OJSC INTERREGIONAL DISTRIBUTION GRID COMPANY OF VOLGA
COMBINED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2007

Contents

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Independent Auditors' Report

To the Board of Directors of OJSC Interregional Distribution Grid Company of Volga

Report on the Combined IFRS Financial Statements

We have audited the accompanying combined financial statements of OJSC Interregional Distribution Grid Company of Volga (the "Company") and its subsidiaries (the "Group"), which comprise the combined balance sheets as at 31 December 2006 and 2007, and the combined income statements, combined statements of changes in equity and combined statements of cash flow for the years then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Combined Financial Statements

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

Auditors' Responsibility

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

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

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

Basis for Qualified Opinion

We did not observe the counting of inventories stated at RUR 787,731 thousand as at 31 December 2006 and RUR 879,326 thousand as at 31 December 2007 because we were engaged as auditors of the Group only after those dates. It was impracticable to satisfy ourselves as to those inventory quantities by other audit procedures. Accordingly, we were unable to determine whether any adjustments might be necessary to inventories cost of sales, taxation expense, net profit and retained accumulated loss for the years ended 31 December 2006 and 31 December 2007.

Qualified Opinion

In our opinion, except for the effects on the corresponding figures of such adjustments, if any, that might have been determined to be necessary had it been practicable to obtain sufficient appropriate audit evidence as described in the Basis for Qualified Opinion, the combined financial statements present fairly, in all material respects, the combined financial position of the Group as at 31 December 2006 and 2007, and its combined financial performance and its combined cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without further qualifying our opinion, we draw attention to the fact that the combined financial statements have been prepared for the purpose of presenting the combined financial position, combined financial performance and combined cash flows of certain companies that are under common control. The basis of preparation is described in Note 2.

ZAO KPMG
30 November 2009

(in thousands of Russian Roubles, unless otherwise stated)

	Note	31 December 2007	31 December 2006
ASSETS			
Non-current assets			
Property, plant and equipment	6	21,082,467	17,637,299
Intangible assets	7	387,231	205,691
Other non-current assets	8	651,878	425,858
Total non-current assets		**22,121,576**	**18,268,848**
Current assets			
Inventories	9	879,326	787,731
Income tax receivable		99,899	272,666
Trade and other receivables	10	2,257,856	1,580,497
Prepayments for current assets	11	503,888	259,499
Cash and cash equivalents	12	530,415	425,373
Other current assets	13	198,550	271,207
Total current assets		**4,469,934**	**3,596,973**
TOTAL ASSETS		**26,591,510**	**21,865,821**
EQUITY AND LIABILITIES			
Share capital	14	17,857,780	17,857,780
Accumulated loss		(64,182)	(1,661,610)
Total equity		**17,793,598**	**16,196,170**
Non-current liabilities			
Deferred income tax liabilities	24	1,149,737	929,931
Employee benefits	15	724,263	722,707
Loans and borrowings	16	2,302,687	62,278
Trade and other payables	17	191,420	191,909
Total non-current liabilities		**4,368,107**	**1,906,825**
Current liabilities			
Loans and borrowings	16	1,653,606	1,230,530
Trade and other payables	17	2,484,686	1,977,355
Income tax payable		-	7,237
Other taxes payable	18	291,513	547,704
Total current liabilities		**4,429,805**	**3,762,826**
Total liabilities		**8,797,912**	**5,669,651**
TOTAL EQUITY AND LIABILITIES		**26,591,510**	**21,865,821**

These combined financial statements were approved by management on 30 November 2009 and were signed on its behalf by:

General Director Ryabikin V.A.

Chief Accountant Tamlenova I.A.

Date 30 November 2009

The combined balance sheets is to be read in conjunction with the notes to, and forming part of, the combined financial statements set out on pages 9 to 38.

(in thousands of Russian Roubles, unless otherwise stated)

	Note	Year ended 31 December 2007	Year ended 31 December 2006
Revenue	19	31,852,182	24,573,553
Operating expenses	20	(28,897,603)	(23,170,900)
Other income and (expenses), net	22	66,862	(42,543)
Operating profit		**3,021,441**	**1,360,110**
Financial income	23	45,242	19,109
Financial expenses	23	(233,437)	(82,518)
Profit before income tax		**2,833,246**	**1,296,701**
Income tax expense	24	(1,089,702)	(474,493)
Profit for the year		**1,743,544**	**822,208**
Earning per share - basic and diluted (in RUR)	14	0.0098	0.0046

(in thousands of Russian Roubles, unless otherwise stated)

	Note	Year ended 31 December 2007	Year ended 31 December 2006
OPERATING ACTIVITIES:			
Profit before income tax		**2,833,246**	**1,296,701**
Adjustments for:			
Depreciation and amortisation	6,7	1,942,880	1,568,871
Allowance for impairment of accounts receivable		99,166	18,124
Provision for obsolescence		3,295	(189)
Financial expense		233,437	82,518
Financial income		(45,242)	(19,109)
Loss on disposal of property, plant and equipment		93,922	114,538
Accounts payable written-off		(12,254)	(1,447)
Adjustment for other non-cash transactions		4,828	15,252
Operating profit before working capital changes and income tax paid		**5,153,278**	**3,075,259**
Working capital changes:			
Increase in trade and other receivables		(729,568)	(272,763)
Increase in prepayments		(184,195)	(151,741)
Increase in inventories		(123,714)	(167,191)
Decrease/(increase) in other current assets		73,248	(185,703)
Decrease/(increase) in other non-current assets		7,076	(124,668)
Increase in trade and other payables		393,534	1,298,802
(Decrease)/increase in long-term liabilities		(30,750)	106,952
(Decrease)/increase in taxes payable other than income		(256,191)	7,721
Cash flows from operations before income taxes and interest paid		**4,302,718**	**3,588,668**
Income tax paid		(704,367)	(556,004)
Interest paid		(158,553)	(75,380)
Net cash flows from operating activities		**3,439,798**	**2,955,284**
INVESTING ACTIVITIES:			
Acquisition of property, plant and equipment		(4,930,689)	(2,755,415)
Proceeds from disposal of property, plant and equipment		48,481	18,565
Interest received		2,591	3,381
Net cash flows used in investing activities		**(4,879,617)**	**(2,733,469)**
FINANCING ACTIVITIES:			
Proceeds from loans and borrowings		6,414,732	1,526,850
Repayment of loans and borrowings		(4,493,807)	(1,455,545)
Dividends paid		(146,116)	(145,876)
Repayment of finance lease liabilities		(229,948)	(34,297)
Net cash flows from/(used in) financing activities		**1,544,861**	**(108,868)**
Net increase in cash and cash equivalents		**105,042**	**112,947**
Cash and cash equivalents at beginning of year		**425,373**	**312,426**
Cash and cash equivalents at end of year		**530,415**	**425,373**

The combined statements of cash flows is to be read in conjunction with the notes to, and forming part of, the combined financial statements set out on pages 9 to 38.

(in thousands of Russian Roubles, unless otherwise stated)

	Share capital	Accumulated loss	Total equity
As at 1 January 2006	**17,857,780**	**(2,337,942)**	**15,519,838**
Profit for the year	-	822,208	822,208
Dividends to shareholders	-	(145,876)	(145,876)
As at 31 December 2006	**17,857,780**	**(1,661,610)**	**16,196,170**
As at 1 January 2007	**17,857,780**	**(1,661,610)**	**16,196,170**
Profit for the year	-	1,743,544	1,743,544
Dividends to shareholders	-	(146,116)	(146,116)
As at 31 December 2007	**17,857,780**	**(64,182)**	**17,793,598**

The combined statements of changes in equity is to be read in conjunction with the notes to, and forming part of, the combined financial statements set out on pages 9 to 38.

(in thousands of Russian Roubles, unless otherwise stated)

Note 1. Background

(a) The Group and its operations

Open Joint-Stock Company "Interregional Distribution Grid Company of Volga" (hereafter, the "Company" or OJSC "IDGC of Volga") and its subsidiary (together referred to as the "Group") comprise Russian open joint stock companies as defined in the Civil Code of the Russian Federation. The Company was set up on 29 June 2007 based on Resolution no. 191p of 22 June 2007 and pursuant to the Board of Directors' decision (board of directors' meeting minutes no. 250 of 27 April 2007) of the Russian Open Joint-Stock Company RAO "United Energy Systems of Russia" (hereafter, "RAO UES").

The Company's registered office is 42/44 Pervomayskaya street, Saratov, Russia, 410031.

The Group's principal activity is the transmission and distribution of electricity and connection of customers to the electricity grid.

The Group consists of the Company and its subsidiaries:

Name	% owned 31 December 2007	% owned 31 December 2006
OJSC «Chuvashskaya avtotransportnaya kompaniya»	100% - 1 share	100% - 1 share
OJSC «Sanatoriy-profilaktoriy Solnechny»	99.99	99.99
Private Educational Institution «Learning centre «Energetik-Orenburg»	100.00	100.00
OJSC «Sotsialnaya Sfera-M»	100.00	100.00
OJSC «Elektroopora-R»	100.00	100.00
OJSC Plemhoz «Magistralny»	53.00	53.00

The reform process in the Russian electric utilities industry creates conditions for competitive electricity market development in which the Group can raise the capital required to maintain and expand current capacity.

As part of the reform process, a merger of the Company with the entities listed below was effected on 31 March 2008 in accordance with the Resolution no. 250 of the Board of Directors of RAO UES of 27 April 2007:

- OJSC «Volzhskaya Interregional Distribution Company», established on the basis of distribution assets of OJSC «Saratovenergo», OJSC «Samaraenergo» and OJSC «Uliyanovskenergo»;
- OJSC «Penzaenergo»;
- OJSC «Orenburgenergo»;
- OJSC «Chuvashenergo»;
- OJSC «Mordovenergo».

The merger was effected through conversion of shares issued by the Company in exchange for shares in the acquired entities (refer to Note 14). As a result of the merger, above-mentioned companies ceased to exist as separate legal entities and the Company became their legal successor.

As at 31 December 2007, the Government of Russian Federation owned 52.70% of RAO UES, which in turn owned 100% of the Company.

On 1 July 2008 RAO UES ceased to exist as a separate legal entity and transferred shares of the Company to Open Joint Stock Company "Interregional Distribution Grid Companies Holding" (hereafter, "IDGC Holding"), a newly formed state-controlled entity.

As at 31 December 2008, the Government of the Russian Federation owned 52.70% shares of IDGC Holding, which in turn owned 67.63% of the Company.

The Government of the Russian Federation influences the Group's activities through setting power transmission and distribution tariffs.

(b) Russian business environment

The Russian Federation has been experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks that typically do not exist in other markets. Furthermore, the tax, currency and customs legislation within the Russian Federation is a subject to varying interpretations and changes, which can occur frequently. In addition, the recent contraction in the capital and credit markets has further increased the level of economic uncertainty in the environment. The accompanying financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Company. The future business environment may differ from management's assessment.

Note 2. Basis of preparation

(a) Statement of compliance

These combined IFRS financial statements (hereinafter "Financial Statements") have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

(b) First time adoption

These Financial Statements are the Group's first combined financial statements prepared in accordance with IFRSs.

These Financial Statements have been prepared following the requirements of IFRS 1 First-time Adoption of International Financial Reporting Standards (IFRSs). In preparing these Financial Statements, the opening balance was prepared as at 1 January 2006 - the date of the Group's transition to IFRS.

The accounting policies set out in Note 3 have been applied in preparing the Financial Statements for the year ended 31 December 2007, the comparative information presented in Financial Statements for the year ended 31 December 2006 and in the preparation of an opening IFRS balance sheet at 1 January 2006 (the Group's date of transition).

In preparing its opening combined IFRS balance sheet, the Group has adjusted amounts reported in its subsidiaries' financial statements prepared in accordance with Russian Accounting Principles for the purpose of fair presentation in accordance with IFRS.

As the Group did not prepare combined financial statements under Russian Accounting Principles, no reconciliation to previous GAAP on transition to IFRS is provided.

The Group elected to determine the deemed cost of property, plant and equipment as at 1 January 2006 (refer to Note 6).

(c) Basis of measurement

The Financial Statements are prepared on the historical cost basis except that property, plant and equipment was revalued to determine deemed cost as part of the adoption of IFRS as at 1 January 2006.

(d) Combined financial statements

The formation of the Group was completed on 31 March 2008 (refer to Note 1(a)). All the companies were under common control of RAO UES. These Financial Statements are prepared in accordance with the Group accounting policies in respect of business combinations involving entities under common control (refer to Note 3 (a)) as if the formation of the Group was completed as at 1 January 2006.

These Financial Statements are presented to show the combined financial position, combined financial performance and combined cash flows for OJSC "IDGC of Volga", OJSC "Volzhskaya Interregional Distribution Company", OJSC "Penzaenergo", OJSC "Orenburgenergo", OJSC "Chuvashenergo", OJSC "Mordovenergo" and their subsidiaries, which are under common control of RAO UES and which were merged into one legal entity as part of the industry reorganisation process on 31 March 2008, as discussed in Note 1.

For the purpose of the combination, the accounting policies of OJSC “IDGC of Volga”, OJSC “Volzhskaya Interregional Distribution Company”, OJSC “Penzaenergo”, OJSC “Orenburgenergo”, OJSC “Chuvashenergo”, OJSC “Mordovenergo” are aligned and intra-company transactions are eliminated. Subject to these adjustments, assets, liabilities, revenues, and costs and expenses are added together.

Each enterprise 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.

These Financial Statements may not necessarily be indicative of the financial performance that would have been achieved if the Company and its merged entities had operated as a single entity.

(e) Functional and presentation currency

The national currency of the Russian Federation is the Russian rouble ("RUR"), which is the Group's functional currency and the currency in which these Financial Statements are presented. All financial information presented in Russian roubles has been rounded to the nearest thousand.

(f) Use of judgments, estimates and assumptions

Management has made a number of judgments, estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these Financial Statements in conformity with IFRSs. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgement in applying accounting policies that have the most significant effect on the amounts recognised in the Financial Statements is included in the following notes:

Note 6 – Property, plant and equipment;

Note 10 – Trade and other receivables;

Note 15 – Employee benefits.

Note 3. Significant accounting policies

The following significant accounting policies have been applied in the preparation of these Financial Statements.

(a) Basis of consolidation

Business combinations including entities under common control

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

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

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the Financial Statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

Transactions eliminated on consolidation

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing these Financial Statements.

(b) Foreign currency

Transactions in foreign currencies are translated to Russian roubles at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to Russian roubles at the exchange rate at that date. Non-monetary assets and liabilities that are measured and denominated in a foreign currency are translated to Russian roubles at the exchange rate at the date that the fair value was determined. Foreign currency differences arising in translation are recognised in the income statement.

(c) Financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Accounting for finance income and expenses is discussed in note 3(m).

Held-to-maturity investments

If the Group has the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses. Investments in equity securities that are not quoted on a stock exchange and where fair value cannot be estimated on a reasonable basis by other means are stated at cost less impairment losses.

(d) Property, plant and equipment

Recognition and measurement

Items of property, plant and equipment, except for land, are measured at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment at 1 January 2006, the date of transition to IFRSs, was determined by reference to its fair value at that date.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. Borrowing costs on qualifying assets are contained as part of the cost of such assets.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are recognised net in “operating expenses” in the income statement.

Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as incurred.

Depreciation

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

The estimated useful lives for the current and comparative periods are as follows:

Type of property, plant and equipment	Useful lives (in years)
Buildings	15-50
Transmission networks	5-20
Equipment for electricity transformation	5-20
Other	1-30

(e) Intangible assets

Intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in the income statement as incurred.

Amortisation is recognised in the income statement on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The estimated useful lives for the current and comparative periods are 3 to 10 years.

(f) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's balance sheet.

(g) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventory is determined on the weighted average cost method and includes expenditures incurred in acquiring the inventories and bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less selling expenses.

(h) Impairment

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the income statement. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to the income statement. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in the income statement. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(i) Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans, including Russia's State pension fund, are recognised in the income statement when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and any unrecognised past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the net total of any unrecognised past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised in the income statement on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the income statement.

In calculating the Group's obligation in respect of a plan, to the extent that any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the defined benefit obligation and the fair value of plan assets, that portion is recognised in the income statement over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognised.

Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed using the projected unit credit method. Any actuarial gains or losses are recognised in the income statement in the period in which they arise.

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

(j) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, is net of any tax effects, and is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to / from retained earnings.

(k) Revenue

Revenue from electricity transmission is recognised in the income statement when the customer acceptance of the volume of electricity transmitted is received. The tariffs for energy transmission are approved by the Federal Tariff Agency and Regional Energy Commission of each region of the Group's operations.

Revenue from connection services represents a non-refundable fee for connecting the customer to the electricity grid network. The tariffs for connection services are approved by the Federal Tariff Agency and Regional Energy Commission of each region of the Group's operations. The terms, conditions and amounts of these fees are negotiated separately and are independent from fees generated by electricity transmission services. The revenue is recognised when electricity is activated and the customer is connected to the grid network or, for contracts where connection services are performed in stages, revenue is recognised in the proportion to the stage of completion when act of acceptance is signed by the customer.

Revenue from installation, repair and maintenance services and other sales is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer or when the services are provided.

(l) Lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(m) Financial income and expense

Finance income comprises interest income on funds invested, dividend income, gains on the disposal of available-for-sale financial assets and foreign currency gains. Interest income is recognised as it accrues in the income statement, using the effective interest method. Dividend income is recognised in the income statement on the date that the Group's right to receive payment is established.

Finance expenses comprise interest expense on borrowings, employee benefits, finance lease and foreign currency losses. All borrowing costs are recognised in the income statement using the effective interest method, except for borrowing costs related to qualifying assets which are recognised as part of the cost of such assets.

Foreign currency gains and losses are reported on a net basis.

(n) Income tax expense

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

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

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

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

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

(o) Dividends

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

(p) Earnings per share

The Group presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to shareholders of the Group by the weighted average number of shares outstanding during the period.

(q) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(r) Segment reporting

The Group operates predominantly in a single geographical area and industry, providing transmission of electric power and connection services in the Privolzhsky federal region of the Russian Federation. The transmission of electric power and connection services are related activities and are subject to similar risks and returns, therefore they are reported as one business segment.

(s) New Standards and Interpretations not yet adopted

The following new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2007, and have not been applied in preparing these Financial Statements. The Group plans to adopt these pronouncements when they become effective.

- *IFRS 8 Operating Segments* introduces the "management approach" to segment reporting. *IFRS 8 Operating Segments*, which becomes mandatory for the Group's 2009 consolidated financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. The Group is currently assessing the impact of the amended standard on its financial statements.
- *IAS 1 Presentation of Financial Statements (revised September 2007; effective for annual periods beginning on or after 1 January 2009).* The main change in IAS 1 is the replacement of the 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 Company 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.
- *IAS 27 Consolidated and Separate Financial Statements (revised January 2008; effective for annual period 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 no result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The Group is currently assessing the impact of the amended standard on its financial statements.
- *IFRS 3 Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 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. The Group is currently assessing the impact of the amended standard on its financial statements.

Note 4. Determination of fair value

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Investments in equity and debt securities

The fair value of held-to-maturity investments and available-for-sale financial assets is determined by reference to their quoted bid price at the reporting date. The fair value of held-to-maturity investments is determined for disclosure purposes only.

(b) Trade and other receivables

The fair value of trade and other receivables, excluding construction work in progress, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

(c) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option. For finance leases the market rate of interest is determined by reference to similar lease agreements.

Note 5. Financial risk management

(a) Overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these Financial Statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's cash and cash equivalents, receivables from customers and investment securities.

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. To manage the credit risk, the Group attempts, to the extent possible, to demand prepayments from customers.

Prepayments for connection services are routinely included in the customer service contracts.

The customer base for electricity transmission services for each of the Group's entities is limited to several distribution companies and a small number of large manufacturing enterprises. Payments are tracked regularly and electricity transmission customers are advised of any failures to submit timely payments.

The Group does not require collateral in respect of trade and other receivables.

The Group establishes an allowance for impairment that represents its estimate of anticipated losses in respect of trade and other receivables that relate to individually significant exposures.

Cash and cash equivalents

The Group attempts to minimise the credit risk exposure for current and deposit accounts with banks by placing temporarily available funds only with the banks that are lendors to the Group.

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, that it will always have sufficient liquidity to meet its liabilities when due, without incurring losses.

(d) Market risk

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

(i) Currency risk

The Group does not have any significant exposure to currency risk on sales, purchases and borrowings, because no significant sales, purchases, or borrowings are denominated in a currency other than the functional currency of the Group, which is the Russian roubles.

(ii) Interest rate risk

The Group's operating profits and cash flows from operating activity are largely not dependent on the changes in market interest rates. Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity. The majority of interest rates on current and non-current borrowings are fixed.

(e) Capital management

The management's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The management monitors the level of dividends to ordinary shareholders. The management seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

(in thousands of Russian Roubles, unless otherwise stated)

Note 6. Property, plant and equipment

	Land and buildings	Transmission networks	Equipment for electricity transformation	Construction in progress	Other	Total
Deemed cost						
Balance at 1 January 2006	**2,847, 527**	**10,794,442**	**1,419,847**	**480,649**	**1,149,342**	**16, 691,807**
Additions	93,829	24,038	10,924	2,290,222	294,720	2,713,733
Transfers	507,223	821,246	426,108	(2,055,635)	301,058	-
Disposals	(13,250)	(81,626)	(9,471)	(44,031)	(16,329)	(164,707)
Balance at 31 December 2006	**3,435,329**	**11,558,100**	**1,847,408**	**671,205**	**1,728,791**	**19,240,833**
Balance as 1 January 2007	**3,435,329**	**11,558,100**	**1,847,408**	**671,205**	**1,728,791**	**19,240,833**
Additions	29,826	36,849	202,374	4,778,528	411,374	5,458,951
Transfers	806,426	1,105,747	1,387,499	(3,360,741)	61,069	-
Disposals	(9,549)	(34,274)	(40,761)	(9,660)	(70,119)	(164,363)
Balance as 31 December 2007	**4,262,032**	**12,666,422**	**3,396,520**	**2,079,332**	**2,131,115**	**24,535,421**
Accumulated depreciation						
Balance at 1 January 2006	**(3,461)**	-	-	-	**(65,739)**	**(69,200)**
Depreciation for the year	(163,854)	(977,123)	(163,795)	-	(240,996)	(1,545,768)
Disposals	217	7,396	543	-	3, 278	11,434
Balance at 31 December 2006	**(167,098)**	**(969,727)**	**(163,252)**	**-**	**(303,457)**	**(1,603,534)**
Balance as at 1 January 2007	**(167,098)**	**(969,727)**	**(163,252)**	**-**	**(303,457)**	**(1,603,534)**
Depreciation for the year	(216,582)	(1,042,948)	(261,961)	-	(354,076)	(1,875,567)
Disposals	945	3,376	3,451	-	18,375	26,147
Balance at 31 December 2007	**(382,735)**	**(2,009,299)**	**(421,762)**	**-**	**(639,158)**	**(3,452,954)**
Net book value						
At 1 January 2006	**2,844,066**	**10,794,442**	**1,419,847**	**480,649**	**1,083,603**	**16,622,607**
At 31 December 2006	**3,268,231**	**10,588,373**	**1,684,156**	**671,205**	**1,425,334**	**17,637,299**
At 31 December 2007	**3,879,297**	**10,657,123**	**2,974,758**	**2,079,332**	**1,491,957**	**21,082,467**

As at 31 December 2007 construction in progress includes advance prepayments for property, plant and equipment of RUR 195,052 thousand (2006: RUR 85,451 thousand).

Borrowing costs totalling RUR 7,533 thousand at 31 December 2007 (as at 31 December 2006: RUR 4,353 thousand) were included in cost of property, plant and equipment and represent interest on loans.

Determination of deemed cost

The deemed cost of Group's property, plant and equipment as at 1 January 2006 was RUR 16,691,807 thousand and was determined on the basis of fair value at that date. The net book value of property, plant and equipment in the financial statements prepared in accordance with the Russian accounting standards was RUR 24,636,666 thousand as at 1 January 2006.

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

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

(in thousands of Russian Roubles, unless otherwise stated)

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

In addition to the determination of the depreciated replacement cost, cash flow testing was conducted in order to assess the reasonableness of those values, which resulted in the depreciated replacement cost values being decreased by RUR 59,747 million in arriving at the above value.

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

- Cash flows were projected based on actual operating results and the business plan for the period till 2016.
- In the first year the total revenue from electricity transmission and distribution was projected at RUR 20,867 million. The management plans to achieve the amount of RUR 51,871 millions by the tenth year of the business plan. The anticipated annual production growth included in the cash flow projections was 10.9% for the years 2007 to 2016 mainly due to introduction of new tariffs.
- Based on Government regulations, the electricity transmission industry was expected to switch to the Regulatory Asset Base (RAB) regulation of tariffs, which is aimed at ensuring the fair return on the invested capital. The shift to RAB regulation was expected to occur in 2012 with the transition period 2010-2012. The RUR rate of return on the invested capital as determined by Government regulations was expected to be in the range of 5.5% to 6.5%.
- A discount rate was estimated in the range of 11.99-12.69% in the first year to 11.24% in the tenth year and was applied in determining the recoverable amount of property, plant and equipment. The discount rate was estimated on the basis of the Company's weighted average cost of capital (from 12.69-13.01% in the first year to 13.51% in the tenth year) and cost of borrowings of 6.84% (including tax effect).
- A terminal value was derived at the end of a ten-year interim period. A terminal growth rate of 2.7% was considered in estimating the terminal value for the assets.

The values assigned to the key assumptions represent management's assessment of future trends in the business and are based on both external and internal sources.

Impairment test

Management has used various assumptions in the calculation of the recoverable value of property, plant and equipment. Variations in these assumptions may give rise to a significantly different amount of the impairment provision. In management opinion, no indicators of impairment exist as at the reporting date. Refer to note 30 for the description of conditions that had an effect on this assessment in 2008.

Leased plant and machinery

The Group leases production equipment and transport under a number of finance lease agreements. At the end of each of the leases the Group has the option to purchase the equipment at a beneficial price.

At 31 December 2007 and at 31 December 2006 the net book value of leased property, plant and equipment was as follows:

	31 December 2007	**31 December 2006**
Cost	1,053,566	167,325
Accumulated depreciation	(69,536)	(6,184)
Net book value	**984,030**	**161,141**

(in thousands of Russian Roubles, unless otherwise stated)

Note 7. Intangible assets

	Patents and licenses	Computer software	Total
Cost			
Balance at 1 January 2006	**-**	**179,509**	**179,509**
Additions	50,192	19,458	69,650
Balance at 31 December 2006	**50,192**	**198,967**	**249,159**
Balance as 1 January 2007	**50,192**	**198,967**	**249,159**
Additions	237,442	11,411	248,853
Balance as 31 December 2007	**287,634**	**210,378**	**498,012**
Accumulated amortisation			
Balance at 1 January 2006	**-**	**(20,365)**	**(20,365)**
Amortisation for the year	(5,867)	(17,236)	(23,103)
Balance at 31 December 2006	**(5,867)**	**(37,601)**	**(43,468)**
Balance as at 1 January 2007	**(5,867)**	**(37,601)**	**(43,468)**
Amortisation for the year	(48,428)	(18,885)	(67,313)
Balance at 31 December 2007	**(54,295)**	**(56,486)**	**(110,781)**
Net book value			
At 1 January 2006	**-**	**159,144**	**159,144**
At 31 December 2006	**44,325**	**161,366**	**205,691**
At 31 December 2007	**233,339**	**153,892**	**387,231**

Intangible assets include mandatory licenses for electricity transmission and capitalised SAP/R3 implementation expenses.

Note 8. Other non-current assets

	31 December 2007	31 December 2006
Finance lease prepayments	310,613	148,867
Financial assets related to employee benefit fund	283,779	173,314
Other receivables	25,176	33,632
Trade receivables	21,995	32,062
Unfinished intangible assets	17,620	6,049
Bank bills of exchange	5,917	51,976
Less: Allowance for impairment of accounts receivable	(13,222)	(20,042)
Total	**651,878**	**425,858**

Financial assets related to employee benefit fund relate to the Group contributions accumulated in solidary and employees' individual pension accounts with the Non-State Pension Fund of Electric Power Industry (employee benefit fund). Subject to certain restrictions contribution to the employee benefit fund can be withdrawn at the discretion of the Group.

The Group's exposure to credit and currency risks and impairment losses related to non-current accounts receivable are disclosed in note 29.

Note 9. Inventories

	31 December 2007	31 December 2006
Raw materials and supplies	632,748	563,641
Spare parts	270,273	241,948
Other inventories	22,103	24,645
Provision for obsolescence	(45,798)	(42,503)
Total	**879,326**	**787,731**

As at 31 December 2007 inventories with carrying amount of RUR 128,111 thousand are pledged as collateral according the bank loan agreements (see Note 16).

(in thousands of Russian Roubles, unless otherwise stated)

Note 10. Trade and other receivables

	31 December 2007	31 December 2006
Trade receivables	1,933,134	1,275,997
Taxes receivable	441,046	329,569
VAT receivable	280,308	384,323
Other receivables	219,136	362,055
Less:		
Allowance for impairment of trade receivables	(586,236)	(731,277)
Allowance for impairment of other receivables	(29,532)	(40,170)
Total	**2,257,856**	**1,580,497**

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 29.

Note 11. Prepayments for current assets

	31 December 2007	31 December 2006
Prepayments	583,516	275,041
Less: Allowance for impairment of prepayments	(79,628)	(15,542)
Total	**503,888**	**259,499**

Note 12. Cash and cash equivalents

	31 December 2007	31 December 2006
Cash at bank and in hand	530,036	425,008
Cash equivalents	379	365
Total	**530,415**	**425,373**

All cash and cash equivalents are denominated in Russian roubles. Cash equivalents represent bank notes with original maturities of three month or less.

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 29.

Note 13. Other current assets

	31 December 2007	31 December 2006
Bank and other promissory notes	99,371	180,935
Prepayments for insurance	99,179	90,272
Total	**198,550**	**271,207**

Note 14. Equity

Share capital

	31 December 2007	31 December 2006
Number of ordinary shares authorised, issued and fully paid	178,577,801,146	178,577,801,146
Par value (in RUR)	0.1	0.1
Total share capital (in RUR)	**17,857,780,115**	**17,857,780,115**

The charter capital of the Company formed upon its foundation was RUR 10,000 thousand and consisted of 100,000,000 ordinary shares with par value of RUR 0.1.

20 March 2008 the Company registered the results of 178,477,801,146 ordinary shares issue which were placed by conversion upon merger of regional generation companies.

(in thousands of Russian Roubles, unless otherwise stated)

Formation of the Group was completed on 31 March 2008 through conversion of OJSC «Volzhskaya Interregional Distribution Company», OJSC «Penzaenergo», OJSC «Orenburgenergo», OJSC «Chuvashenergo» and OJSC «Mordovenergo» shares into an additionally issued 178,477,801,146 ordinary shares of IDGC of Volga as follows:

- 20,349/139,540 of ordinary shares of OJSC «Volzhskaya Interregional Distribution Company» with par value of RUR 1.00 were converted into one additionally issued ordinary share of IDGC of Volga with par value of RUR 0.01;
- 20,349/127,791 of preference shares of OJSC «Volzhskaya Interregional Distribution Company» with par value of RUR 1.00 were converted into one additionally issued ordinary share of IDGC of Volga with par value of RUR 0.01;
- 20,349/1,853,684 of ordinary shares of OJSC «Penzaenergo» with par value of RUR 8.00 were converted into one additionally issued ordinary share of IDGC of Volga with par value of RUR 0.01;
- 20,349/1,697,604 of preference shares of OJSC «Penzaenergo» with par value of RUR 8.00 were converted into one additionally issued ordinary share of IDGC of Volga with par value of RUR 0.01;
- 20,349/6,574,832 of ordinary shares of OJSC «Orenburgenergo» with par value of RUR 10.00 were converted into one additionally issued ordinary share of IDGC of Volga with par value of RUR 0.01;
- 20,349/317,869 of ordinary shares of OJSC «Chuvashenergo» with par value of RUR 0.50 were converted into one additionally issued ordinary share of IDGC of Volga with par value of RUR 0.01;
- 20,349/144,531 of ordinary shares of OJSC «Mordovenergo» with par value of RUR 1.00 were converted into one additionally issued ordinary share of IDGC of Volga with par value of RUR 0.01.

Share capital as at 31 December 2007 and 2006 years were presented as if restructuring completed in March 2008 had taken place at the beginning of the earliest period presented (1 January 2006).

Dividends paid and declared

In accordance with Russian legislation the Company’s distributable reserves are limited to the balance of retained earnings as recorded in the Company’s statutory financial statements prepared in accordance with Russian Accounting Principles. As at 31 December 2007 the Company had retained earnings, including the profit for the current year, of RUR 3,240,536 thousand (2006: RUR 2,351,079 thousand).

At the annual shareholders meeting held on 30 May 2008 the decision has been made not to declare dividends for the year 2007.

In 2007 the Group declared and paid dividends for the year 2006 in the amount of RUR 146,116 thousand (in 2006: RUR 145,876 thousand).

Earnings per share

The calculation of earnings per share is based upon the profit for the year and the outstanding number of ordinary shares after the merger on 31 March 2008 in order to determine earnings per share for the combined entities as if merger was completed on 01 January 2006. The Company has no dilutive potential ordinary shares.

	Year ended 31 December 2007	**Year ended 31 December 2006**
Weighted average number of ordinary shares issued	178,577,801,146	178,577,801,146
Profit attributable to the shareholders	1,743,544	822,208
Weighted average earnings per ordinary share – basic (in RUR)	0.0098	0.0046

(in thousands of Russian Roubles, unless otherwise stated)

Note 15. Employee benefits

The Group provides the following long-term pension and social benefit plans:

- defined contribution pension plan (Non-Government Pension Fund of the Electric Power Industry and Non-Government Pension Fund "Professionalniy"); and
- defined benefit pension plans regulated by Collective Bargaining Agreements that include one-time benefits paid in case of death, one-time benefits paid upon retirement or invalidity and financial support to honored workers and pensioners.

The table below summarises the amounts of defined benefit obligations recognised in the Financial Statements as of 31 December 2007 and as of 31 December 2006.

Amounts recognised in the combined balance sheets:

	31 December 2007		31 December 2006	
	Post-employment benefits	Other benefits	Post-employment benefits	Other benefits
Present value of funded defined benefit obligations	888,373	4,789	729,818	10,713
Net actuarial (gains)/losses not recognised in the balance sheet	(138,541)	-	5,718	-
Past service cost not recognised in the balance sheet	(30,358)	-	(23,542)	-
Net liability in the balance sheet	**719,474**	**4,789**	**711,994**	**10,713**

Amounts recognised in the combined income statement are as follows:

	Year ended 31 December 2007		Year ended 31 December 2006	
	Post-employment benefits	Other benefits	Post-employment benefits	Other benefits
Current service cost	51,357	342	44,076	798
Interest expenses	47,503	678	44,825	639
Recognised actuarial loss	-	1,248	-	993
Past service cost	1,780	(6,441)	-	-
Immediate recognition of vested prior service costs	14,508	-	11,669	-
Total	**115,148**	**(4,173)**	**100,570**	**2,430**

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

	Year ended 31 December 2007		Year ended 31 December 2006	
	Post-employment benefits	Other benefits	Post-employment benefits	Other benefits
Benefit obligations				
Benefit obligations as at the beginning of the period	729,818	10,713	657,100	9,645
Current service cost	51,357	342	44,076	798
Interest cost	47,503	678	44,825	639
Actuarial loss/(gain)	144,259	1,248	(5,718)	993
Benefits paid	(107,668)	(1,751)	(45,676)	(1,362)
Past service cost	23,104	(6,441)	35,211	-
Benefit obligations as at the end of the period	**888,373**	**4,789**	**729,818**	**10,713**

(in thousands of Russian Roubles, unless otherwise stated)

Changes in the Group's net benefit obligations are as follows:

	Year ended 31 December 2007		Year ended 31 December 2006	
	Post-employment benefits	**Other benefits**	**Post-employment benefits**	**Other benefits**
Net benefit obligations				
Net benefit obligations as at the beginning of the period	711,994	10,713	657,100	9,645
Net costs for the period	115,148	(4,173)	100,570	2,430
Benefits paid	(107,668)	(1,751)	(45,676)	(1,362)
Net benefit obligations as at the end of the period	**719,474**	**4,789**	**711,994**	**10,713**

Principal actuarial estimations are as follows:

	Year ended 31 December 2007		Year ended 31 December 2006	
	Post-employment benefits	**Other benefits**	**Post-employment benefits**	**Other benefits**
Discount rate	6.79%	6.79%	6.77%	6.77%
Future Salary increase	6.15%	6.15%	6.58%	6.58%
Future inflation rate	6.15%	6.15%	6.58%	6.58%
Mortality table	Russian 2002	Russian 2002	Russian 2002	Russian 2002
Average working life (in years)	12	12	11	11

(in thousands of Russian Roubles, unless otherwise stated)

Note 16. Loans and borrowings

Non-current borrowings

	Effective interest rate,%	Currency	Year of maturity	31 December 2007	31 December 2006
Loans and borrowings				1,767,776	
Including:					
OJSC Orgresbank	8.80-11.40	RUR	2009-2010	1,053,164	-
OJSC VTB Bank	8.50-14.55	RUR	2012	339,612	-
OJSC Gazprombank	11.00	RUR	2010	250,000	-
OJSC Sberbank	8.50	RUR	2009	100,000	-
OJSC Alfa-Bank	11.00	RUR	2012	25,000	-
Finance lease liability				885,517	142,958
Total non-current debt				**2,653,293**	**142,958**
Less:					
Current portion of finance lease liability				(350,606)	(80,680)
Total				**2,302,687**	**62,278**

Current borrowings

Creditor	Effective interest rate,%	Currency	31 December 2007	31 December 2006
Current borrowings			1,303,000	1,149,850
including:			-	-
OJSC Sberbank	7.8-9.0	RUR	878,000	-
LLC Profproyect	8.9-11.4	RUR	250,000	348,850
OJSC CB Agropromcredit	5.0-11.4	RUR	95,000	115,000
OJSC Orgresbank	8.0-9.0	RUR	50,000	-
LLC Bank Kuznetsky	7,5	RUR	30,000	-
OJSC Alfa-Bank	9-9.5	RUR	-	506,000
OJSC CB MPSB	10.0	RUR	-	30,000
LLC Agroprombank	10.3	RUR	-	115,000
OJSC BARS Bank	13.2	RUR	-	35,000
Current portion of finance lease liability			350,606	80,680
Total			**1,653,606**	**1,230,530**

All loans and borrowings listed above are bank borrowings with fixed interest rate.

The effective interest rate is the market interest rate applicable to the loan at the date of its receipt.

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

As of 31 December 2007 inventories amounted in RUR 128,111 thousand were pledged as collateral according the loan agreements. As at 31 December 2006 there were no secured bank loans.

(in thousands of Russian Roubles, unless otherwise stated)

The Group leases production equipment and transportation vehicles under a number of finance lease agreements. Finance lease liabilities are payable as follows:

	31 December 2007			31 December 2006		
	Minimum lease payments	Interest	Principal	Minimum lease payments	Interest	Principal
Less than one year	357,553	114,161	243,392	92,031	29,281	62,750
Between one and five years	362,914	133,016	229,898	50,827	10,489	40,338
More than five years	2,368	1,574	794	-	-	-
	722,835	**248,751**	**474,084**	**142,858**	**39,770**	**103,088**

The finance lease liabilities are secured by leased assets.

The Group's exposure to currency, interest rate and liquidity risk related to borrowings and finance lease liabilities is disclosed in note 29.

Note 17. Trade and other payables

Non-current payables

	31 December 2007	31 December 2006
Trade payables	115,920	-
Advances from customers	24,746	49,836
Taxes payable	-	131,103
Other payables	50,754	10,970
Total	**191,420**	**191,909**

Current payables

	31 December 2007	31 December 2006
Trade payables	1,557,965	1,320,011
Advances from customers	466,128	173,723
Payables to employees	316,507	399,164
Accrued interest payable	1,292	1,517
Dividends payable	112	70
Other payables	142,682	82,870
Total	**2,484,686**	**1,977,355**

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 29.

Note 18. Other taxes payable

	31 December 2007	31 December 2006
Value added tax payable	94,464	319,621
Unified social tax payable	74,900	103,654
Property tax payable	30,024	20,474
Other taxes payable	53,768	69,566
Fines and other penalties payable	38,357	34,389
Total	**291,513**	**547,704**

As of 31 December 2007 included in the payable for value added tax is RUR 82,940 thousand of deferred VAT which only becomes payable to the authorities when the underlying receivables balance is either recovered or written off (as of 31 December 2006: RUR 284,570 thousand).

(in thousands of Russian Roubles, unless otherwise stated)

Note 19. Revenue

	Year ended 31 December 2007	Year ended 31 December 2006
Electricity transmission	29,635,715	23,538,308
Connection services	1,339,113	337,349
Other revenue	877,354	697,896
Total	**31,852,182**	**24,573,553**

Other revenues are comprised of repair, construction, maintenance services, rent services and transport revenue.

Note 20. Operating expenses

	Year ended 31 December 2007	Year ended 31 December 2006
Purchased electricity	11,083,026	7,977,032
Electricity transmission	5,641,995	5,202,448
Personnel costs	5,046,007	4,375,268
Depreciation and amortisation	1,942,880	1,568,871
Materials	1,040,723	1,034,134
Repair and maintenance	1,007,637	746,867
Electricity metering services	665,247	84,874
Consulting services	327,379	161,940
Insurance	272,603	200,961
Rent	268,442	227,458
Taxes other than income tax	231,662	134,109
Social expenditures and charity expenses	189,312	103,345
Electricity for own needs	184,122	192,635
Allowance for impairment of debts	99,166	18,124
Bank commission	124,698	73,694
Security services	113,195	101,774
Loss on the disposal of property, plant and equipment	93,922	114,538
Membership fee	33,117	329,571
Other expenses	532,470	523,257
Total	**28,897,603**	**23,170,900**

Note 21. Personnel costs

	Year ended 31 December 2007	Year ended 31 December 2006
Wages and salaries	4,033,047	3,473,487
Unified social tax	901,985	789,415
Vacation and remuneration provision	14,088	9,366
Expense in respect of post-employment defined benefit plan	115,148	100,570
(Income)/expense in respect of long-term service benefits provided	(4,173)	2,430
Total	**5,046,007**	**4,375,268**

The average number of employees (including production and non-production staff) was 18,758 in 2007 (2006: 19,176).

Note 22. Other income and (expenses), net

	Year ended 31 December 2007	Year ended 31 December 2006
Accounts payable written-off	12,254	1,447
Tax and other penalties	97,832	(29,507)
Other income and expenses, net	(43,224)	(14,483)
Total	**66,862**	**(42,543)**

(in thousands of Russian Roubles, unless otherwise stated)

Note 23. Financial income and expenses

	Year ended 31 December 2007	Year ended 31 December 2006
Financial income		
Interest income	31,846	11,986
Interest on employee benefit fund	13,396	7,123
	45,242	**19,109**
Financial expense		
Interest expense	(153,085)	(72,104)
Interest on finance lease liabilities	(80,352)	(10,414)
	(233,437)	**(82,518)**
Total	**(188,195)**	**(63,409)**

Note 24. Income tax expense

	Year ended 31 December 2007	Year ended 31 December 2006
Current income tax charge	1,002,730	564,194
Over-provided in prior years	(132,834)	(85,955)
Deferred income charge/(benefit)	219,806	(3,746)
Income tax charge	**1,089,702**	**474,493**

The Group's applicable tax rate in the Russian Federation is the income tax rate of 24%.

Reconciliation of effective tax rate:

	Year ended 31 December 2007	%	Year ended 31 December 2006	%
Profit before income tax	**(2,833,246)**	**100**	**(1,296,701)**	**100**
Income tax at applicable tax rate	679,979	(24)	311,208	(24)
Over-provided in prior years	(132,834)	5	(85,955)	7
Tax effect of items which are not deductible or taxable for taxation purposes	542,557	(19)	249,240	(19)
Social payments	*147,384*		*119,651*	
Written-off receivables	*203,394*		*2,559*	
Consulting and other services	*63,207*		*14,582*	
Other	*128,572*		*112,448*	
Total income tax charge	**1,089,702**	**(38)**	**474,493**	**(36)**

(in thousands of Russian Roubles, unless otherwise stated)

Deferred tax assets and liabilities

For the year ended 31 December 2006 deferred tax assets and liabilities are attributable to the following items:

	31 December 2006	Recognised in income statement	1 January 2006
Other current assets	38,658	(240)	38,418
Trade and other receivables	144,305	(2,587)	141,718
Accounts payable	54,434	(40,423)	14,011
Employee benefit obligations	173,450	(13,431)	160,019
Inventories	21,324	2,646	23,970
Deferred tax assets	**432,171**	**(54,035)**	**378,136**
Property, plant and equipment	(1,312,541)	20,963	(1,291,578)
Intangible assets	(7,966)	7,966	-
Non-current assets	(41,595)	21,360	(20,235)
Deferred tax liabilities	**(1,362,102)**	**50,289**	**(1,311,813)**
Net deferred tax liabilities	**(929,931)**	**(3,746)**	**(933,677)**

For the year ended 31 December 2007 deferred tax assets and liabilities are attributable to the following items:

	31 December 2007	Recognised in income statement	1 January 2007
Available-for-sale investments	18,345	20,313	38,658
Trade and other receivables	-	144,305	144,305
Accounts payable	62,619	(8,185)	54,434
Employee benefit obligations	173,823	(373)	173,450
Inventories	34,192	(12,868)	21,324
Deferred tax assets	**288,979**	**143,192**	**432,171**
Property, plant and equipment	(1,293,364)	(19,177)	(1,312,541)
Intangible assets	(18,377)	10,411	(7,966)
Non-current assets	(68,107)	26,512	(41,595)
Trade and other receivables	(58,868)	58,868	-
Deferred tax liabilities	**(1,438,716)**	**76,614**	**(1,362,102)**
Net deferred tax liabilities	**(1,149,737)**	**219,806**	**(929,931)**

Note 25. Related parties

(a) Control relationships

As at 31 December 2007 RAO UES of Russia was the parent company of the Company.

The party with ultimate control over IDGC of Volga is the Russian Federation, which holds the majority of the voting rights in RAO UES of Russia. OJSC RAO UES of Russia produces financial statements that are publicly available.

The majority of the Group’s related party transactions are with the subsidiaries of RAO UES of Russia and other state controlled entities.

The prices for electricity and electricity transmission are based on tariffs established by FTS. Bank loans are obtained under market rates. Taxes are charged and paid under the Russian tax legislation. Other related party transactions are based on normal market prices. Outstanding balances at the year-end are unsecured, interest free and are expected to be settled in cash.

(in thousands of Russian Roubles, unless otherwise stated)

(b) Transactions with entities under common control of the parent

Transactions with the Parent's subsidiaries and associates were as follows:

	Year ended 31 December 2007	**Year ended 31 December 2006**
Revenue		
Electricity transmission	27,066,722	22,589,347
Other sales	269,504	333,480
Expenses		
Electricity transmission	(11,108,728)	(7,826,582)
Purchased electricity	(4,905,136)	(4,300,379)
Other expenses	(156,094)	(202,208)

All outstanding balances with related parties are to be settled in cash within a year of the balance sheet date. None of the balances are secured.

Balances with the Parent's subsidiaries and associates at the end of the period were as follows:

	31 December 2007	**31 December 2006**
Accounts receivable and prepayments	1,186,961	492,118
Less: Allowance for impairment of accounts receivable	(61,760)	-
Accounts payable	(178,375)	(173,471)

Related party revenue for electricity transmission is based on the tariffs determined by the Government; other related party transmissions are based on normal market prices.

(c) Transactions with other state controlled entities

In the normal course of business the Group enters into transactions with other entities under Government control. Revenue for electricity transmission is based on the tariffs determined by the government. Bank loans are provided on the basis of market rates.

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

	Year ended 31 December 2007	**Year ended 31 December 2006**
Revenue		
Connection services	369,172	3,102
Other sales	697	1,515
Expenses		
Electricity transmission	(122,146)	(92,684)
Interest expense	(36,155)	(10,842)

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

	31 December 2007	**31 December 2006**
Accounts receivable and prepayments	509,176	534,378
Less: Allowance for impairment of accounts receivable	(456,339)	(458,495)
Accounts payable	(84,000)	(34,791)
Loans and borrowings	(1,317,612)	-

(in thousands of Russian Roubles, unless otherwise stated)

(d) Transactions with management and close family members

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

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

Members of the Board of Directors and the Top management of the Group received the following remuneration:

	Year ended 31 December 2007		Year ended 31 December 2006	
	Members of Board of Directors	**Top management**	**Members of Board of Directors**	**Top management**
Salaries and bonuses	9,428	154,937	14,973	139,151

Note 26. Operating leases

The Group leases a number of land plots owned by local governments under operating lease.

Land lease payments are determined by lease agreements and are as follows:

	31 December 2007	**31 December 2006**
Less than one year	19,609	14,494
Between one year and five years	36,789	31,500
After five years	325,874	216,934
Total	**382,272**	**262,928**

The land plots leased by the Group are the territories on which power lines, equipment for electricity transformation and other assets are located. Lease payments are reviewed regularly to reflect market rentals. Some contracts for land lease are concluded for 49 years, other contracts are concluded for one year with prolongation.

During the year ended 31 December 2007 RUR 268,442 thousand (2006: RUR 227,458 thousand) was recognised in the income statement in respect of operating lease.

The Group leased out administrative buildings and other equipment under operating lease. Lease payments are determined by lease agreements and are as follows:

	31 December 2007	**31 December 2006**
Less than one year	50,868	37,372
Between one year and five years	60,263	72,288
After five years	588,315	602,535
Total	**699,446**	**712,195**

Lease payments are reviewed regularly to reflect market rentals. Main part of contracts for lease of buildings is concluded for 49 years.

Note 27. Commitments

Capital commitments

As at 31 December 2007 the Group has outstanding commitments under the contracts for the purchase and construction of property, plant and equipment for RUR 1,311,114 thousand (as at 31 December 2006: RUR 210,109 thousand).

Note 28. Contingencies

Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its property, plant and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

Litigation

The Group is a party to certain legal proceedings arising in the ordinary course of business. The management does not believe than these matters will have a material adverse effect on the Group's financial position and operating results.

Taxation contingencies

The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

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

Environmental matters

The Company and its predecessors have operated in the electric transmission industry in the Russian Federation for many years. The enforcement of environmental regulations in the Russian Federation is evolving and the enforcement posture of Government authorities is continually being reconsidered. Company management periodically evaluates its 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 29. Financial instruments

(a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

(in thousands of Russian Roubles, unless otherwise stated)

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date is represented in the table below:

	31 December 2007	31 December 2006
Cash and cash equivalents	530,415	425,373
Trade and other receivables (net of allowance for impairment)	1,488,204	891,778
Other non-current assets (net of allowance for impairment)	5,917	51,976
Other current assets	99,371	180,935
Financial assets related to employee benefit fund	283,779	173,314
Total	**2,407,686**	**1,723,376**

The Group's two most significant customers, regional distribution entities, account for RUR 1,545,362 thousand of the trade receivables carrying amount at 31 December 2007 (31 December 2006: RUR 517,383 thousand).

The maximum exposure to credit risk for trade receivables (excluding other receivables) at the reporting date by type of customer was:

	31 December 2007	31 December 2006
Electricity transmission	1,909,760	1,127,157
Connection services	5,818	8,793
Other sales	39,547	172,111
Less: Allowance for impairment of accounts receivable	(599,458)	(751,319)
Total	**1,355,667**	**556,742**

The aging of trade and other receivables at the reporting date was:

	31 December 2007		31 December 2006	
	Gross	Impairment	Gross	Impairment
Not past due	1,355,991	(26,188)	646,182	(674)
Past due not more 3 months	119,308	(25,721)	132,998	(12,696)
Past due more than 3 months and not more than 6 months	15,842	-	20,345	-
Past due more than 6 months and not more than 1 year	14,278	-	108,001	(16,613)
Past due more than one year	611,775	(577,081)	775,741	(761,506)
Total	**2,117,194**	**(628,990)**	**1,683,267**	**(791,489)**

The movements in the allowance for impairment in respect of trade and other receivables during the year were as follows:

	Year ended 31 December 2007	Year ended 31 December 2006
Balance at 1 January	791,489	791,088
Charge of additional allowance for doubtful debtors	100,953	27,584
Reversal of the allowance for doubtful debtors	(1,786)	(9,460)
Accounts receivable written off through allowance for bad debts	(261,666)	(17,723)
Balance at 31 December	**628,990**	**791,489**

The allowance accounts in respect of trade and other receivables are used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amounts considered irrecoverable and is written off against the financial asset directly.

(in thousands of Russian Roubles, unless otherwise stated)

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group monitors the risk of cash shortfalls by means of current liquidity planning. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. This approach is used to analyze payment dates associated with financial assets, and also to forecast cash flows from operating activities.

The following are the contractual maturities of financial liabilities, including estimated interest payments and the impact of netting agreements:

As at 31 December 2007:

	Carrying amount	Contractual cash flows	Less than 6 months	6-12 months	1-2 years	2-5 years	Over 5 years
Financial liabilities							
Secured loans and borrowings	100,000	109,138	4,238	4,238	100,662	-	-
Unsecured loans and borrowings	2,972,068	3,388,109	935,796	592,520	1,369,572	490,221	-
Finance lease liabilities	474,084	722,835	211,497	146,056	172,392	190,522	2,368
Trade and other payables	1,867,340	1,867,340	1,592,087	76,335	162,306	36,612	-
Total	**5,413,492**	**6,087,422**	**2,743,618**	**819,149**	**1,804,932**	**717,355**	**2,368**

As at 31 December 2006:

	Carrying amount	Contractual cash flows	Less than 6 months	6-12 months	1-2 years	2-5 years	Over 5 years
Financial liabilities							
Unsecured loans and borrowings	1,151,367	1,193,541	565,737	627,804	-	-	-
Finance lease liabilities	103,088	142,858	49,093	42,938	46,404	4,423	-
Trade and other payables	1,413,863	1,413,863	1,245,158	146,313	17,707	4,685	-
Total	**2,668,318**	**2,750,262**	**1,859,988**	**817,055**	**64,111**	**9,108**	**-**

(c) Foreign exchange risk

The Group primarily operates within the Russian Federation. The majority of the Group's operations are denominated in RUR.

(d) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group is exposed to interest rate risk through market value fluctuations of interest-bearing long-term borrowings. The majority of interest rates on long term and short term borrowings are fixed, these are disclosed in Note 16. The Group has no significant interest-bearing assets. Currently the Group does not operate a formal management program focusing on the unpredictability of financial markets or seeking to minimise potential adverse effects on the financial performance of the Group.

As at 31 December 2007 the carrying amount of fixed rate financial liabilities is RUR 3 449 860 thousand (as at 31 December 2006: RUR 1 252 938 thousand).

Fair values sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit and loss, and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss.

The ongoing global liquidity crisis which commenced in the middle of 2008 has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the Russian banking sector, and higher interbank lending rates. The uncertainties in the global financial market have also led to bank failures and bank rescues in the US, Western Europe and Russia. Such circumstances could affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions.

(f) Capital management

Management's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Management monitors the return on capital, which the Group defines as net profit after tax divided by total shareholders' equity.

Management seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

There were no changes in the Group's approach to capital management during the year.

No Group's entity is subject to externally imposed capital requirements.

(g) Fair values

Management believes that at the reporting date the fair value of the Group's financial assets and liabilities approximates their carrying amounts.

Note 30. Subsequent events

The Company's merger was completed on 31 March 2008, as described in Note 1 and Note 14.

On 1 July 2008 RAO UES ceased to exist as a separate legal entity and transferred shares of the Company to OJSC MRSK Holding ,a newly formed state – controlled entity.

On 24 November 2008 legislation was enacted that reduced the Russian corporate income tax rate from 24% to 20% with effect from 1 January 2009.

Subsequent to 31 December 2007, Russian financial markets, influenced by global trends, experienced substantial liquidity stress. This is likely to affect the assumptions, estimates and judgements to be used by management in preparing the combined financial statements for the year ending 31 December 2008. In particular, property, plant and equipment are likely to have suffered impairments and marketable securities have declined substantially in value.