Current portion of finance lease liability	RR		190	-
Total			**4,790**	**1,380**

As at 31 December 2007, the Group has made certain reclassification of non-current debts to current debts (Note 2).

(in millions of Russian Roubles)

The carrying amounts of non-current debts, which have variable interest rate linked to MosPrime, approximate the fair value.

The Group has not entered into any hedging arrangements in respect of its interest rate exposure.

The carrying amounts of current debts approximate their fair values.

No property was pledged as collateral for long-term debt.

Note 17: Accounts payable and accrued charges

	31 December 2007	31 December 2006
Trade payables	1,305	774
Dividends payable	5	204
Accrued liabilities and other creditors	339	147
Total	**1,649**	**1,125**

Trade payables are classified as financial liabilities. The total amount of liabilities as at 31 December 2007 comprises RR 6,616 million (as at 31 December 2006: RR 2,154 million) and includes, besides trade payables, non-current debt (see Note 15) and current debt (see Note 16).

Management believes that the majority of customers, balances of which are included into trade payables, comprise a single class, as they bear the same characteristics.

Note 18: Taxes payable

	31 December 2007	31 December 2006
Water tax	364	343
Property tax	74	132
Value added tax	39	241
Unified social tax	28	14
Profit tax	-	150
Fines and interest	-	28
Other taxes	19	18
Total	**524**	**926**

As at 31 December 2007 included in the payable for value added tax is RR 34 million of deferred VAT which only becomes payable to the authorities when the underlying receivables balance is either recovered or written off (as at 31 December 2006: RR 232 million).

Note 19: Revenues

	Year ended 31 December 2007	Year ended 31 December 2006
Electricity	43,842	28,811
Heating	451	446
Rent	63	269
Other	535	536
Total	**44,891**	**30,062**

Approximately 27% of sales of electricity in 2007 (9% – 2006) relates to the resale of purchased power (see Note 20).

(in millions of Russian Roubles)

Note 20: Operating expenses

	Year ended 31 December 2007	Year ended 31 December 2006
Raw materials and consumables used, comprising	20,304	16,850
Fuel expenses	*19,800*	*16,434*
Other materials	*504*	*416*
Purchased power expenses for resale	11,712	2,546
Employee benefit expenses and payroll taxes	3,161	2,555
Third parties services, including:	2,382	2,177
Repairs and maintenance	*1,085*	*1,148*
Commission fees	*563*	*549*
Consulting, legal and information expenses	*217*	*62*
Security expenses	*180*	*145*
Rent expenses	*154*	*156*
Transportation expenses	*137*	*83*
Telecommunication services	*46*	*34*
Taxes other than profit tax	1,835	1,807
Depreciation of property, plant and equipment	1,490	1,031
(Gain) / loss on disposals of property, plant and equipment	(3)	335
Social charges	97	111
Write-off of accounts receivable	16	70
Charge / (reversal) of impairment of accounts receivable	128	(98)
Charge / (reversal) of write-off of inventories to net realisable value	1	(68)
Other expenses	803	993
Total	**41,926**	**28,309**

Note 21: Finance costs

	Year ended 31 December 2007	Year ended 31 December 2006
Interest expense	210	92
Interest income	(1)	(34)
Effect of discounting of long-term accounts receivable/payable	8	17
Total	**217**	**75**

Note 22: Earnings per ordinary share for profit attributable to the shareholders of JSC OGK-1 basic and diluted (in RR)

	Year ended 31 December 2007	Year ended 31 December 2006
Weighted average number of ordinary shares issued (million of shares)	44,643	23,958
Profit attributable to the shareholders of JSC OGK-1 (million of RR)	1,966	5,929
Weighted average earnings per share – basic and diluted (in RR)	**0.044**	**0.247**

Note 23: Commitments

Fuel commitments. The Group has regulated gas supplies in determined volumes approved by OJSC Gazprom at tariffs regulated by the Federal Tariffs Service. Long-term contracts were signed with subsidiaries of OJSC Gazprom for guaranteed gas supplies for the period from 2008 to 2012.

Additional gas volumes are purchased through short-term agreements from independent gas suppliers, such as JSC Uralsevergas, JSC NOVATEK, LLC Gasenergoprom and subsidiaries of OJSC Gazprom and/or on a electronic communication system of LLC Mezhregiongas at unregulated (by Federal Tariffs Service) prices.

Capital commitments. Future capital expenditure for which contracts have been signed amounted to RR 4,408 million at 31 December 2007 (at 31 December 2006: RR 5,890 million).

Note 24: Contingencies

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

Insurance. The Group holds insurance policies that cover its assets and other property ("against all risks"), personnel, public liability or other risks insurable in accordance with the established business practice and applicable legislation of the Russian Federation. Accordingly, the Group is exposed to those risks for which insurance are not applicable, which have not been insured or are covered by standard exclusions under insurance contracts.

Legal proceedings. Group entities are party to certain legal proceedings arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which, upon final disposition, will have a material adverse effect on the position of the Group.

The Company entered into a joint and several liability agreement for the indebtness of predecessor legal entities from which the power plants Iriklinskaya GRES, Nizhnevartovskaya GRES, Kashirskaya GRES, and Urengoyskaya GRES spun off. Such agreements were concluded with JSC Mosenergo, JSC Tyumenenergo, JSC Orenburgenergo and their spin-offs. These agreements stipulate joint and several liability over the debts of those entities which were not shown in the separation balance sheets during their reorganization. There are risks connected with possible liability over the debts of the aforementioned companies.

During the year ended 31 December 2007 the Group accrued liabilities of RR 66 million in accordance with the agreement. These expenses were disclosed as part of other operating expenses (Note 20).

Tax contingencies. Russian tax, currency and customs legislation is subject to varying interpretation, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities, in particular the existing method of calculation of water tax. 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 preceding the year of review. Under certain circumstances review may cover longer periods.

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

In addition, tax and other legislation do not address specifically all the aspects of the Group's reorganization 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 reorganization and reform process.

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

Potential liabilities might arise as a result of changes in legislation and regulation or civil litigation. The impact of these potential changes cannot be estimated but could be material. Currently management believes that there are no significant liabilities for environmental matters.

Note 25: Financial instruments and financial risk factors

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

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 Eurobond issues and similar wholesale financing by Russian companies 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.

(in millions of Russian Roubles)

Foreign currency exchange risk. The Group's income and operating cash flows are substantially independent of changes in the domestic currency rate as related to foreign currency rates. Power and heat produced by the Group is realized on the territory of the Russian Federation and paid in Russian Roubles. The Group does not have significant financial liabilities to its suppliers and contractors denominated in the foreign currency.

Interest rate risk. The Group debt financing activities expose it to interest rate risk. On 31 December 2007 the Group raised a long-term MosPrime3M floating rate bank credit.

A sensitivity analysis for interest rate risk at the reporting date is shown in the table below:

Interest rate	**-1,5%**	**-0,5%**	**+0,5%**	**+1,5%**	**+2,5%**
The hypothetical effect on financial expenses	(15)	(5)	5	15	25

The assumption of change of interest rate was based on the fluctuations of MosPrime3M rate at the year ended 31 December 2007.

Hedging of Group's interest rate risk is based on the diversification of loans with fixed and floating interest rate (Note 15 and 16).

Credit risk. Financial assets which potentially subject Group entities to concentrations of credit risk consist principally of trade receivables.

Credit risk is managed on group basis. For wholesale customers there is no independent rating and therefore the Group assesses the credit quality of the customer at the contract execution stage. The Group takes into account the customer's financial position and its credit history. The Group monitors the existing receivables on a permanent basis in the accountable departments and takes actions regularly to ensure collection or minimize losses.

The table below shows the balances with the eight major counterparties at the balance sheet date:

	31 December 2007	**31 December 2006**
CJSC Center of financial estimation	566	362
RAO UES	75	50
Municipal unitary enterprise Teploresurs, (city Kashira)	57	17
OJSC Tyumenskaya energy distribution company	48	214
Municipal unitary enterprise Dobryanskaya retail company	42	21
OJSC Dagestanskaya energy distribution company	21	13
Municipal unitary enterprise UZHKH, (Verkhniy Tagil district)	12	10
Municipal unitary enterprise IMKH, (Nizhnevartovsk district)	10	7
Total	**831**	**694**

Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the allowance for doubtful debtors already recorded. As discussed in Note 9, these receivables are with the Group's related parties (Note 5).

Liquidity risk. The Group's liquidity risk management includes maintaining a sufficient cash position and the availability of financing to support the Group operational activity.

To secure the sufficient financing of its operations, the Group raises credit lines/limits. As at 31 December 2007 the sum of credit lines/limits available to the Group was RR 11,950 million.

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

(in millions of Russian Roubles)

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
At 31 December 2007				
Debt and borrowings	2,640	240	2,525*	-
Trade and other payables	2,173	1	4	9
At 31 December 2006				
Debt and borrowings	1,380	-	-	-
Trade and other payables	2,051	1	4	10

*Although as at 31 December 2007 non-current debts at the amount RR 2,200 million were reclassified to current (see Notes 2 and 27), the contractual terms for these debts have not been changed.

Fair values. Management believes that the fair value of its financial assets and financial liabilities is not significantly different from their carrying amounts.

Note 26: Capital risk management

The Group capital risk management relates to compliance with the Russian legislation and credit policy implementation to maintain an optimal capital structure and reduce the cost of capital.

The followings capital requirements have been established by the Federal Law "On Joint-stock Companies":

- share capital can not be lower than 1,000 minimum shares on the date of the company registration;
- if the share capital of the entity is greater than statutory net assets of the entity, such entity must decrease its share capital to the value not exceeding its net assets;
- if the minimum allowed share capital is greater than statutory net assets of the entity, such entity is subject to liquidation.

As at 31 December 2007, the Group was in compliance with the above share capital requirements.

The Group monitors capital on the basis of a financial leverage ratio. This ratio is calculated as the total debt divided by the total equity. The total debt is calculated as the sum of non-current debt and current debt, and the total equity is equal to the total equity at the reporting date.

The financial leverage ratios at 31 December 2007 and at 31 December 2006 were as follows:

	31 December 2007	31 December 2006
Total debt	5,311	1,380
Total equity	25,530	24,248
Financial leverage ratio	**21%**	**6%**

The increase in the financial leverage ratio within the year ended 31 December 2007 is caused by the increase in non-current debt (Note 15). Nevertheless, the shareholders' equity provide by far the largest part of the financial resources of the Group.

Note 27: Post balance sheet events

Additional issuance of ordinary shares

On 7 February 2008, the Federal Service for Financial Markets registered the additional issuance of 22 500 million ordinary shares of JSC OGK-1, with a nominal value of RR 0.57478 per share and the total amount of RR 12,933 million. The Company anticipates that the shares will be placed in 2008.

On 28 March 2008, the Board of Directors of JSC OGK-1 approved the issuance of additional 124 051 032 ordinary shares with a par value of RR 0.57478 each share. The reason for this decision was the share swap which should take place during the merger of JSC OGK-1 Holding with and into JSC OGK-1due to the reorganization of RAO UES (see Note 12).

Establishment of NVGRES Holding Ltd.

On 6 March 2008 within the investment project for the construction of a third unit of Nizhnevartovskaya power station (see Note 1) JSC OGK-1 established a 100% owned subsidiary, NVGRES Holding Ltd., located in Cyprus. JSC OGK-1 contributed to the share capital of NVGRES Holding Ltd. (10 000 shares par value EURO 1.00) its 100% share in CJSC Nizhnevartovskaya GRES (5 806 456 876 ordinary shares par value RR 1.00). The resulting offering price for NVGRES Holding Ltd.' shares was EURO 685 807 thousand.

Termination payments. In February 2008 the Company approved the program for termination payments to the key management personnel of the Company. The maximum estimated amount of termination payments may reach RR 142 million.

Reclassification of non-current debt

Due to the decision of the Extraordinary General Shareholders' meeting held on 23 November 2007 to merge OJSC OGK-1 Holding with JSC OGK-1 (see Note 12), in accordance with the Russian legislation creditors of JSC OGK-1 could claim debts for early redemption until 24 January 2008. As a consequence, as at 31 December 2007 non-current debts of the Company were reclassified to current (see Note 2 and 25). Subsequent to the reporting date, none of these debts were reclaimed for early redemption; therefore they had been reclassified back to non-current debts.