

**OGK-2 GROUP  
CONSOLIDATED FINANCIAL STATEMENTS  
PREPARED IN ACCORDANCE WITH  
INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)  
FOR THE YEAR ENDED 31 DECEMBER 2007**

**INDEPENDENT AUDITOR'S REPORT**

**To the Shareholders and the Board of Directors of Open Joint Stock Company "The Second Generating Company of the Wholesale Electric Power Market" (OJSC "OGK-2")**

We have audited the accompanying consolidated financial statements of OJSC "OGK-2" and its subsidiaries (the "OGK-2 Group") which comprise the consolidated balance sheet as at 31 December 2007 and the consolidated income statement, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended and a summary of significant accounting policies and other explanatory notes.

*Management's Responsibility for the Financial Statements*

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

*Auditor's Responsibility*

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

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

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

*Opinion*

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the OGK-2 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.

*Emphasis of Matter*

Without qualifying our opinion, we draw your attention to Notes 1, 2 and 5 to the accompanying consolidated financial statements. The Government of the Russian Federation has an ultimate controlling interest in the OGK-2 Group and Governmental economic and social policies affect the Group's financial position, results of operations and cash flows.

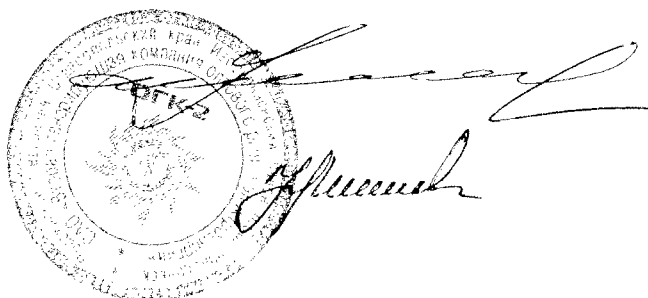
*ZAO PricewaterhouseCoopers Audit*

Moscow, Russian Federation  
27 June 2008

**OGK-2 Group**  
**Consolidated Balance Sheet as at 31 December 2007**  
(in thousands of Russian Roubles)

	Notes	31 December 2007	31 December 2006
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	7	18,107,520	17,346,025
Intangible assets	8	678,442	298,861
Other non-current assets	9	4,129,686	302,477
<b>Total non-current assets</b>		<b>22,915,648</b>	<b>17,947,363</b>
<b>Current assets</b>			
Cash and cash equivalents	10	21,476,918	1,178,570
Trade and other receivables	11	2,068,636	1,917,403
Inventories	12	1,975,648	1,980,743
Current income tax prepayments		236,211	241,477
Other current assets	13	100,013	541,709
<b>Total current assets</b>		<b>25,857,426</b>	<b>5,859,902</b>
<b>TOTAL ASSETS</b>		<b>48,773,074</b>	<b>23,807,265</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital			
Ordinary shares	14	11,872,231	26,480,896
Treasury shares		(23,155)	-
Share premium		23,865,543	1,818,408
Merger reserve		(377,383)	(17,508,697)
Retained earnings		1,298,746	2,284,262
<b>Total equity</b>		<b>36,635,982</b>	<b>13,074,869</b>
<b>Non-current liabilities</b>			
Deferred income tax liabilities	15	2,561,979	2,700,229
Non-current debt	16	16,802	1,074,660
Retirement benefit obligations	20	355,820	461,754
<b>Total non-current liabilities</b>		<b>2,934,601</b>	<b>4,236,643</b>
<b>Current liabilities</b>			
Current debt and current portion of non-current debt	17	6,841,078	4,667,258
Trade and other payables	18	2,005,731	1,476,631
Other taxes payable	19	355,682	351,864
<b>Total current liabilities</b>		<b>9,202,491</b>	<b>6,495,753</b>
<b>Total liabilities</b>		<b>12,137,092</b>	<b>10,732,396</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>48,773,074</b>	<b>23,807,265</b>

Acting General Director



S.V. Neveynitsyn

Acting Chief Accountant

L.V. Klisch

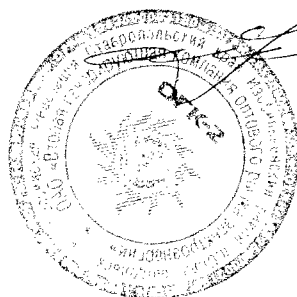
27 June 2008

**OGK-2 Group**  
**Consolidated Income Statement**  
**for the year ended 31 December 2007**

(in thousands of Russian Roubles, except for (loss) / earning per ordinary share information)

	Notes	Year ended 31 December 2007	Year ended 31 December 2006
Revenues	21	33,785,684	25,433,668
Operating expenses (excluding reversal of impairment of property, plant and equipment and assets under construction)	22	(33,228,362)	(26,181,705)
Reversal of impairment of property, plant and equipment and assets under construction, net	7	-	4,307,159
Operating expenses		(33,228,362)	(21,874,546)
Other operating items		(14,393)	97,827
<b>Operating profit</b>		<b>542,929</b>	<b>3,656,949</b>
Finance income	23	317,988	12,611
Finance cost	24	(952,703)	(280,169)
<b>(Loss) / profit before income tax</b>		<b>(91,786)</b>	<b>3,389,391</b>
Total income tax charge	15	(174,549)	(955,378)
<b>(Loss) / profit for the year</b>		<b>(266,335)</b>	<b>2,434,013</b>
Attributable to:			
Shareholders of OJSC OGK-2		(266,335)	2,566,548
Minority interest		-	(132,535)
<b>(Loss) / earning per ordinary share for profit attributable to the shareholders of OJSC OGK-2 – basic and diluted (in Russian Roubles)</b>	25	<b>(0.01)</b>	<b>0.097</b>

Acting General Director



S.V. Neveynitsyn

Acting Chief Accountant

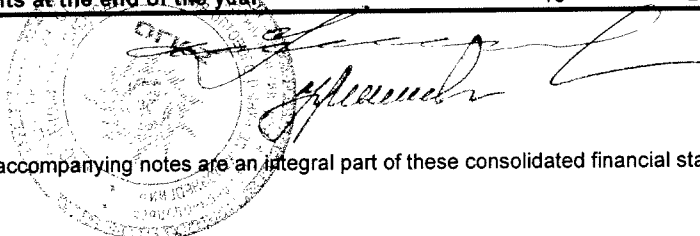
L.V. Klisch

27 June 2008

**OGK-2 Group**  
**Consolidated Cash Flow Statement**  
**for the year ended 31 December 2007**  
(in thousands of Russian Roubles)

	Notes	Year ended 31 December 2007	Year ended 31 December 2006
<b>CASH FLOW FROM OPERATING ACTIVITIES:</b>			
(Loss) / profit before income tax		(91,786)	3,389,391
Adjustments to reconcile profit before income tax to net cash provided by operations:			
Depreciation of property, plant and equipment	7	1,026,848	855,823
Amortisation of intangible assets	8	13,382	-
Reversal of impairment of property, plant and equipment and assets under construction	7	-	(4,307,159)
(Reversal) / charge of provision for impairment of trade and other receivables		(86,550)	196,303
Decrease of provision for inventory obsolescence		(14,429)	(51,589)
Interest income	23	(317,988)	(12,611)
Interest expense	24	952,703	235,075
(Decrease) / increase in retirement benefit obligations	22	(85,449)	60,066
Employee share option plan	14	80,507	-
(Gain) / loss on disposal of assets	22	(4,643)	179,887
Other non-cash items		20,076	(130,952)
<b>Operating cash flows before working capital changes and income tax paid</b>		<b>1,492,671</b>	<b>414,234</b>
Working capital changes:			
Increase in trade and other receivables		(26,334)	(231,015)
Cash paid to pension fund		(64,226)	-
Decrease / (Increase) in inventories		14,702	(736,611)
Decrease / (Increase) in other current assets		441,695	(37,672)
Increase / (decrease) in trade and other payables		564,195	(164,081)
Decrease in taxes payable, other than income tax		(1,911)	(398,256)
Income tax paid in cash		(309,745)	(237,210)
<b>Net cash generated from / (used in) operating activities</b>		<b>2,111,047</b>	<b>(1,390,611)</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES:</b>			
Interest received		224,861	-
Purchase of property, plant and equipment and other non-current assets		(1,484,839)	(826,400)
Proceeds from sale of property, plant and equipment and other non-current assets		10,323	22,248
Increase in deposits		(2,112,400)	(500,000)
Increase in other non-current assets		(2,113,927)	(40,826)
Purchase of intangible assets		(396,083)	(210,029)
Proceeds from disposal of subsidiary, net		14,414	-
<b>Net cash used in investing activities</b>		<b>(5,857,651)</b>	<b>(1,555,007)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from short-term borrowings		5,949,050	12,464,375
Proceeds from long-term borrowings		5,000,000	1,401,000
Repayment of short-term debt		(8,932,725)	(8,832,228)
Repayment of long-term debt		(1,000,000)	(766,000)
Interest paid		(262,654)	(205,378)
Payments under finance lease		(132,792)	(133,900)
Proceeds from share issue		24,967,108	-
Expenses for share issue		(652,363)	-
Purchase of treasury shares		(23,155)	-
Premium paid to secure settlement of share-based payments	14	(709,688)	-
Dividend paid by the Group to shareholders of OJSC OGK-2		(157,829)	(606,217)
Dividend paid by the Group to minority interest shareholders		-	(77,819)
<b>Net cash generated from financing activities</b>		<b>24,044,952</b>	<b>3,243,833</b>
<b>Net increase in cash and cash equivalents</b>		<b>20,298,348</b>	<b>298,215</b>
<b>Cash and cash equivalents at the beginning of the year</b>	10	<b>1,178,570</b>	<b>880,355</b>
<b>Cash and cash equivalents at the end of the year</b>	10	<b>21,476,918</b>	<b>1,178,570</b>

Acting General Director  
Acting Chief Accountant



S.V. Neveynitsyn  
L.V. Klisch  
27 June 2008

The accompanying notes are an integral part of these consolidated financial statements

**OGK-2 Group**  
**Consolidated Statement of Changes in Equity for the year ended 31 December 2007**  
(in thousands of Russian Roubles)

Attributable to the shareholders of OJSC OGK-2

	Ordinary share capital	Treasury shares	Share premium	Merger reserve	Retained earnings	Total	Minority interest	Total equity
At 1 January 2006	10,769,804	-	-	(2,146,523)	296,614	8,919,895	2,306,639	11,226,534
Profit for the year	-	-	-	-	2,566,548	2,566,548	(132,535)	2,434,013
Dividends	-	-	-	-	(578,900)	(578,900)	(6,778)	(585,678)
Payment of share capital (Note 14)	15,711,092	-	1,818,408	(15,362,174)	-	2,167,326	(2,167,326)	-
At 31 December 2006	26,480,896	-	1,818,408	(17,508,697)	2,284,262	13,074,869	-	13,074,869
At 1 January 2007	26,480,896	-	1,818,408	(17,508,697)	2,284,262	13,074,869	-	13,074,869
Profit for the year	-	-	-	-	(266,335)	(266,335)	-	(266,335)
Dividends (Note 14)	-	-	-	-	(90,000)	(90,000)	-	(90,000)
Decrease in share capital (Note 14)	(16,876,275)	-	-	16,876,275	-	-	-	-
Treasury shares	-	(23,155)	-	-	-	(23,155)	-	(23,155)
Increase in share capital (Note 14)	2,267,610	-	22,047,135	-	-	24,314,745	-	24,314,745
Employee share option plan (Note 14)	-	-	-	-	(629,181)	(629,181)	-	(629,181)
Other movements (Note 7)	-	-	-	255,039	-	255,039	-	255,039
At 31 December 2007	11,872,231	(23,155)	23,865,543	(377,383)	1,298,746	36,635,982	-	36,635,982

Acting General Director

S.V. Neveynitsyn

Acting Chief Accountant

L.V. Klisch

27 June 2008

The accompanying notes are an integral part of these consolidated financial statements

**Note 1. The Group and its operations**

Open Joint Stock Company "The Second Generating Company of the Wholesale Electric Power Market" (OJSC "OGK-2", or the "Company" and together with subsidiaries – the "Group") was established on 9 March 2005 within the framework of Russian electricity sector restructuring in accordance with the Resolution No. 1254-r adopted by the Russian Federation Government on 1 September 2003.

The OGK-2 Group's (the "Group") primary activities are generation and sale of electric and heat power. The Group primarily consists of the following power stations: Troitskaya GRES, Stavropolskaya GRES, Pskovskaya GRES, Serovskaya GRES and Surgutskaya GRES-1 (see also *Establishment of the Group* below).

The Company is registered by the Izobilnensk District Inspectorate of the RF Ministry of Taxation of Stavropol Region.

The Company's office is located at 56, Profsoyuznaya str., 117393, Moscow, Russia.

**Operating environment.** 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. 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 the Russian Open Joint Stock Company for Energy and Electrification Unified Energy System of Russia ("RAO UES") (the "Parent"), which in its turn owned 65.47% of voting ordinary shares of OJSC OGK-2 (80.93% as at 31 December 2006). The Government of the Russian Federation is the ultimate controlling party of the Company.

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

The Government of the Russian Federation directly affects the Company's operations through regulation by the Federal Tariff Service ("FTS"), with respect to its wholesale energy sales, and by the Regional Tariff Services ("RTSs"), 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 Company may charge for sales of electricity and heat are governed by regulations specific to the electricity and heat industry and by regulations applicable to natural monopolies. Historically, such tariffs have been based on a "cost-plus" system, meaning cost of service plus a margin, where costs are determined under the Regulations on Accounting and Reporting of the Russian Federation ("RAR"), a basis of accounting which significantly differs from International Financial Reporting Standards ("IFRS"). In practice, tariff decisions were impacted significantly by social and political considerations, causing significant delays in tariff determinations and tariff increases that were lower than required to compensate for cost increases.

As described in Notes 2, 26 and 27, the Government's economic, social and other policies could have material effects on the operations of the Company.

**Sector 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 the RAO UES Group and its successor companies (including OJSC OGK-2) 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 31 August 2006 and which came into force on 1 September 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 will begin to be substantially reduced. The pace of reduction was set by the Russian Federation Government

according to socio-economic development forecasts. In 2007 it is expected up to 90% of the forecasted production volumes will be 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 develop.

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

**Establishment of the Group.** The Company was incorporated on 9 March 2005 by its then sole shareholder RAO UES. At the date of incorporation, RAO UES made contributions to the Company's charter capital in the form of shares of the thermal power generating companies OJSC "Troitskaya GRES" ("OJSC Troitskaya GRES"), OJSC "Stavropolskaya GRES" ("OJSC Stavropolskaya GRES") and OJSC "Pskovskaya GRES" ("OJSC Pskovskaya GRES"). These three generating companies had been incorporated as subsidiaries of RAO UES in 1993 (OJSC Troitskaya GRES and OJSC Stavropolskaya GRES) and 1994 (OJSC Pskovskaya GRES), and, following their contribution to the Company in March 2005, became operating subsidiaries of the Company.

On 22 May 2006, the Company acquired control through a transfer of businesses under common control of a further two generating companies, OJSC "Serovskaya GRES" ("OJSC Serovskaya GRES") and OJSC "Surgutskaya GRES-1" ("OJSC Surgutskaya GRES-1"). In contrast to the three generating companies referred to above, neither of these two subsidiaries had existed as a separate business unit prior to 2005. OJSC Serovskaya GRES had been incorporated on 1 April 2005 and comprised various business and production assets that had been transferred from OJSC "Sverdlovenegero" ("OJSC Sverdlovenegero"), a subsidiary of RAO UES. OJSC Surgutskaya GRES-1 had been incorporated on 1 July 2005 and comprised various business and production assets that had been transferred from another subsidiary of RAO UES, OJSC "Tyumenenergo" ("OJSC Tyumenenergo"). Each of OJSC Sverdlovenegero and OJSC Tyumenenergo had comprised various businesses in addition to electric and heat energy generation, and the assets that were transferred to OJSC Serovskaya GRES and OJSC Surgutskaya GRES-1, respectively, had not in either case been operated as an identifiable and discrete business unit.

On 29 September 2006, each of OJSC Troitskaya GRES, OJSC Stavropolskaya GRES, OJSC Pskovskaya GRES, OJSC Serovskaya GRES and OJSC Surgutskaya GRES-1 were merged with the Company. As a result, they ceased to exist as separate legal entities and became operating units of the Company.

After the merger the Company doesn't have any other material subsidiaries.

## **Note 2. Financial condition**

As at 31 December 2007, the Company's current assets exceeded its current liabilities by Russian Roubles ("RR") 16,891,929 thousand (as at 31 December 2006 the Company's current liabilities exceeded its current assets by RR 635,851 thousand).

As discussed above the Company is affected by government policy through the control of tariffs and other factors. The FTS does not always permit tariff increases in line with increases in the Company's costs and thus some tariffs are insufficient to cover all the costs of generation. Moreover, these tariffs consider costs only on a Russian statutory basis and, accordingly, exclude additional costs recognized under an IFRS basis of accounting. As a result, tariffs may not consistently allow for an adequate return on investment and currently do not provide sufficient funds for the full replacement of property, plant and equipment. However, during 2007 and to date in 2008 the growing demand for electricity and capacity together with increasing the free trading sector of the wholesale electricity market have resulted in a higher rate of revenue growth (see Sector restructuring in Note 1).

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

- introduction of improved financial budgeting procedures, a strong focus on timely cash collection of current and old debtor balances;
- discussions with strategic investors, and identification and assessment of projects requiring investment funds;
- negotiations with federal and regional governments and regulators for real increases in tariffs to support adequate long term investment into the Company's generation, transmission and distribution assets;



- raising long-term debt/equity financing for investments in new generation assets.

### Note 3. Basis of preparation

**Statement of compliance.** These consolidated financial statements ("Financial Statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS") and related interpretations adopted by the International Accounting Standards Board ("IASB").

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

**Functional and presentation currency.** The national currency of the Russian Federation is the Russian rouble ("RR"), which is the functional currency of the Company and its subsidiaries and the currency in which these financial statements are presented. All financial information presented in RR has been rounded to the nearest thousand.

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

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

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

- *IFRS 7 Financial Instruments: Disclosures and a complementary Amendment to IAS 1 Presentation of Financial Statements – Capital Disclosures.* This IFRS introduced new disclosures to improve the information about financial instruments, including about quantitative aspects of risk exposures and the methods of risk management. The new quantitative disclosures provide information about the extent of exposure to risk, based on information provided internally to the entity's key management personnel. Qualitative and quantitative disclosures cover exposure to credit risk, liquidity risk and market risk including sensitivity analysis to market risk. IFRS 7 replaced IAS 30, *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*, and some of the requirements in IAS 32, *Financial Instruments: Disclosure and Presentation*. The Amendment to IAS 1 introduced disclosures about the level of an entity's capital and how it manages capital. The new disclosures are made in these consolidated financial statements;
- *IFRIC 7, Applying the Restatement Approach under IAS 29* (effective for periods beginning on or after 1 March 2006, that is from 1 January 2007);
- *IFRIC 8, Scope of IFRS 2* (effective for periods beginning on or after 1 May 2006, that is from 1 January 2007);
- *IFRIC 9, Reassessment of Embedded Derivatives* (effective for annual periods beginning on or after 1 June 2006);
- *IFRIC 10, Interim Financial Reporting and Impairment* (effective for annual periods beginning on or after 1 November 2006).

The effect of adoption of the above new standard and interpretations (except IFRS 7) on the Group's financial position at 31 December 2007 and on the results of its operations for the year ended 31 December 2007 was not significant. IFRS 7 introduces new disclosures for financial instruments. This standard has no influence to the classification and evaluation of the financial instruments of the Group.

**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);
- *IFRIC 12, Service Concession Arrangements* (effective for annual periods beginning on or after 1 January 2008);
- *IFRIC 13, Customer Loyalty Programmes* (effective for annual periods beginning on or after 1 July 2008);
- *IFRIC 14, IAS 19 - Defined Benefit Assets and Minimum Funding Requirements* (effective for annual periods beginning on or after 1 January 2008);
- *IAS 23, Borrowing Cost* (Amendment, applies to borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after 1 January 2009). All borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale must be capitalized under the revised standard. The Group currently expenses all borrowing costs;
- *IAS 1, Presentation of financial statements* (amendment from September 2007, effective for annual periods beginning on or after 1 January 2009). The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Group expects the revised IAS 1 to affect the presentation of its financial statements but to have no impact on the recognition or measurement of specific transactions and balances;
- *Improvements to International Financial Reporting Standards* (issued in May 2008). In 2007, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments issued in May 2008 consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting;
- *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate—IFRS 1 and IAS 27 Amendment* (revised May 2008; effective for annual periods beginning on or after 1 January 2009). The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous GAAP carrying value as deemed cost in the separate financial statements. The amendment also requires distributions from pre-acquisition net assets of investees to be recognised in profit or loss rather than as a recovery of the investment;

- *Puttable financial instruments and obligations arising on liquidation—IAS 32 and IAS 1 Amendment* (effective from 1 January 2009). The amendment requires classification as equity of some financial instruments that meet the definition of a financial liability;
- *IAS 27, Consolidated and Separate Financial Statements* (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously “minority interests”) even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent’s ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value;
- *IFRS 3, Business Combinations* (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree’s identifiable net assets) or on the same basis as US GAAP (at fair value). The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, goodwill will be measured as the difference at acquisition date between the fair value of any investment in the business held before the acquisition, the consideration transferred and the net assets acquired. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone;
- *Vesting Conditions and Cancellations—Amendment to IFRS 2, Share-based Payment* (issued in January 2008; effective for annual periods beginning on or after 1 January 2009). The amendment clarifies that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment.

The effect of these changes for the Company’s financial statements in the period of their initial application is not known or reasonably estimable at the moment.

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

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

*Provision for impairment of trade and other receivables*

Provision for impairment of trade and other receivables is based on the Company’s assessment of whether the collectibility of specific customer accounts worsened compared to prior estimates. If there is deterioration in a major customer’s creditworthiness or actual defaults are higher than the estimates, the

actual results could differ from these estimates. See effect of these critical accounting estimates and assumptions in Note 11.

*Provision for impairment of property, plant and equipment and assets under construction*

At each balance sheet date the Company assesses whether there is any indication that the recoverable amount of the Company's property, plant and equipment and assets under construction has declined below the carrying value. The recoverable amount of property, plant and equipment and assets under construction is the higher of an asset's fair value less costs to sell and its value in use. When such a decline is identified, the carrying amount is reduced to the recoverable amount. The amount of the reduction is recorded in the consolidated statement of income in the period in which the reduction is identified. If conditions change and management determines that the value of property, plant and equipment and assets under construction has increased, the impairment provision will be fully or partially reversed. See effect of these critical accounting estimates and assumptions in Note 7. As described in Notes 1, 2, 26 and 27, the Government's economic, social and other policies could have material effects on the operations of the Company.

*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 assets, 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. See effect of these critical accounting estimates and assumptions in Note 7.

*Tax contingencies*

Russian tax legislation is subject to varying interpretations and changes, which can occur frequently. Where the Company management believes it is probable that their interpretation of the relevant legislation and the Company's tax positions cannot be sustained, an appropriate amount is accrued for in these IFRS financial statements. See effect of these critical accounting estimates and assumptions in Note 27.

#### **Note 4. Summary of significant accounting policies**

**Principles of consolidation.** The Financial Statements comprise the financial statements of OJSC OGK-2 and the financial statements of those entities whose operations are controlled by OJSC OGK-2. Control is presumed to exist when OJSC OGK-2 controls, directly or indirectly through subsidiaries, more than 50% of voting rights.

*A) Subsidiaries*

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

*B) Transactions eliminated on consolidation*

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

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

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

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

**Financial assets.** The Company classifies its financial assets into the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity and available-for sale investments. Financial asset need to be classified by the management of the Group at first recognition in terms of the aim of purchase. As at 31 December 2007 Group does not have financial assets except for loans and receivables.

**Loans and receivables.** Loans and receivables are non-derivative financial assets with fixed or determinable payments, which are not quoted on an active market. These assets are included into the current assets except when the maturity is greater than 12 months after the balance sheet date. These assets are classified as non-current assets. Loans and receivables include trade and other receivables (Notes 9 and 11), bank deposits (Notes 9 and 13), cash and cash equivalents (Note 10).

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

**Property, plant and equipment.** In 2005 property, plant and equipment were recognized at the carrying value determined in accordance with IFRS by the Predecessor.

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

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

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 Income Statement as incurred.

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

Depreciation of property, plant and equipment is calculated on a straight-line basis over the estimated useful life of the asset when it is available for use. Depreciation of fixed assets, evaluated by the independent appraisers at 31 December 1997, was calculated using depreciation rates based on remaining useful lives identified on the date of evaluation. The remaining useful lives of property, plant and equipment are reviewed annually.

Until 31 December 2006 the Group classified property, plant and equipment similarly to Predecessor's classification, which reflected major activities of RAO UES Group. As the Group's main activities are generation of electric and heat power, the management believes that classification of property, plant and equipment based on substance is more relevant. Due to the fact that costs of preparation of property, plant and equipment comparative information for 2006 based on new classification significantly exceed benefits from disclosure of such information, property, plant and equipment disclosure (Note 7) for 2006 was prepared based on previous classification, and for 2007 – based on new classification.

The remaining useful lives, used for depreciation calculation for 2007, in years, are as follows:

Classes of property, plant and equipment in accordance with new classification	At 1 January 2007 (min - max)	At 1 January 2007 (about 75% of carrying amount)
Production buildings	3-60	30-40
Constructions	3-40	4-25
Energy machinery and equipment	3-27	7-20
Other machinery and equipment	3-37	3-12
Other	3-39	3-7

The remaining useful lives, used for depreciation calculation for 2007 approximate the remaining useful lives re-assessed at 1 January 2006.

**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.

**Trade and other receivables.** Trade and other receivables are recorded inclusive of value added taxes. Trade and other receivables 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 Company 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. In practice, the entity has estimated that the nominal amount of trade and other receivables approximates the fair value at inception.

**Value added tax on purchases and sales (VAT).** Output VAT related to sales is payable to tax authorities on the earlier of (a) receive advance or (b) delivery of the goods or services to customers. VAT which arose (originated) before 1 January 2006 is payable of collection of the receivables from customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice and posting the goods or services.

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

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

**Intangible assets.** Intangible assets acquired separately are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

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

**Deferred income tax.** Deferred tax is provided using the balance sheet liability method for the temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for the 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 or loss. Deferred tax balances are measured at tax rates enacted or substantively enacted at the

balance sheet date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilized. Deferred tax assets and liabilities are netted only within the individual companies of the Company. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilized.

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

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

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

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

**Finance leases.** Where the Company is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Company, the assets leased are 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.

**Operating leases.** Where the Company is a lessee in a lease which does not transfer substantially all the risk and rewards incidental to ownership from the lessor to the Company, 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.

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

**Pension and post-employment benefits.** In the normal course of business the Company contributes to the Russian Federation defined contribution state pension scheme on behalf of its employees. Mandatory contributions to the governmental pension scheme are expensed when incurred and included in employee benefit expenses and payroll taxes in the statements of operations.

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

## OGK-2 Group

### Notes to Consolidated Financial Statements for the year ended 31 December 2007

(in thousands of Russian Roubles)

the operation of the plans, and that have terms to maturity approximating the terms of the related retirement benefit obligations.

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.

The effect of curtailment or settlement of a defined benefit plan is recognised immediately in income statement.

**Share-based payment transactions.** The share option plan allows Group employees to acquire shares of OJSC "OGK-2". The fair value of the options is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options is measured based on the Black-Scholes formula, taking into account the terms and conditions upon which the instruments were granted.

**Revenue recognition.** Revenue is recognized on the delivery of electricity and heat during the period. Revenues are measured at the fair value of consideration received or receivable. Revenue amounts are represented exclusive of value added tax.

**Segment reporting.** The Group's major activity is electricity, power and heat generation, sales proceeds from which comprises 99.7% of total Group's revenues. The electricity, power and heat generation technology are subject to the same risks and returns thus the Group has only one reportable business segment. The Group also has other operations which neither cumulative nor individually form reporting segments.

The Group operates in Russian Federation and does not recognise separate geographical segments as the source and characteristics of risks and returns of operations on whole sale electricity market are similar for the whole Russian Federation.

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

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

**Fair value measurement.** The fair value of trade and other receivables 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 Company for similar financial instruments. The fair value of publicly quoted financial instruments for disclosure purposes are measured based on current market value at the close of business on the reporting date.

#### Note 5. Related Parties

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

##### Parent

Transactions with the Parent were as follows:

	12 months ended 31 December 2007	12 months ended 31 December 2006
Dividends accrued	72,837	565,139



**OGK-2 Group****Notes to Consolidated Financial Statements for the year ended 31 December 2007**

(in thousands of Russian Roubles)

Balances with Parent at the end of the periods were as follows:

	<b>31 December 2007</b>	<b>31 December 2006</b>
Trade and other payables	97,384	97,597
Dividends payable	-	75,844

**Transactions with the Parent's subsidiaries**

Transactions with the Parent's subsidiaries were as follows:

	<b>12 months ended 31 December 2007</b>	<b>12 months ended 31 December 2006</b>
<b>Sales:</b>		
Sales of electricity	21,762,754	22,333,382
Sales of heat	318,585	222,055
Other sales	24,476	13
<b>Purchases:</b>		
Dispatcher's fees	440,254	419,218
Repair, building and construction work	254,841	232,661
Electricity and heat	8,433	1,815
Other purchases	168,084	42,540

Balances with Parent's subsidiaries at the end of the periods were as follows:

	<b>31 December 2007</b>	<b>31 December 2006</b>
Trade and other receivables, gross	649,582	966,650
Provision for impairment of trade and other receivables	(372,339)	(449,429)
Trade and other payables	154,148	129,443

**Other 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 FTS. Bank loans are granted at market rates. Taxes are charged and paid under the Russian tax legislation.

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

	<b>12 months ended 31 December 2007</b>	<b>12 months ended 31 December 2006</b>
Sales of electricity, heat, condensate and utilities services	67,089	181,837
Purchase of fuel	5,205,228	5,035,744

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

	<b>31 December 2007</b>	<b>31 December 2006</b>
Trade and other receivables	574,509	79,026
Bad debt provision	(59,943)	(48,449)
Trade and other payables	330,034	175,321
Current debt and current portion of non-current debt JSB "Sberbank"	500,000	1,504,800

Interest expense accrued for the year ended 31 December 2007 was RR 71,900 thousands (for the year ended 31 December 2006: RR 74,821 thousands).

**OGK-2 Group****Notes to Consolidated Financial Statements for the year ended 31 December 2007**

(in thousands of Russian Roubles)

Deposits held in state-controlled banks:

	31 December 2007	31 December 2006
OJSB "Sberbank"	1,012,400	-
OJSB "Gazprombank"	4,000,000	-
CJSB "Gazenergoprombank"	1,100,000	-
<b>Total</b>	<b>6,112,400</b>	<b>-</b>

Tax balances are disclosed in the balance sheet and Notes 15 and 19. Tax transactions are disclosed in the Company's statement of operations and Notes 15 and 22.

**Transactions with key management**

Compensation is paid to members of the Management Board of the Company for their services in full time management positions. The compensation is made up of a contractual salary and a performance bonus depending on results for the period according to Russian statutory financial statements. The compensation is approved by the Board of Directors. Discretionary bonuses are also payable to members of the Management Board, which are approved by the Chairman of the Management Board according to his perception of the value of their contribution.

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

Total remuneration accrued to the members of the Board of Directors and Management Board is presented below:

	12 months ended 31 December 2007		12 months ended 31 December 2006	
	Expense	Accrued liability	Expense	Accrued liability
Remuneration	219,210	89,665	102,328	28,482
Share option plan	27,360	-	-	-
Retirement benefit obligation	(1,148)	3,475	644	2,742

In 2007 the Group used stock option program as one of the methods of personnel motivation (Note 14).

At the end of May it was decided that management personnel will to have their contracts terminated with effect from 29 – 30 May 2008. Details are disclosed in the Note 29.

**Note 6. Disposal of subsidiary**

During October 2007 the Group has sold 100% shares of OJSC "Energoremont Pskovskoi GRES" at the price of RR 14,500 thousand. Profit from disposal is accounted in amount of RR 2,891 thousand in the Consolidated Income Statement as Profit from sale of assets (Note 22). Carrying amount of sold assets and liabilities is presented below:

	As at the date of disposal
Cash and cash equivalents	86
Trade and other receivables	21,683
Property, plant and equipment	21,457
Inventory	4,822
Other assets	697
Trade and other payables	(34,845)
Taxes payable	(2,291)
<b>Net assets value</b>	<b>11,609</b>
Proceeds from sales of shares	14,500
<b>Gain on sale of subsidiary</b>	<b>2,891</b>

**OGK-2 Group**  
**Notes to Consolidated Financial Statements for the year ended 31 December 2007**  
(in thousands of Russian Roubles)

**Note 7. Property, plant and equipment**

<b>Cost</b>	<b>Production buildings</b>	<b>Constructions</b>	<b>Energy machinery and equipment</b>	<b>Other machinery and equipment</b>	<b>Other</b>	<b>Construction in progress</b>	<b>Total</b>
Opening balance as at 1 January 2007	10,602,651	3,787,386	10,508,491	1,760,848	319,022	1,779,314	28,757,712
Additions	15,215	-	84,978	48,262	62,746	1,604,279	1,815,480
Transfer	58,186	33,462	203,940	531,959	22,492	(850,039)	-
Disposals	-	(3)	(541)	(3,136)	(5,690)	(1,854)	(11,224)
Disposal of subsidiaries (Note 6)	-	-	-	(6,121)	(1,199)	(15,030)	(22,350)
<b>Closing balance as at 31 December 2007</b>	<b>10,676,052</b>	<b>3,820,845</b>	<b>10,796,868</b>	<b>2,331,812</b>	<b>397,371</b>	<b>2,516,670</b>	<b>30,539,618</b>
<b>Accumulated depreciation</b>							
Opening balance as at 1 January 2007	(2,793,015)	(1,862,809)	(5,185,253)	(807,500)	(164,994)	(598,116)	(11,411,687)
Charge for the period	(202,125)	(166,552)	(473,847)	(135,913)	(48,411)	-	(1,026,848)
Disposals	-	2	411	2,604	2,527	-	5,544
Disposal of subsidiaries (Note 6)	-	-	-	73	820	-	893
<b>Closing balance as at 31 December 2007</b>	<b>(2,995,140)</b>	<b>(2,029,359)</b>	<b>(5,658,689)</b>	<b>(940,736)</b>	<b>(210,058)</b>	<b>(598,116)</b>	<b>(12,432,098)</b>
<b>Net book value as at 31 December 2007</b>	<b>7,680,912</b>	<b>1,791,487</b>	<b>5,138,179</b>	<b>1,391,076</b>	<b>187,313</b>	<b>1,918,554</b>	<b>18,107,520</b>
<b>Net book value as at 31 December 2006</b>	<b>7,809,636</b>	<b>1,924,577</b>	<b>5,323,238</b>	<b>953,348</b>	<b>154,028</b>	<b>1,181,198</b>	<b>17,346,025</b>

<b>Cost</b>	<b>Electricity and heat generation</b>	<b>Construction in progress</b>	<b>Other</b>	<b>Total</b>
Opening balance as at 1 January 2006	23,551,853	1,497,259	3,246,509	28,295,621
Additions	1,723	759,161	181,366	942,250
Transfer	318,750	(420,570)	101,820	-
Disposals	(294,394)	(56,536)	(129,229)	(480,159)
<b>Closing balance as at 31 December 2006</b>	<b>23,577,932</b>	<b>1,779,314</b>	<b>3,400,466</b>	<b>28,757,712</b>

<b>Accumulated depreciation (including impairment)</b>				
Opening balance as at 1 January 2006	(12,240,801)	(739,557)	(2,115,513)	(15,095,871)
Charge for the period	(686,151)	-	(169,672)	(855,823)
Reversal of impairment provision	4,030,294	141,441	135,424	4,307,159
Disposals	169,761	-	63,087	232,848
<b>Closing balance as at 31 December 2006</b>	<b>(8,726,897)</b>	<b>(598,116)</b>	<b>(2,086,674)</b>	<b>(11,411,687)</b>
<b>Net book value as at 31 December 2006</b>	<b>14,851,035</b>	<b>1,181,198</b>	<b>1,313,792</b>	<b>17,346,025</b>
<b>Net book value as at 1 January 2006</b>	<b>11,311,052</b>	<b>757,702</b>	<b>1,130,996</b>	<b>13,199,750</b>

**OGK-2 Group****Notes to Consolidated Financial Statements for the year ended 31 December 2007**

(in thousands of Russian Roubles)

Management has concluded that at 31 December 2007 there were no indications of impairment losses for fixed assets owned by Group. This Management's conclusion is based on material favourable changes of the economical environment and market conditions, in which the Group operates. These changes include:

- increase of electricity and heat consumption in the regions, where generating units of the Group are situated;
- more confidence in deregulated electricity sale sector in the nearest future.

Management has concluded that at 31 December 2006 there were indications for reversing previously recognised impairment losses for those generating units that were controlled by the Group at respective reporting date. The conclusions were based on significant changes with a favourable 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 together with reassessed useful lives have resulted in a change to the assumptions that were used to determine the value in use of assets that comprise the cash generating units. An impairment review has been carried out by comparing the recoverable amount of the individual cash generating units with their net book values. For the purposes of the review, each of the Group's power plants was used as the relevant cash generating unit. The recoverable amount was generally based on value in use, which was calculated based on estimated future cash flows using various assumptions. Particularly, the Group expected the electricity and heat tariffs would grow in a way to compensate increase in gas prices and other operating costs and provide higher rate of return than it was before. The post-tax discount rate used for assessment of value in use is equal to 13.33%.

Consequently, it has resulted in the reversal of the previously recognized impairment loss to the extent of RR 4,165,718 thousand at 31 December 2006.

In 2006 impairment related to construction in progress was partially reversed in amount of RR 141,441 thousand in respect of objects that were included into new Company's investment program.

Additions of property, plant and equipment include assets identified during annual stock take in amount of RR 255,039 thousand, which were recognised in accounting at fair values determined by independent appraisers using depreciation replacement cost method. Replacement cost was identified with the reference to market price of existing analogues. All these assets were inherited by OGK-2 from its predecessors.

The assets transferred to the Group did not include the land on which the Company's buildings and facilities are situated. The Group has the right for rent of this land. In accordance with Russian legislation this right should be formalized either into purchase of this land upon application to the state registration body, or into lease of this land before 1 January 2010 (in 2007 the date was extended from 1 January 2008 to 1 January 2010)

As at 31 December 2007 the Group owns of 0.7 hectares of land plot (included in group "Other") with cost of RR 18,033 thousand that was purchased in 2007.

***Leased property, plant and equipment***

The Company leased certain equipment under a number of finance lease agreements. At the end of the leases the Company has the option to purchase the equipment at a beneficial price, in other cases at the end of the leases the Company receives the equipment in ownership without additional payments. The net book value of leased property, plant and equipment is presented below:

	<b>31 December 2007</b>	<b>31 December 2006</b>
Energy machinery and equipment	67,278	71,229
Other machinery and equipment	103,272	129,414
Other	26,237	26,483
<b>Total</b>	<b>196,787</b>	<b>227,126</b>

The leased equipment secures lease obligations.

**Operating lease**

The Company leases a number of land plots owned by local governments under operating leases. Land lease payments are determined by lease agreements. Lease agreements are concluded for the different periods. Part of the lease contracts is concluded for the year with right of future prolong, maximum lease period is 49 years.

Non-cancelable operating lease rentals are payable as follows:

	31 December 2007	31 December 2006
Not later than one year	15,114	70,908
Later than one year and not later than five years	57,791	7,950
Later than five years and not later than ten years	71,367	12,001
Later than ten years	407,451	10,651
<b>Total</b>	<b>551,723</b>	<b>101,510</b>

The land areas leased by OJSC OGK-2 are the territories on which the Company's electric power stations, heating stations and other assets are located. Lease payments are reviewed regularly to reflect market rentals.

**Note 8. Intangible assets**

	SAP R-3 software	Other intangibles	Total intangible assets
<b>Cost</b>			
<b>Balance as at 1 January 2007</b>	<b>294,747</b>	<b>4,114</b>	<b>298,861</b>
Additions	354,336	41,747	396,083
Disposals	(3,120)	-	(3,120)
<b>Balance as at 31 December 2007</b>	<b>645,963</b>	<b>45,861</b>	<b>691,824</b>
<b>Balance as at 1 January 2006</b>	<b>83,241</b>	<b>5,591</b>	<b>88,832</b>
Additions	211,506	-	211,506
Disposals	-	(1,477)	(1,477)
<b>Balance as at 31 December 2006</b>	<b>294,747</b>	<b>4,114</b>	<b>298,861</b>
<b>Amortisation</b>			
<b>Balance as at 1 January 2007</b>	<b>-</b>	<b>-</b>	<b>-</b>
Charge for the period	(4,539)	(8,843)	(13,382)
<b>Balance as at 31 December 2007</b>	<b>(4,539)</b>	<b>(8,843)</b>	<b>(13,382)</b>
<b>Net book value as at 31 December 2007</b>	<b>641,424</b>	<b>37,018</b>	<b>678,442</b>
<b>Net book value as at 31 December 2006</b>	<b>294,747</b>	<b>4,114</b>	<b>298,861</b>

Intangible assets include SAP-R3 consist of several module (part). As at 31 December 2007 only one module (part) was placed in operation and amortized. The useful life of this module (part), used for depreciation calculation, is 20 years.

**OGK-2 Group****Notes to Consolidated Financial Statements for the year ended 31 December 2007**

(in thousands of Russian Roubles)

**Note 9. Other non-current assets**

	<b>31 December 2007</b>	<b>31 December 2006</b>
Restructured trade and other receivables (net of provision for impairment of trade and other receivables of 261,818 thousand as at 31 December 2007 and 295,350 thousand as at 31 December 2006)	1,842,234	188,489
Prepayments / deposits for pensions (Note 20)	134,375	90,635
Long-term bank deposits	2,112,400	-
Other	40,677	23,353
<b>Total</b>	<b>4,129,686</b>	<b>302,477</b>

In December 2007 the Group acquired non-interest bearing promissory notes of OJSC "Nomos-Bank" with nominal value of RR 2,116,396 thousand and remaining term of 3.5 years. Group initially recognised received promissory notes as other receivables in amount of RR 1,631,975 thousand. Difference between nominal and fair values in the amount of RR 484,420 thousand was recognised as Finance costs (Note 24). From the date of acquisition until reporting date the Group has recognised finance income from amortisation of the non-interest bearing promissory notes in the amount of RR 8,030 thousand (Note 23).

Assets on solidarity accounts and on individual accounts in non-state pension fund in respect of current employees were recognized as "Prepayments / deposits for pensions". These prepayments / deposits for pensions are disclosed gross of retirement benefit obligations for both periods presented.

Credit quality of bank deposits is presented below:

<b>Long-term bank deposits</b>	<b>Interest rate</b>	<b>Credit rating</b>	<b>31 December 2007</b>	<b>31 December 2006</b>
CJSC "Gazenergoprombank"	8.8%	Ba3*	1,100,000	-
OJSC "Sberbank"	8%	Baa2*	1,012,400	-
<b>Total long-term bank deposits</b>			<b>2,112,400</b>	<b>-</b>

Long-term rating of foreign currency deposits, determined by Moody's Investors Service.

Maturity of deposit in CJSC "Gazenergoprombank" is December 2009, in OJSC "Sberbank" is January 2010.

**Note 10. Cash and cash equivalents**

	<b>Currency</b>	<b>31 December 2007</b>	<b>31 December 2006</b>
Cash in hand	RR	37	56
Current bank accounts	RR	1,529,613	1,178,478
Current bank accounts	USD	47,128	-
Bank deposits with maturity of 3 months or less	RR	19,900,000	-
Cash equivalents	RR	140	36
<b>Total</b>		<b>21,476,918</b>	<b>1,178,570</b>

According to OJSC "Gazprombank" and OJSC "Nomos-bank" contracts Group is required not to demand refund of all or part of deposits prior to maturity date. According to CJSC "Gazbank", OJSC "Uralsib", "Moskovski" Branch OJSC KB "Agroimpuls" and CJSC "Mezhdunarodni promishleni bank" contracts the deposit repayment can exercised with Bank's agreements.

**OGK-2 Group**
**Notes to Consolidated Financial Statements for the year ended 31 December 2007**

(in thousands of Russian Roubles)

The Group has current bank accounts in following banks:

Cash in bank	Credit rating on 31 December 2007	31 December 2007	Credit rating on 31 December 2006	31 December 2006
OJSC "Sberbank"	D+/Stable*	352,564	D/Stable*	192,254
OJSC "Eurofinance Mosnarbank"	D+/Stable*	342,092	D+/Stable*	390,319
OJSC "Nomos-bank"	D-/Positive*	789,795	D-/Stable*	270,088
OJSC KB "Agroimpuls"	E+/Stable*	3,961	-	16,538
NKO "Raschetnaya Palata RTS"	-	88,326	-	309,271
OJSC "TransCreditBank"	D-/Stable*	1	E+/Stable*	1
AKB "Moskovski Delovoi Mir"	D+/Stable*	1	D/Stable*	1
OJSC "Alfa-bank"	D+/Stable*	1	D/Stable*	6
<b>Total cash in bank</b>		<b>1,576,741</b>		<b>1,178,478</b>

\* - The bank financial strength rating / the outlook on all of the bank's ratings, determined by Moody's Investor Service/

Credit quality of bank deposits is presented below:

Bank deposits with maturity of 3 months or less	Interest rate	Credit rating	31 December 2007	31 December 2006
OJSC "Nomos-bank"	8.5%	Not-Prime*	5,700,000	-
CJSC "Mezhdunarodni promishleni bank"	7.5% – 8.5%	Not-Prime*	2,300,000	-
"Moskovski" Branch OJSC KB "Agroimpuls"	8.5%	Not-Prime*	450,000	-
CJSC "Gazbank"	10.5%	Not-Prime*	850,000	-
OJSC "Alfa-bank"	6.5% – 8.45%	Not-Prime*	5,600,000	-
OJSC "Gazprombank"	6.5% – 7.2%	Prime2*	4,000,000	-
OJSC "Uralsib"	8.6%	Not-Prime*	1,000,000	-
<b>Total Bank deposits with maturity of 3 months or less</b>			<b>19,900,000</b>	<b>-</b>

\* - Short-term rating of foreign currency deposits, determined by Moody's Investors Service;

**OGK-2 Group****Notes to Consolidated Financial Statements for the year ended 31 December 2007**

(in thousands of Russian Roubles)

**Note 11. Trade and other receivables**

	<b>31 December 2007</b>	<b>31 December 2006</b>
Trade receivables	739,434	614,108
(net of provision for impairment of trade receivables of RR 351,082 thousand as at 31 December 2007 and RR 411,840 thousand as at 31 December 2006)		
Interest receivable on deposits	104,068	9,937
Other receivables	1,871,722	427,720
(net of provision for impairment of other receivables of RR 106,018 thousand as at 31 December 2007 and 132,649 thousand as at 31 December 2006)		
<b>Finance assets</b>	<b>2,715,224</b>	<b>1,051,765</b>
Advances to suppliers	1,088,179	729,314
Prepayments	7,215	51,092
Prepaid value-added tax and other tax	20,381	209,784
Value added tax recoverable	79,871	63,937
(net of provision for impairment of RR 2,397 thousand as at 31 December 2007 and 4,603 thousand as at 31 December 2006)		
<b>Total</b>	<b>3,910,870</b>	<b>2,105,892</b>
Less: Restructured trade and other receivables	(1,842,234)	(188,489)
(net of provision for impairment of trade and other receivables of 261,818 thousand as at 31 December 2007 and 295,350 thousand as at 31 December 2006)		
<b>Total</b>	<b>2,068,636</b>	<b>1,917,403</b>

**Note 12. Inventories**

	<b>31 December 2007</b>	<b>31 December 2006</b>
Fuel supplies	945,969	1,177,585
Materials and supplies	457,284	333,163
Spare parts	572,395	469,995
<b>Total</b>	<b>1,975,648</b>	<b>1,980,743</b>

The above inventory balances are recorded net of an obsolescence provision of RR 20,654 thousand and RR 35,083 thousand as at 31 December 2007 and 31 December 2006, respectively.

There is no inventory pledged as collateral at 31 December 2007. Inventory balances as at 31 December 2006 included RR 409,013 thousand of inventory pledged as collateral according to loan agreements.

**Note 13. Other current assets**

	<b>31 December 2007</b>	<b>31 December 2006</b>
Short-term deposits (7.5%)	100,000	500,000
Bank promissory notes (zero interest rate)	-	41,542
Other short-term investments	13	167
<b>Total</b>	<b>100,013</b>	<b>541,709</b>



**OGK-2 Group****Notes to Consolidated Financial Statements for the year ended 31 December 2007**

(in thousands of Russian Roubles)

Credit quality of bank deposits is presented below:

Bank deposits with maturity more than 3 months until one year	Credit rating on 31 December 2007	31 December 2007	Credit rating on 31 December 2006	31 December 2006
"Moskovski" Branch OJSC KB "Agroimpuls"	Not-Prime*	100,000	-	500,000
<b>Total bank deposits with maturity more than 3 months until one year</b>		<b>100,000</b>		<b>500,000</b>

\* - Short-term rating of foreign currency deposits, determined by Moody's Investors Service.

**Note 14. Equity****Share capital**

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, 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. 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 and share premium which are 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 decrease in the merger reserve and reduction in minority interest.

In March 2007 An Extraordinary Shareholders Meeting of OJSC OGK-2 approved the decrease of the company's share capital to RR 9,604,621 thousand by decreasing the nominal value of the shares issued. The company's share capital was decreased to comply with legal capital requirements.

The nominal value of ordinary shares after the decrease is RR 0.3627 per share. The decrease in capital was achieved by the conversion of the shares to ones of the same category (type) with a lower nominal value.

In October 2007 Company performed initial public offer. The quantity of issued shares totalled to 6,252,026,095 with par value of RR 0.3627. The shares were placed at USD 0.16 (or RR 3.9934) per share. The amount of costs related to share issue equaled to RR 652,363 thousand. Costs related to shares issue are recognised as deduction from share premium.

<b>Share capital</b> (Number of shares unless otherwise stated)	<b>Ordinary shares</b> <b>31 December 2007</b>	<b>Ordinary shares</b> <b>31 December 2006</b>
Issued shares	32,732,921,913	26,480,895,818
Treasury shares	(6,691,898)	-
<b>Total shares</b>	<b>32,726,230,015</b>	<b>26,480,895,818</b>
Par value (in RR)	0.3627	1.00

The total number of authorised ordinary shares is 44,757,822,542 thousand shares (2006: 26,480,895,818 thousand shares) with a par value of RR 0.3627 per share (2006: RR 1 per share). All issued ordinary shares are fully paid. Each ordinary share carries one vote

**Transactions with the Parent and minority shareholders**

In the second quarter 2006 the Company issued 14,547,265,563 shares paid in kind by 94.78%, 100%, 40.69% and 24.63% of the outstanding ordinary shares of Serovskaya GRES, Surgutskaya GRES-1, Stavropolskaya GRES and Pskovskaya GRES. The shares were paid by the Parent and the minorities.

As of result of the share issue, in the second quarter 2006 the Parent transferred to the Company 65.33% and 100% of the outstanding ordinary shares of Serovskaya GRES and Surgutskaya GRES-1 respectively in exchange for the ordinary shares of the Company with nominal value of RR 10,781,306 thousand. The value of the shares, transferred by the Parent, as determined by the independent appraiser, amounted to RR 767,434 thousand and RR 11,361,535 thousand respectively. Difference

between nominal value of ordinary shares of the Company and value of the shares transferred by the Parent of RR 1,347,663 thousand was recorded as share premium.

As a result of the share issue, in the second quarter 2006 the minority shareholders exchanged 40.69%, 24.63% and 29.45% of the outstanding ordinary shares of Stavropolskaya GRES, Pskovskaya GRES and Serovskaya GRES respectively for the ordinary shares of the Company. The difference of RR 470,745 thousand between the values of the shares received from the minority shareholders of RR 4,236,704 thousand as determined by independent appraiser and nominal value of shares issued by the Company of RR 3,765,959 thousand was recorded as share premium.

**Merger reserve**

Based on the application of predecessor accounting (see Note 4), the difference as at 1 January 2007 of RR 17,508,697 thousand 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 decrease in share capital in amount of RR 16,876,275 thousand is offset by a corresponding movement in the merger reserve.

**Dividends**

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

In April 2006 the Company declared final dividends for the year ended 31 December 2005 of RR 0.011836 per share for the total of RR 127,471 thousands, which were totally payable to the Parent. These dividends were recognized as a liability and deducted from equity at 31 December 2006.

In April 2006 Surgutskaya GRES declared interim dividends for three months ended 31 March 2006 of RR 1.315122 per share for the total of RR 361,832 thousand, which were totally payable to the Parent. These dividends were recognized as a liability and deducted from equity at 31 December 2006.

In June 2006 Pskovskaya GRES declared final dividends for the year ended 31 December 2005 of RR 0.013185 per share for the total of RR 10,468 thousand, out of which RR 7,819 and RR 2,649 were payable to the Company and the minority shareholders respectively. These dividends were recognized as liability and deducted from equity at 31 December 2006.

In June 2006 Stavropolskaya GRES declared interim dividends for three months of 2006 of RR 36.804 per share for the total of RR 50,000 thousand, out of which RR 45,871 and RR 4,129 were payable to the Company and the minority shareholders respectively. These dividends were recognized as liability and deducted from equity at 31 December 2006.

All dividends payable to the Company were eliminated as intercompany transactions.

In September 2006 the Company declared interim dividends for the six months ended June 30, 2006 of RR 0.003539 per share for the total of RR 89,597 thousand, out of which RR 76,023 thousand were payable to the Parent and RR 13,574 thousand were payable to other Company's shareholders. These dividends were recognized as a liability and deducted from equity at 31 December 2006.

In June 2007 the Company declared final dividends for the year ended 31 December 2006 of RR 0.001873 per share for the total of RR 49,599 thousand, out of which RR 40,140 and RR 9,459 were payable to the Parent and the other Company's shareholders respectively. These dividends were recognized as liability and deducted from equity at 31 December 2007.

In June 2007 the Company declared interim dividends for the three months ended March 31, 2007 of RR 0.0015257 per share for the total of RR 40,401 thousand, out of which RR 32,697 thousand were payable to the Parent and RR 7,704 thousand were payable to other Company's shareholders. These dividends were recognized as a liability and deducted from equity at 31 December 2007.

There were no dividends proposed or declared before the financial statements were authorized.

**OGK-2 Group****Notes to Consolidated Financial Statements for the year ended 31 December 2007**

(in thousands of Russian Roubles)

**Employee share option plan.** In December 2006 Board of Directors has approved policy for OJSC OGK-2 management and employees remuneration – stock option program (hereinafter the Program). The Program provides stock options to management and employees of OJSC OGK-2 (hereinafter Participants).

The options are granted to the Participants for their work at OJSC OGK-2 during 3 – 3.5 years starting from November 1st, 2007.

In March 2007 Board of Directors of OJSC OGK-2 has approved number of shares, which are subject for distribution as part of the Program. The approved number equals to 529,617,916 ordinary shares, which equals to 1.6% of total quantity of issued ordinary shares of OJSC OGK-2 as at 31 December 2007.

As part of realization of approved stock option program Company has entered into service agreement with OJSC NOMOS-Bank. Under this agreement Group has transferred all liabilities for conclusion and fulfillment of share purchase agreements with Company's employees for total amount of 529,617,916 shares at fixed price of RR 3.94 per share and maturity of 3 years.

In accordance with the agreement with OJSC NOMOS-Bank, the Company paid to OJSC NOMOS-Bank a premium of RR 709,688 thousand to secure delivery of shares to employees in settlement of share-based payment arrangement. The premium was accounted as capital transaction by debiting of retained earnings for the amount of RR 709,688 thousand.

Stock option exercise price is identified at the date of decision for participation in the Program and is calculated as weighted average price of ordinary shares for the period of 365 days before date of such decision, based on RTS quotations.

The quantity of shares, which could be acquired by Participants ceased labor relations with the Group, will be calculated proportionally to quantity of days, during which the Participant was working for OJSC OGK-2. However, at the discretion of the General Director the number of shares to be purchased by the Plan participant can be remained unchanged. In case of breach of certain requirements of labor agreement and cease of labor relations initiated by the Company, such Participants lose their rights for purchase of shares.

The fair value of services received in return for share options granted to employees are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on the Black-Scholes model.

**Options, granted as at 31 December 2007**

Share price (in Russian Roubles)	3,28
Exercise price (in Russian Roubles)	3,94
Expected volatility	30%
Option life	3.5
Risk-free interest rate	5.83%
<b>Fair value at measurement date (in Russian Roubles)</b>	<b>0.71</b>

The measure of volatility used in option pricing model is the annualized standard deviation of the continuously compounded rates of return on the share over a period of time. Volatility has been determined on the basis of the historical volatility of the share price over the most recent period.

During the year ended 31 December 2007, the Group recognized an expense of RR 80,507 thousand with corresponding increase in retained earnings related to the fair value of the option (during the year ended 31 December 2006: nil).

**OGK-2 Group****Notes to Consolidated Financial Statements for the year ended 31 December 2007**

(in thousands of Russian Roubles)

**Note 15. Income tax**

<i>Income tax charge</i>	<b>12 months ended 31 December 2007</b>	<b>12 months ended 31 December 2006</b>
Current income tax charge	313,020	91,544
Deferred income tax (benefit) /expense	(138,471)	863,834
<b>Total income tax charge</b>	<b>174,549</b>	<b>955,378</b>

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

In accordance with Russian tax legislation, tax losses in different Group companies may not be offset against taxable profits of other Group companies. Accordingly, tax may accrue even where there is a net consolidated tax loss.

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

	<b>12 months ended 31 December 2007</b>	<b>12 months ended 31 December 2006</b>
<b>Profit before tax</b>	<b>(91,786)</b>	<b>3,389,391</b>
Theoretical tax charge at the statutory tax rate of 24%	22,029	(813,454)
Reversal of tax charged on tariff imbalance	-	51,113
Social payments	(45,231)	(27,867)
Share option plan	(19,322)	-
Non-deductible agent fees for fuel	(22,159)	(10,018)
Other	(109,866)	(155,152)
<b>Total income tax charge</b>	<b>(174,549)</b>	<b>(955,378)</b>

**Deferred income tax.** Differences between IFRS and Russian statutory taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets and liabilities are measured at 24%, the rate applicable when the temporary differences will reverse.

**Deferred tax liabilities**

	<b>31 December 2006</b>	<b>Movement for the period recognized in the income statement</b>	<b>31 December 2007</b>
Property, plant and equipment	(2,866,576)	118,210	(2,748,366)
Intangible assets (SAP R-3)	(70,739)	(31,191)	(101,930)
Prepayments / deposits	-	(32,250)	(32,250)
Other	-	(2,710)	(2,710)
<b>Total</b>	<b>(2,937,315)</b>	<b>52,059</b>	<b>(2,885,256)</b>

**OGK-2 Group**
**Notes to Consolidated Financial Statements for the year ended 31 December 2007**

(in thousands of Russian Roubles)

**Deferred tax assets**

	31 December 2006	Movement for the period recognized in the income statement	Disposal of subsidiary	31 December 2007
Other non-current assets	-	114,470	-	114,470
Provision for impairment of trade and other receivables	89,311	(43,472)	-	45,839
Trade and other payables	(11,683)	76,045	-	64,362
Retirement benefit obligations	-	47,978	-	47,978
Finance lease liabilities	37,136	(17,807)	-	19,329
Unused tax losses	118,335	(105,569)	-	12,766
Inventory	3,987	(676)	-	3,311
Other	-	15,443	(221)	15,222
<b>Total</b>	<b>237,086</b>	<b>86,412</b>	<b>(221)</b>	<b>323,277</b>

	31 December 2006	Movement for the period recognized in the income statement	Disposal of subsidiary	31 December 2007
Total deferred tax liabilities	(2,937,315)	52,059	-	(2,885,256)
Total deferred tax assets	237,086	86,412	(221)	323,277
<b>Deferred tax liabilities, net</b>	<b>(2,700,229)</b>	<b>138,471</b>	<b>(221)</b>	<b>(2,561,979)</b>

**Note 16. Non-current debt**

	Currency	Effective interest rate	Due	31 December 2007	31 December 2006
Bonds	RR	7.7%	2010*	4,988,216*	-
OJSC Eurofinance					
Mosnarbank	RR	10.5%	2008	-	325,000
OJSC Alfa-Bank	RR	10.75%	2008	-	800,000
OJSC Sberbank	RR	11.8%	2007	-	339,000
OJSC Nomos-bank	RR	10.5%	2007	-	1,197,000
Finance lease liability	RR	24.86% - 26.32%	2007-2012	16,802	74,660
<b>Total non-current debt</b>				<b>5,005,018</b>	<b>2,735,660</b>
Less current portion of long-term debt	RR			(4,988,216)*	(1,661,000)
<b>Total</b>				<b>16,802</b>	<b>1,074,660</b>

\*- As at 31 December 2007 payable on demand (see explanation below).

**Maturity table**

	31 December 2007	31 December 2006
<b>Due for repayment</b>		
Between one and two years	16,057	1,060,868
Between two and three years	678	13,430
Between three and four years	65	338
Between four and five years	2	24
<b>Total</b>	<b>16,802</b>	<b>1,074,660</b>

During July 2007 Group has issued ordinary documentary interest bearing non-convertible bonds with centralized storage. Total quantity of issued bonds was 5,000,000 with nominal value of RR 1,000 per

**OGK-2 Group****Notes to Consolidated Financial Statements for the year ended 31 December 2007**

(in thousands of Russian Roubles)

bond and maturity of 1,096 days from date of issue. The coupon was identified during market placement of bonds and was fixed at 7.7% p.a. for 1-6 coupons. Costs directly attributable to bonds issue equaled to RR 13,589 thousand.

As the result of decision of Company's reorganization (Note 29) and in accordance with Civil Code of Russian Federation and Company Law, Group has informed its creditors about this decision and about creditors' rights to demand pre-term payments of Group's liabilities, and conditions how these rights could be executed. The Group has classified liability for the bonds as short-term due to the fact that Group has no unconditional right to delay repayment for the period more than 12 months after reporting date.

Total amount of pre-term demands received from bonds' holders equaled to RR 2,384,968 thousand, accumulated coupon income – RR 48,318 thousand. Pre-term demands for redemption of bonds were satisfied by the Group in March – April 2008.

**Leasing.** Lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

<b>Finance lease liabilities – minimum lease payments</b>	<b>31 December 2007</b>	<b>31 December 2006</b>
<b>Due for repayment</b>		
Less than one year	77,522	108,124
Between one year and five years	18,902	88,619
Future finance charges on finance lease	(15,886)	(42,010)
<b>Present value of lease liabilities</b>	<b>80,538</b>	<b>154,733</b>

Management believes that total current value of non-current debt approximates its fair value since actual interest rates approximate current market interest rates available to the Company for similar financial instruments.

**Note 17. Current debt and current portion of non-current debt**

	<b>Currency</b>	<b>Effective interest rate</b>	<b>31 December 2007</b>	<b>31 December 2006</b>
OJSC Eurofinance Mosnarbank	RR	8.5%-10.5%	1,100,000	1,273,300
OJSC Sberbank	RR	7.6%-11.9%	500,000	1,165,800
OJSC Transcreditbank	RR	11.5%	-	200,000
OJSC MDM-Bank	RR	9.5%	-	282,625
Current portion of finance lease liability	RR	24.86% - 26.32%	63,736	80,072
Current portion of long-term debt	RR		4,988,216	1,661,000
Interest payable	RR	7.7%	189,126	4,461
<b>Total</b>			<b>6,841,078</b>	<b>4,667,258</b>

All of the above bank debt is obtained at fixed interest rates.

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

Credit facilities in OJSC "Eurofinance Mosnarbank" (the Lender) were restricted by covenants (transfer of revenue to account in OJSC "Eurofinance Mosnarbank"). During 2007 the Group several times defaulted to meet covenants of credit facilities. As a result, the Lender had the option to call these loans earlier. However, none of available options were used by the Lender, and the Lender waived its rights shortly after defaults.

Please refer to Note 29 for details on covenants breaches after the balance sheet date.

## Note 18. Trade and other payables

	31 December 2007	31 December 2006
Trade payables	1,466,063	962,707
Accrued liabilities and other payables	236,682	203,856
<b>Finance liabilities</b>	<b>1,702,745</b>	<b>1,166,563</b>
Salaries and wages payable	297,014	213,318
Advances from customers	5,767	20,693
Dividend payable	205	76,057
<b>Total</b>	<b>2,005,731</b>	<b>1,476,631</b>

Trade payables, accrued liabilities and other payables are classified as financial liabilities. At 31 December 2007 total amount of financial liabilities equals to RR 8,560,625 thousand (31.12.2006 – RR 6,908,481 thousand) and includes trade payables, accrued liabilities and other payables, interest payable, non-current debt (Note 16), current debt and current portion of non-current debt (Note 17). Group's management believes that the majority of suppliers, which balances are included in trade and other payables balance, relate to one class with similar characteristics.

## Note 19. Other taxes payable

	31 December 2007	31 December 2006
Water usage tax	187,475	159,730
Value added tax	62,322	79,391
Property tax	41,182	39,328
Social tax	24,800	35,076
Personal income tax	23,820	20,411
Environment pollution payment	12,484	13,707
Land tax	3,192	2,977
Other taxes	407	1,244
<b>Total</b>	<b>355,682</b>	<b>351,864</b>

The value added tax figure at 31 December 2007 includes RR 62,322 thousand of deferred VAT (31 December 2006: RR 78,719 thousand), which only becomes payable to the authorities when the underlying receivable balances are either recovered or written off.

## Note 20. Retirement benefit obligations

The post employment and post retirement program of the company consists of the occupational pension plan and various post employment, long-term and jubilee benefits. This is a defined benefit plan, under which the participants accrue pension entitlements on the basis of a formula or defined rule. The occupational pension program comprises the main part of the program. According to the pension formulae, the pension benefit is dependent on the past service of participants and their final salary. Employees born before 1967 are entitled to the occupational pension benefits.

The defined benefit pension plan provides old age retirement pension and disability pension. The plan's old age retirement pension is conditional on the member qualifying for the State old age pension.

The company also provides various long-term and post employment benefits including death in service and death in occupational pension benefit, lump sum payments upon retirement and jubilee benefits to active employees.

Additionally the company provides financial support payments of a defined benefit nature to its former employees, who have reached the age of the State old age pension. Such benefits are paid to both those who qualify for the occupational pension plan and those who do not. The company also provides jubilee benefits to its retired former employees.

As at 31 December 2007, there were 4,730 active employees eligible to participate in the post retirement defined benefit program of the company and 2,651 recipients of the financial support benefits.

The last independent actuarial valuation of pension and other post employment and long-term benefits in accordance with the provisions of IAS 19 was performed in February 2008, with valuation date of 31 December 2007 using individual members' census data as at the valuation date.

**OGK-2 Group****Notes to Consolidated Financial Statements for the year ended 31 December 2007**

(in thousands of Russian Roubles)

In January 2007 the Company introduced new benefit formula (common for all its plants) for calculation of pension amount to be paid via non-state pension fund. The new benefit formula results in reduction (curtailment) in benefits to be paid. The effect of this special event is treated in these financial statements as curtailment. The effect of the curtailment is gain of RR 171,920 thousand recognised in income statement within employee benefits expenses.

Amounts recognised in the Balance Sheets are as follows:

	31 December 2007	31 December 2006
Present value of defined benefit obligations (DBO)	444,040	579,145
Fair value of plan assets	-	-
Present value of unfunded obligations	444,040	579,145
Unrecognised actuarial losses	(79,114)	(98,886)
Unrecognised past service cost	(9,106)	(18,505)
<b>Net liability at the end of year</b>	<b>355,820</b>	<b>461,754</b>
Employees' average remaining working life (years)	10	10

Amounts recognised in the Income Statements are as follows:

	12 months ended 31 December 2007	12 months ended 31 December 2006
Current service cost	43,243	33,757
Interest cost	32,146	26,619
Expected return on plan assets	-	-
Net actuarial losses recognised in year	9,721	6,302
Amortisation of past service cost	1,361	(152)
Immediate recognition of vested past service cost	-	41,997
Settlement/curtailment gain	(171,920)	-
<b>Net (income)/expense recognised in the income statement (DB only)</b>	<b>(85,449)</b>	<b>108,523</b>

Movements in the net liability recognised in the balance sheet are as follows:

	31 December 2007	31 December 2006
Net liability at the beginning of year	461,754	390,008
Net (income)/expense recognised in the income statement	(85,449)	108,523
Benefits paid	(20,485)	(36,777)
<b>Net liability at the end of year</b>	<b>355,820</b>	<b>461,754</b>

The key actuarial assumptions used were as follows:

	31 December 2007	31 December 2006	31 December 2005
Discount rate at 31 December	6.60% p.a.	6.60% p.a.	6.60% p.a.
Future salary increases	9.20% p.a.	9.20% p.a.	9.20% p.a.
Future pension increases	n/a	6.60% p.a.	6.60% p.a.
Future financial support benefits increases	5.00% p.a.	5.00% p.a.	5.00% p.a.
Staff turnover	5% p.a.	5% p.a.	5% p.a.
Mortality	Russia 1998	Russia 1998	Russia 1998



**OGK-2 Group****Notes to Consolidated Financial Statements for the year ended 31 December 2007**

(in thousands of Russian Roubles)

Reconciliation of opening and closing balances of the present value of the defined benefit obligation (DBO):

	<b>31 December 2007</b>	<b>31 December 2006</b>
Present value of defined benefit obligations (DBO) at the beginning of year	579,145	421,706
Service cost	43,243	33,757
Interest cost	32,146	26,619
Plan participants' contributions	-	-
Actuarial loss	47,235	71,970
Past service cost	-	61,870
Benefits paid	(20,485)	(36,777)
Settlement and curtailment gain	(237,244)	-
<b>Present value of defined benefit obligations (DBO) at the end of year</b>	<b>444,040</b>	<b>579,145</b>

Funded status of the pension and other post employment and long-term obligations as well as gains/losses arising of experience adjustments is as follows:

	<b>31 December 2007</b>	<b>31 December 2006</b>
Present value of defined benefit obligations (DBO)	444,040	579,145
Fair value of plan assets	-	-
(Surplus)/deficit in plan	444,040	579,145
Gains/(losses) arising of experience adjustments on plan liabilities	(47,235)	(71,970)
Gains/(losses) arising of experience adjustments on plan assets	-	-

Expected payments under the schemes in 2008 are RR 166,238 thousand.

**Note 21. Revenues**

	<b>12 months ended 31 December 2007</b>	<b>12 months ended 31 December 2006</b>
Electricity	33,066,535	24,821,685
Heating	607,593	497,333
Other	111,556	114,650
<b>Total</b>	<b>33,785,684</b>	<b>25,433,668</b>

**OGK-2 Group****Notes to Consolidated Financial Statements for the year ended 31 December 2007**

(in thousands of Russian Roubles)

**Note 22. Operating expenses (excluding reversal of impairment of property, plant and equipment and assets under construction)**

	Notes	12 months ended 31 December 2007	12 months ended 31 December 2006
Fuel		17,944,205	16,303,527
Purchased electricity and heat		5,994,446	1,129,084
Repairs and maintenance		1,921,064	1,880,947
Employee benefits		2,292,879	2,084,073
Depreciation of property, plant, equipment and intangible assets	7,8	1,040,230	855,823
Raw materials and supplies		992,539	793,205
Taxes other than income tax		891,439	888,483
Dispatcher's fees		440,254	438,610
Consulting, legal and audit services		192,724	152,721
Rent		166,848	114,649
Transport		151,092	124,183
Ecology payments		183,047	175,540
Insurance		60,224	59,076
(Gain)/loss from assets disposal		(4,643)	179,887
Decrease in provision for inventory obsolescence		(14,429)	(51,589)
(Reversal)/charge provision for impairment for trade and other receivables	11	(86,550)	196,303
Other expenses		1,062,993	857,183
<b>Total operating expenses (excluding reversal of impairment of property, plant and equipment and assets under construction)</b>		<b>33,228,362</b>	<b>26,181,705</b>

Employee benefits expenses comprise the following:

	12 months ended 31 December 2007	12 months ended 31 December 2006
Salaries and wages	1,806,723	1,562,998
Employee share option plan expenses (Note 14)	80,507	-
Payroll taxes	315,156	301,405
Non-state pensions and other long-term benefits	(85,449)	108,523
Financial aid to employees and pensioners	175,942	111,147
<b>Employee benefits</b>	<b>2,292,879</b>	<b>2,084,073</b>
Number of personnel at the end of the period	4,700	5,073

Included in payroll taxes are statutory pension contributions of RR 237,481 thousand (2006: RR 248,615 thousand).

## Note 23. Finance income

	12 months ended 31 December 2007	12 months ended 31 December 2006
Interest income on bank deposits and current bank account balances	309,447	12,611
Effect of discounting of long-term promissory notes received (Note 9)	8,030	-
Effect of discounting of short-term promissory notes received	511	-
<b>Total finance income</b>	<b>317,988</b>	<b>12,611</b>

## Note 24. Finance cost

	12 months ended 31 December 2007	12 months ended 31 December 2006
Effect of discounting of long-term promissory notes received (Note 9)	(484,420)	-
Effect of discounting of short-term promissory notes received	(1,079)	-
Interest expense on debt	(425,375)	(208,988)
Interest expense under finance leasing agreements	(29,429)	(57,705)
Forex exchange differences	(8,158)	-
Other finance costs	(4,242)	(13,476)
<b>Total finance cost</b>	<b>(952,703)</b>	<b>(280,169)</b>

## Note 25. Earnings per share

	12 months ended 31 December 2007	12 months ended 31 December 2006
Weighted average number of ordinary shares issued*	27,987,654,783	26,480,895,818
Profit attributable to the shareholders of OJSC OGK-2 (thousands of RR)	(266,335)	2,566,548
<b>Earnings per ordinary share for profit attributable to the shareholders of OJSC OGK-2 – basic and diluted (in RR)</b>	<b>(0.01)</b>	<b>0.097</b>

\* weighted average number of shares was calculated as they always were in issue starting the first period presented.

## Note 26. Commitments

**Sales commitments.** The Company sells electricity on the two wholesale market sectors: free trading sector and regulated trading sector. The tariffs for the electricity sold/purchased in the regulated trading sector (including the sector of deviations) are set by the Federal Service on Tariffs.

The Company has not entered into sales agreements with duration of more than one year

**Fuel commitments.** The Company has signed long-term contracts for supply natural gas with OJSC "Gazprom" and other independent suppliers which lasted from 4 to 5 years starting from January 1, 2008. Some suppliers sell natural gas according to short-term contracts. The supply of coal is under contracts which lasted 1 year with different suppliers. Prices under the Company's natural gas and coal contracts are generally determined by reference to base amounts adjusted to reflect provisions for changes in regulatory prices, published inflation indices and current market prices.

**Capital commitments.** The Company has capital commitments of RR 1,203,233 thousand and RR 886,118 thousand as of 31 December 2007 and as of 31 December 2006, respectively. As at 31 December 2007 the Company has commitments of RR 352,072 thousands in respect of SAP R-3 implementation costs (as at 31 December 2006 - RR 191,000 thousands).

As part of realization of investment program the Group has contracted OJSC Group E4 (on 29 December 2007) and CJSC Quartz-Tyumen (on 14 November 2007) for construction of two power generating units

at Troitskaya GRES and two power generating units at Stavropolskaya GRES. The Group's commitments under these signed agreements equal to RR 101,641,780 thousand.

**Note 27. Contingencies**

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

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

**Legal proceedings.** Company is 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 Company.

The Company entered into a joint and several liability agreements for the contingent liabilities of OJSC Tumenenergo from which Surgutskaya GRES-1 power plant spun off. The agreement stipulates joint and several liability over the contingent liabilities of OJSC Tumenenergo which can crystallise as a result of legal claim against OJSC Tumenenergo in respect of events happened before the date of spun-off. Share of liability of the Company in case the liability arises equals 18.7%. The amount for which the Company could be liable is not reasonably assessable.

The Company entered into a joint and several liability agreement for the contingent liabilities of OJSC Sverdlovenenergo from which Serovskaya GRES power plant spun off. The agreement stipulates joint and several liability over the contingent liabilities of OJSC Sverdlovenenergo which can crystallise as a result of legal claim against OJSC Sverdlovenenergo in respect of events happened before the date of spun-off. Share of liability of the Company in case the liability arises equals 13.39%. The amount for which the Company could be liable is not reasonably assessable.

**Tax contingency.** Russian tax and currency legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities, in particular the way of accounting for tax purposes of tariff imbalance, water tax, deductibility of certain expenses (management fees, SAP R-3 implementation). 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 reviews 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 and currency 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.** Company and its predecessor entities have operated in the electric power industry in the Russian Federation for many years. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. Group periodically evaluates their obligations under environmental regulations.

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

**Note 28. Financial instruments and financial risks factors**

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

The electricity and heat produced by the Group are sold domestically at prices denominated in Russian Rubles, currency of Russian Federation. Due to that fact, the Group has low foreign currency exchange risk exposure. The Group's financial position, liquidity, its sources of financing, financial performance are largely independent to changes in foreign exchange rate because of Group's activity is planned in the way that all its assets and liabilities should be denominated in domestic currency. Due to these facts potential effect of changes in exchange rate of national currency to other currencies is estimated by the Group as insignificant.

**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 low liquidity situation which could in turn impact their ability to repay their amounts owed. Management is unable to reliable estimate the effects on the Group's financial position on any further possible deterioration in the liquidity of the financial markets and their increased volatility.

**Credit risk.** As at 31 December 2007, financial assets, which are exposed to credit risk, are mainly represented by trade receivables (in amount of RR 739,434 thousand), other receivables (in amount of RR 1,871,722 thousand), bank deposits (in amount of RR 2,212,400 thousand), interest receivable on bank deposits (in amount of RR 104,068 thousand), cash and cash equivalents (in amount of RR 21,476,918 thousand) totaling to RR 26,404,542 thousand.

Group's exposure to credit risk mainly depends on each particular counterparty characteristics. Due to absence of independent credit ratings for whole sales electricity market and other buyers, Group assesses their solvency based on past experience and other factors. While evaluation of credit risk, buyers are grouped into following classes: A – buyers with stable solvency; B – buyers with low solvency. Also each class includes following subclasses:

A1 – buyers with exceptional solvency, which always fulfill their obligations on time, there were no cases of delays in fulfillment of obligations, risk of full or partial non-fulfillment of obligations - minimal;

A2 – buyers with excellent solvency, which regularly fulfill their obligations, cases with delay in fulfillment of obligations are short-term, risk of full or partial non-fulfillment of obligations - low;

A3 – buyers with adequate solvency, which fulfill their financial obligations, in case of delay with fulfillment additional agreements are signed, risk of full or partial non-fulfillment of obligations - acceptable;

B1 – buyers with low solvency, which breach fulfillment of their finance obligations, risk of full or partial non-fulfillment of obligations - moderate;

B2 – buyers with doubtful solvency, which do not fulfillment of their finance obligations, risk of full or partial non-fulfillment of obligations – high.

**OGK-2 Group**
**Notes to Consolidated Financial Statements for the year ended 31 December 2007**

(in thousands of Russian Roubles)

As at 31 December 2007	Nominal value	Receivable		Overdue	Impaired / discounted	Carrying amount
		Less than 3 months	More than 3 months			
Class A	1,081,183	542,738	212,506	120,710	205,229	875,954
A1	75,652	60,779	9,300	-	5,573	70,079
A2	552,387	441,806	53,025	46,791	10,765	541,622
A3	453,144	40,153	150,181	73,919	188,891	264,253
Class B	290,582	1,750	-	44,613	244,219	46,363
B1	50,459	371	-	28,405	21,683	28,776
B2	240,123	1,379	-	16,208	222,536	17,587
Non-interest bearing promissory notes	2,132,150	-	1,655,192	-	476,958	1,655,192
Loans issued to employees	21,533	1,285	14,130	-	6,118	15,415
Interest receivable on deposits	104,068	102,752	1,316	-	-	104,068
Other small debtors	19,766	6,966	-	11,266	1,534	18,232
<b>Total</b>	<b>3,649,282</b>	<b>655,491</b>	<b>1,883,144</b>	<b>176,589</b>	<b>934,058</b>	<b>2,715,224</b>

As at 31 December 2006	Nominal value	Receivable		Overdue	Impaired / discounted	Carrying amount
		Less than 3 months	More than 3 months			
Class A	1,224,328	293,804	177,689	476,680	276,155	948,173
A1	42,295	42,295	-	-	-	42,295
A2	698,664	212,408	14,122	449,023	23,111	675,553
A3	483,369	39,101	163,567	27,657	253,044	230,325
Class B	294,537	3,101	1,368	33,471	256,597	37,940
B1	34,913	2,750	-	6,469	25,694	9,219
B2	259,624	351	1,368	27,002	230,903	28,721
Non-interest bearing promissory notes	-	-	-	-	-	-
Loans issued to employees	23,513	1,472	15,047	-	6,994	16,519
Interest receivable on deposits	9,937	7,644	2,293	-	-	9,937
Other small debtors	43,939	26,605	-	12,591	4,743	39,196
<b>Total</b>	<b>1,596,254</b>	<b>332,626</b>	<b>196,397</b>	<b>522,742</b>	<b>544,489</b>	<b>1,051,765</b>

As at 31 December 2007 trade and other receivables of some of debtors were secured by guaranties provided by third parties for total amount of RR 73,099 thousand (31 December 2006 – RR 24,608 thousand). Credit risks, related to trade and other receivables, are systematically reviewed for possibility of creation of impairment provision against trade and other receivables. Trade and other receivables balance netted with trade and other receivables impairment provision represents maximum exposure to credit risks. Despite the fact that cash collection is subject to influence of different economic factors, Management of the Group believes that there is no significant risk of losses exceeding recognized trade and other receivables impairment provision.

The amount of trade and other receivables impairment provision is assessed by Management based on analysis of particular counterparty's solvency, tendencies, possibility of cash collection, and analysis of future cash flows. Identification of present value of future cash flows was done utilizing discount rates of 11.5% p.a. – 28.0% p.a., calculated based on the original effective interest rate. Discounting effect is recognized as part of trade and other receivables impairment reserve expenses. Group estimates that discounted amount of trade and other receivables less recognized impairment reserve can be collected in cash or settled against trade and other payables.

All impaired trade receivables are older than 1 year. The individually impaired receivables mainly relate to wholesalers, which are located in the Caucasus region and are in unexpected difficult economic situation

**OGK-2 Group****Notes to Consolidated Financial Statements for the year ended 31 December 2007**

(in thousands of Russian Roubles)

Movements in trade and other receivables impairment provision during 2007 were as follows:

<b>Impairment provision as at 31 December 2006</b>	<b>544,489</b>
Accrual of impairment provision	28,069
Write-off of doubtful trade and other receivables	(957)
Reversal of impairment provision	(114,501)
<b>Impairment provision as at 31 December 2007</b>	<b>457,100</b>

Movements in trade and other receivables impairment provision during 2006 were as follows:

<b>Impairment provision as at 31 December 2005</b>	<b>1,049,403</b>
Accrual of impairment provision	243,990
Write-off of doubtful trade and other receivables	(683,653)
Reversal of impairment provision	(65,251)
<b>Impairment provision as at 31 December 2006</b>	<b>544,489</b>

As at 31 December 2007 total amount of overdue trade and other receivables which were not provided for impairment was equal to RR 176,589 thousand. (31 December 2006 – RR 522,742 thousand). The reason impairment provision was not created is absence of events of non-payments of respective counterparty in past. Further, these amounts were collectively assessed for impairment within groups of financial assets with similar credit risk. Collective assessment did not change individual assessment.

Analysis of overdue but not impaired trade and other receivables is as follows:

	<b>31 December 2007</b>	<b>31 December 2006</b>
<b>Overdue trade and other receivables</b>		
Less than 1 month	73,528	39,632
From 1 to 3 months	26,992	13,072
From 3 months to 1 year	54,158	299,095
From 1 year to 5 years	21,911	170,393
More than 5 years	-	550
<b>Total</b>	<b>176,589</b>	<b>522,742</b>

Cash is placed in Russian financial institutions which are considered at the time of deposit to have minimal or low risk of default. Board of Directors of the Company has approved list of the banks, at which deposits could be placed and rules for such placements. Also Group continuously considers finance condition, independent agencies ratings, past experience and other factors. List of the banks with balances and ratings, at which Group has open current bank account and deposits at reporting date, is presented in Notes 9, 10 and 13.

As at reporting date maximum Group's exposure to credit risk equals to carrying amount of each class of financial assets. Group does not hold any collateral.

**Liquidity risk.** Prudent liquidity risk management includes maintaining sufficient cash and the availability of funding from an adequate amount of committed credit facilities. Group mainly has short-term financial liabilities. To manage the liquidity risk the Group applies a policy of holding financial assets for which there is a liquid market and that are readily convertible to meet liquidity needs. The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

**OGK-2 Group****Notes to Consolidated Financial Statements for the year ended 31 December 2007**

(in thousands of Russian Roubles)

31 December 2007	Less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Carrying amount
Bonds	191,950	-	2,576,918	3,387,082	4,988,216
Bank loans	-	400,000	1,200,000	-	1,600,000
Finance leasing liability	7,141	21,021	49,360	18,902	80,538
Trade payables	1,328,825	74,691	62,547	-	1,466,063
Other payables (except for advances received and liabilities for employee compensations)	208,009	13,932	204,072	-	426,013
<b>31 December 2006</b>					
Bank loans	522,625	537,300	3,522,800	1,000,000	5,582,725
Finance leasing liability	10,082	29,204	68,838	88,619	154,733
Trade payables	839,001	13,208	110,498	-	962,707
Other trade and other payables (except for advances received and liabilities for employee compensations)	105,134	81,053	98,187	-	284,374

Group has following unutilized bank credit lines:

	31 December 2007	31 December 2006
With flexible interest rate:		
- expiring within 1 year from reporting date	-	176,700
- valid more than 1 year from reporting date	-	200,000
	-	376,700
With fixed interest rate:		
- expiring within 1 year from reporting date	1,500,000	350,000
- valid more than 1 year from reporting date	-	-
	1,500,000	350,000
<b>Total</b>	<b>1,500,000</b>	<b>726,700</b>

**Interest rate changes risk.** Profit and cash flows from operating activities of the Group are mainly independent from changes in market interest rates. Group is exposed to changes in interest rates risk only in respect of changes in market value of interest bearing loans and borrowings and interest bearing deposits. Significant interest bearing assets of the Group are disclosed in Notes 9, 10 and 13. These assets have fixed interest rate and therefore are exposed to risk of difference between fixed interest rate and market interest rate.

**Capital risk management.** The following capital requirements have been established for joint stock companies by the legislation of Russian Federation:

- Share capital can not be lower than 1,000 minimum salaries on the date of 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 has been in compliance with the above share capital requirements.

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

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total amount of liabilities



**OGK-2 Group****Notes to Consolidated Financial Statements for the year ended 31 December 2007**

(in thousands of Russian Roubles)

(including loans and borrowings, trade and other payables, recognized in Consolidated Balance Sheet) less cash and cash equivalents. Total amount of capital is calculated as equity, reported in Consolidated Balance Sheet, plus net debt.

During 2007 the Group's strategy, which was unchanged from 2006, was to maintain a gearing not exceeding 50%. The gearing ratios at 31 December 2007 and at 31 December 2006 were as follows:

	<b>31 December 2007</b>	<b>31 December 2006</b>
Loans and borrowings	6,857,880	5,741,918
Trade and other payables	2,005,731	1,476,631
Cash and cash equivalents	(21,476,918)	(1,178,570)
Net debt	(12,613,307)	6,039,979
Equity	36,635,982	13,074,869
Total capital	24,022,675	19,114,848
Gearing ratio, %	-53%	32%

Significant change in gearing ratio in 2007 was caused by increase in cash and cash equivalents as result of initial public offer at London Stock Exchange (Note 14).

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

**Note 29. Post balance sheet events**

**Reorganization of Company.** In October 2007 at Extraordinary shareholders meeting approved decision to reorganize OJSC OGK-2 in form of merger with OJSC OGK-2 Holding (the "Adding company"), spun-off from OJSC RAO UES. Also the merger agreement between OJSC OGK-2 and OJSC OGK-2 Holding was approved. Lists of property, rights and obligations, transferrable to OJSC OGK-2, were prepared as at 31 March 2007 with valuation based on their balance sheet carrying amounts, prepared under Russian GAAP. OJSC OGK-2 become assignee for all rights and obligations in accordance with act of transfer. If rights and/or obligations of Adding Company change from the date of act of transfer until the date of reorganization completion, they will be treated as transferred to OJSC OGK-2 at the completion date of reorganization.

Also at 15 February 2008 Board of Directors approved to enter into joint and several liability agreement for the contingent liabilities between companies, which receive assets as result of OJSC RAO UES reorganization. The agreement stipulates joint and several liability over the contingent liabilities of OJSC RAO UES which can crystallise as a result of legal claim against OJSC RAO UES in respect of events happened before the date of reorganisation. Share of liability of the Company in case the liability arises equals 2.5117%. The amount for which the Company could be liable is not reasonably assessable.

Also at the Extraordinary shareholders meeting it was agreed to increase share capital of OJSC OGK-2 by issue of additional shares in total amount of 24,900,629 shares with par value of RR 0.3627. The shares will be issued in the process of conversion of OJSC OGK-2 Holding shares during the process of merger in accordance with merger agreements. The reorganization of the Company will not have significant effect on the financial statements of the Group.

Also, Group has satisfied claims to repurchase Company's shares from shareholders, who voted against reorganization of the Company. Total amount of repurchased shares as at 31 December 2007 equal to 5,591,898 at RR 3.1431 per share totaling to RR 17,576 thousand. Total claims received equal to 6,973,231 shares with total value of RR 21,918 thousand. In January 2008 Group has repurchased 1,381,333 shares.

**Repurchase of Company's shares.** Company has received claims to repurchase own shares from shareholders who voted against approval of contractor's agreement for construction two power generating units at Troitskaya GRES and two power generating units at Stavropolskaya GRES. Total amount of shares claimed to be repurchased equal to 16,001,974 shares at RR 3.0006 per share for total amount of RR 48,016 thousand. Group has repurchased claimed shares in full in March 2008.

**Termination payments.** The Board of Directors decided to terminate the contract with General Director since 30 May 2008. Also it was decided that management personnel will to have their contracts terminated with effect from 29 May 2008. The amount of termination payments arising from this is RR 484,685 thousand, out of which RR 321,236 thousand relate to former members of Management Board. This is expensed in 2008.

**Pledge of promissory notes.** Under agreement with OJSC Nomos-Bank for Group's stock option program servicing, on 30 May 2008 the Group pledged non-interest bearing promissory notes of OJSC Nomos-Bank with total nominal value of RR 1,000,000 thousand.

**Secondary bonds placement.** All bonds, which were previously re-purchased by the Group in March-April 2008 totaling to 2,384,968 bonds, were secondary placed in the end of April 2008 at 94.80% of nominal value. Coupon rate equaled to 7.7%p.a. from nominal, bonds are redeemable on 5 July 2010.

**Investment programme implementation.** In April the Company made prepayments to main contractors OJSC Group E4 and CJSC Quartz-Tyumen in amount of RR 8,843,349 thousand and 11,146,843 thousand using funds from matured short term deposits.

**Breaches of covenants.** Credit facilities in OJSC "Sberbank" (the Lender) were restricted by covenants (transfer of revenue to account in OJSC "Sberbank"). After the balance sheet date the Group several times defaulted to meet covenants of credit facilities. As a result, the Lender had the option to call these loans earlier. However, none of available options were used by the Lender, and the Lender waived its rights shortly after defaults.

### **Note 30. Other events**

OJSC OGK-2 has signed and sent for discussion to counterparties three-party long-term contract for supply of capacity to wholesale market with CJSC Center for Finance Settlements (hereinafter CFS) and OJSC Administrator of electricity wholesale trade system. Under this agreement Group is obliged to provide (supply) and CFS is obliged to accept capacity produced by generation equipment putted into operations not earlier than 2008. Cumulative power to be supplied to whole sales market equals to 2,580 MWt. Location, maximum technical characteristics of generating equipment and time schedule of electricity power supply are defined in the contract. In case of breach of the contract Group will be obliged to compensate losses incurred by CFS and caused by purchase of missing electricity power. Total amount of compensation can not exceed RR 29,850,200 thousand. Cumulative amount of electricity power proposed to supply to CFS, equals to minimum installed capacity of generation equipment, which will be built in line with investment program. Management of the Group does not see any reason for non-fulfilment or partial non-fulfilment of announced investment program. Date of cease of the liability for electricity power supply is the date when one year period of appropriate fulfilment by the Group of liability to supply electricity power from respective power generating equipment, but not later than December 31, 2021.