Open Joint-Stock Company
«Interregional Distribution Grid
Company of the Central Region»

Financial Statements
for the year ended 31 December 2007

Contents

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Independent Auditors' Report

To the Board of Directors of Open Joint Stock Company "IDGC of the Central Region"

Report on the financial statements

We have audited the accompanying financial statements of Open Joint Stock Company "IDGC of the Central Region" (the "Company"), which comprise the balance sheet as at 31 December 2007, and the income statement, cash flow statement and statement of changes in equity for the year then ended, and a summary of the significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these 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 the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the 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 Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by management, as well as the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2007, and its financial performance and its cash flows for the year then ended in accordance with IFRS.

ZAO KPMG

ZAO KPMG

31 May 2008

Moscow, Russia

	Note	2007 '000 RUR	2006 '000 RUR
Revenue	5	**987 123**	**747 371**
Operating expenses	6	(904 859)	(712 084)
Gross profit		**82 264**	**35 287**
Other income	7	4 367	1 113
Results from operating activity		**86 631**	**36 400**
Interest income		482	40
Profit before income tax		**87 113**	**36 440**
Income tax expense	8	(38 936)	(22 159)
Profit for the year		**48 177**	**14 281**

These financial statements were approved by management on 31.05.2008 and were signed on its behalf by:

General director	E.F. Makarov
Director on registration policy	S.Yu. Puzenko

The income statement is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 33.

	Note	2007 '000 RUR	2006 '000 RUR
ASSETS			
Non-current assets			
Property, plant and equipment	9	26 517	27 982
Deferred tax assets	10	43 462	17 280
Loans to employees	11	3 790	-
Total non-current assets		**73 769**	**45 262**
Current assets			
Inventories		-	804
Income tax receivable		6 703	-
Trade and other receivables	12	48 071	244 681
Advances and prepayments	13	21 498	37 738
Loans to employees	11	2 451	-
Cash and cash equivalents	14	150 544	7 939
Other current assets		2 183	5 496
Total current assets		**231 450**	**296 658**
Total assets		**305 219**	**341 920**

The balance sheet is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 33.

	2007 '000 RUR	2006 '000 RUR
Cash flows from operating activities		
Profit for the period	48 177	14 281
Adjustments for:		
Depreciation and amortisation	9 838	4 529
Gain on disposal of property, plant and equipment	(370)	(331)
Interest income	(482)	(40)
Income tax expense	38 936	22 159
Operating profit/(loss) before changes in working capital and provisions	**96 099**	**40 598**
(Increase)/decrease in inventories	804	(434)
(Increase)/decrease in trade, other receivables, advances, prepayments and loans to employees	206 693	(194 600)
(Increase)/decrease in other current assets	3 313	(4 785)
Increase/(decrease) in trade and other payables	(15 799)	43 884
Increase/(decrease) in other taxes payable	(32 287)	21 642
Increase/(decrease) in employees benefits	(5 434)	96 842
Cash flows from operations before income taxes and interest paid	**253 389**	**3 147**
Income taxes (paid)/received	(100 349)	19 872
Cash flows from operating activities	**153 040**	**23 019**

The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 33.

	2007 '000 RUR	2006 '000 RUR
INVESTING ACTIVITIES		
Proceeds from disposal of property, plant and equipment	1 587	434
Interest received	165	40
Acquisition of property, plant and equipment	(9 357)	(22 132)
Cash flows from investing activities	**(7 605)**	**(21 658)**
FINANCING ACTIVITIES		
Dividends paid	(2 830)	(1 410)
Cash flows from financing activities	**(2 830)**	**(1 410)**
Net increase/(decrease) in cash and cash equivalents	**142 605**	**(49)**
Cash and cash equivalents at beginning of year	7 939	7 988
Cash and cash equivalents at end of year (note 14)	**150 544**	**7 939**

The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 33.

'000 RUR

	Share capital	Retained earnings	Total
Balance at 1 January 2006	**10 000**	**55**	**10 055**
Profit for the year	-	14 281	**14 281**
Dividends to shareholders	-	(1 549)	**(1 549)**
Balance at 31 December 2006	**10 000**	**12 787**	**22 787**
Balance at 1 January 2007	**10 000**	**12 787**	**22 787**
Profit for the year	-	48 177	**48 177**
Dividends to shareholders	-	(2 830)	**(2 830)**
Balance at 31 December 2007	**10 000**	**58 134**	**68 134**

The statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 33.

1 Background

(a) Organisation and operations

Open joint-stock company Interregional Distribution Grid Company of the Central and Caucasus Region (hereinafter the "Company") is a Russian open joint stock company as defined in the Civil Code of The Russian Federation. The Company was established as a state-owed enterprise on 17 December 2004 by Order of OJSC RAO UES of Russia No. 154r of 9 December 2004, in execution of the decision of the Board of Directors of OJSC RAO UES of Russia (minutes No. 178 of 1 October 2004) and the decision of the Management Board of OJSC RAO UES of Russia (minutes No. 1102pr/b of 15 November 2004). On April 27, 2007 the Company name was changed to the Open joint-stock company Interregional Distribution Grid Company of the Central Region.

The Company's registered office: 4/2 Glukharev alley, Moscow, Russia.

The Company's principal activity is the management of the electricity distribution grids of the Central region of Russian Federation, ensuring their reliable functioning and development, and comprises providing consulting and information services to regional grid companies (RGC) operating in the Central region of Russian Federation for improving their management systems.

The Company is wholly owned by OJSC RAO UES of Russia (the "Shareholder Group") The founding of the Company is an integral part of the approved plan reforming the Russian electrical power industry, which stipulates interregional integration of the new companies created after the energy companies are separated by line of business. In addition, the activities of the Company are closely linked with the requirements of the Shareholder Group and determination of the pricing of the Company's services to the Shareholders Group is undertaken in conjunction with other Shareholders Group companies. Related party transactions are detailed in note 22.

(b) Relations with the state and effective legislation

As at 31 December 2007 the state owned 52.7 percent of shares in OJSC RAO UES of Russia, the only Shareholder of the Company, which equals 52.3 percent of placed ordinary shares. Due to this fact, the policies of the Russian government in the economic, social and other spheres may have a significant impact on the Company's financial and business activity.

(c) 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. The 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.

2 Basis of preparation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis.

(c) Functional and presentation currency

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

(d) 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 consolidated 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 judgments 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 12 – Trade and other receivables
- Note 21 – Contingencies.

3 Significant accounting policies

The significant accounting policies applied in the preparation of the financial statements are described in note 3(a) to 3(k). These accounting policies have been consistently applied.

(a) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of Company at exchange rate at the date of the transactions. Monetary assets and liabilities denominated in foreign currency at the reporting date are translated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currency are translated to the functional currency 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.

(b) Financial instruments

(i) Financial instruments

Financial instruments comprise trade and other receivables, cash and cash equivalents, and trade and other payables.

Financial assets and liabilities are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition financial instruments are measured at amortized cost.

A financial instrument is recognized if the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized if the Company's contractual rights to the cash flows from the financial assets expire or if the Company transfers the financial assets to another party without retaining control or substantially all risks and rewards of the assets. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Company commits itself to purchase or sell the assets. Financial liabilities are derecognized if the Company's obligations specified in the contract expire or are discharged or cancelled.

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

(c) Share capital

Ordinary shares

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

Repurchase of shares

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.

(d) Property, plant and equipment

(ii) Recognition and measurement

Items of property, plant and equipment, except for land, are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditure that is 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 related to the acquisition or construction of qualifying assets are capitalised as part of the cost of these 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 "other income" in the income statement.

(iii) 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 Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as incurred.

(iv) 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 unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Land is not depreciated

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

- Computers 2-5 years
- Communication equipment 1-15 years
- Furniture 5-15 years
- Other 3-20 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date. Estimates in respect of certain items of plant and equipment were revised in 2007 (see note 9).

(v) Liquidation value

The liquidation value of an asset represents an assessment of the amount which the Company could currently receive from the sale of the asset minus selling costs, based on the assumption that the age of the asset and its technical condition already meet expectations at the end of its period of useful life. If the Company plans to use the asset until the end of its physical service life, the liquidation value of the asset is set at zero. The liquidation value and periods of useful life of assets are reconsidered and adjusted, if necessary, at each reporting date.

(e) Impairment

(i) *Financial assets*

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 fair value.

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.

(ii) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than 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 goodwill and 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. 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.

In respect of the assets, 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.

(f) Employee benefits

Obligations for contributions to defined contribution pension plans, including Russia's State pension fund, are recognized as an expense in profit or loss when they are due.

(i) Short term benefits

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

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(g) Provisions

A provision is recognised if, as a result of a past event, the Company 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.

(h) Revenue

The Company renders consulting services, services of individual executive body and other services mainly to the Shareholder Group companies. (also discussed in Note 22).

Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to the surveys of work performed.

(j) 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 it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. 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.

(k) New Standards and Interpretations

A number of new Standards, amendments to Standards and Interpretations are not yet effective as of 1 January 2007, and have not been applied in preparing these financial statements. Management believes that new Standards will not have any impact on Company's financial position or operating results.

4 Financial risk management

(a) Overview

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

- credit risk
- liquidity risk
- market risk.

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

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has established the Financial Analysis and Controls Department, which is responsible for developing and monitoring the Company's risk management policies. The Department reports to the Board of Directors on its activities.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies are reviewed to reflect changes in market conditions and the Company's activities. The Company, 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.

The Company's Revision Committee oversees how management monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. The Company's Revision Committee is assisted in its oversight role by the Financial Analysis and Controls Department, which undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Revision Committee.

(b) Credit risk

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

(i) Trade and other receivables

At the balance sheet date there were no significant concentrations of credit risk as the majority of the Company's revenue is attributable to services provided to the Shareholder Group companies.

(ii) Investments

The Company limits its exposure to credit risk by only investing in liquid securities. In 2007 the Company did not carry out investment activities.

(iii) Guarantees

The Company's policy is to provide financial guarantees only to subsidiaries of the Shareholder Group. In 2007 the Company did not provide any guarantees (2006: none).

(c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company'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 Company's reputation. As at 31 December 2007 the Company does not have any borrowings (2006: none).

(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 Company'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. As at 31 December 2007 the Company does not have any investments or borrowings (2006: none). During 2007 the Company did not buy or sell derivatives, and did not apply hedge accounting.

(i) Currency risk

At the balance sheet date there were no significant concentrations of currency risk as it carries out the activity in national currency.

(ii) Interest rate risk

The Company's policy is to analyse financial instruments to identify risk of interest rate changes. As at 31 December, 2007 the Company did not have any borrowings (2006: none).

(e) Capital management

The Board'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 Board of Directors monitors the return on capital, which the Company defines as net profit divided by total shareholders' equity. The Board of Directors also monitors the level of dividends to ordinary shareholders.

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

The Company is not subject to externally imposed capital requirements.

5 Revenue

	2007 '000 RUR	2006 '000 RUR
Revenue from individual executive body services	748 366	269 960
Revenue from consulting services	134 576	442 173
Revenue from regulation of procurement procedures	89 207	12 022
Revenue from technical audit	14 974	21 051
Revenue from technical supervision	-	2 165
Total	**987 123**	**747 371**

All revenue is derived from transactions with the Shareholder Group companies (also discussed in Note 22).

6 Operating expenses

	2007 '000 RUR	2006 '000 RUR
Salaries and wages	427 174	452 767
Advisory, legal and information services	175 186	80 436
Operating lease payments	91 061	86 508
Agent services	88 915	11 437
Telecommunications services	28 838	16 951
Insurance	14 880	5 329
Business trips	11 484	9 541
Depreciation of property, plant and equipment	9 838	4 529
Accounting and treasury services	8 355	7 363
State pension fund	7 171	3 204
Corporate functions	7 011	6 551
Seminars, meetings, training sessions	5 515	4 576
Entertainment	4 110	1 398
Purchase of materials	3 155	5 011
Taxes other than profit tax	2 893	3 454
Postal, telegraph and clerical cost	1 606	874
Repairs and technical maintenance	955	303
Bank charges	917	1 100
Software maintenance	587	1 089
Other	15 208	9 663
Total	**904 859**	**712 084**

7 Other income

	2007 '000 RUR	2006 '000 RUR
Gain on disposal of property, plant and equipment	370	331
Other income	3 997	782
Total	**4 367**	**1 113**

8 Income tax expenses

	2007 '000 RUR	2006 '000 RUR
Current year tax expenses		
Current year income tax	(65 079)	(29 132)
	(65 079)	**(29 132)**
Deferred tax income (expense)		
Origination and reversal of temporary differences	26 143	6 973
	26 143	**6 973**

The Company's applicable tax rate is the income tax rate of 24% for Russian companies (2006: 24%).

Reconciliation of effective tax rate:

	2007 '000 RUR	%	2006 '000 RUR	%
Profit before tax	**87 113**	**100**	36 440	**100**
Income tax at applicable tax rate	(20 907)	24	(8 746)	24
Non-deductible expenses	(18 029)	21	(13 413)	37
Total	**(38 936)**	**45**	**(22 159)**	**61**

9 Property, plant and equipment

'000 RUR	Furniture	Computers	Communication Equipment	Other	Total
Cost					
Balance at 1 January 2006	5 231	5 019	274	963	11 487
Additions	4 276	10 589	4 786	2 044	21 695
Disposals	(275)	-	(21)	(12)	(308)
Balance at 31 December 2006	9 232	15 608	5 039	2 995	32 874
Balance at 1 January 2007	9 232	15 608	5 039	2 995	32 874
Additions	1 467	6 180	1 289	473	9 409
Disposals	(484)	(545)	(116)	(144)	(1 289)
Balance at 31 December 2007	10 215	21 243	6 212	3 324	40 994

'000 RUR	Furniture	Computers	Communication Equipment	Other	Total
Depreciation and Impairment losses					
Balance at 1 January 2006	(144)	(176)	(22)	(60)	(402)
Depreciation charge	(1 458)	(2 384)	(345)	(342)	(4 529)
Disposals	35	-	3	1	39
Balance at 31 December 2006	(1 567)	(2 560)	(364)	(401)	(4 892)
Balance at 1 January 2007	(1 567)	(2 560)	(364)	(401)	(4 892)
Depreciation charge	(1 983)	(5 755)	(1 532)	(568)	(9 838)
Disposals	101	104	46	2	253
Balance at 31 December 2007	(3 449)	(8 211)	(1 850)	(967)	(14 477)
Net book value					
Balance at 1 January 2006	5 087	4 843	252	903	11 085
Balance at 31 December 2006	7 665	13 048	4 675	2 594	27 982
Balance at 31 December 2007	6 766	13 032	4 362	2 357	26 517

Depreciation expense of 9 838 kRUR has been charged to operating expenses (2006: 4 529 kRUR).

Fixed assets of the Company mainly comprise furniture, computers and other office equipment. Management believes that no signs of economic obsolescence of property, plant and equipment have been identified.

10 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

'000 RUR	Assets		Liabilities		Net	
	2007	2006	2007	2006	2007	2006
Property, plant and equipment	-	-	(1 462)	(1 212)	(1 462)	(1 212)
Trade and other receivable	-	-	(478)	(689)	(478)	(689)
Employee benefits	42 636	17 280	-	-	42 636	17 280
Other items	826	-	-	-	826	-
Tax assets/(liabilities)	43 462	17 280	(1 940)	(1 901)	41 522	15 379
Set off of tax	-	-	-	-	-	-
Net tax assets/(liabilities)	**43 462**	**17 280**	**(1 940)**	**(1 901)**	**41 522**	**15 379**

(b) The tax effect of movement in temporary differences during the year

'000 RUR	1 January 2007	Recognised in the income statements	31 December 2007
Property, plant and equipment	(1 212)	(250)	(1 462)
Trade and other receivables	(689)	211	(478)
Employee benefits	17 280	25 356	42 636
Other items	-	826	826
Total	**15 379**	**26 143**	**41 522**

11 Loans to employees

	2007	2006
	'000 RUR	'000 RUR
Less than one year	2 451	-
Between one and three years	3 790	-
Total	**6 241**	**-**

During the year the Company issued loans to employees for the purpose of acquisition of apartments. The loans are repayable within 3 years and attract an interest rate equal to refinancing rate of the Central Bank of the Russian Federation (as at 31.12.2007 – 10%). According to the loan agreements the interest is payable upon the final payment of the principal amount.

12 Trade and other receivables

	2007 '000 RUR	2006 '000 RUR
Trade receivables from related parties	46 557	242 893
Trade receivables from other customers	347	274
Other receivables	1 167	1 514
Total	**48 071**	**244 681**
Impairment loss	-	-

13 Advances and prepayments

	2007 '000 RUR	2006 '000 RUR
Other taxes prepayments	20 036	8 650
Advances	1 462	29 088
Total	**21 498**	**37 738**

14 Cash and cash equivalents

	2007 '000 RUR	2006 '000 RUR
Bank balances, including:		
OJSC «Alfa-Bank», Moscow	95 005	-
OJSC «NOTA-Bank», Moscow	49 992	-
OJCS «Vneshtorgbank», Belgorod	3 172	1 826
OJSC «Evrofinance Mosnarbank», Moscow	2 366	1 113
OJSC «Sberbank»	9	-
Cash in transit	-	5 000
Total	**150 544**	**7 939**

15 Equity

(a) Share capital

Number of shares unless otherwise stated	Ordinary shares 2007	Ordinary shares 2006
Authorised shares	100 000 000	100 000 000
Par value	RUR 0.1	RUR 0.1
On issue at beginning of year	100 000 000	100 000 000
On issue at the end of year, fully paid	100 000 000	100 000 000

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

(b) Dividends

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 63 878 kRUR (2006: 15 933 kRUR).

At the balance sheet date the following dividends have been declared by the Board of directors, but have not been approved and, therefore, have not been provided for:

	2007 '000 RUR	2006 '000 RUR
Dividends	-	2 830
	-	2 830

16 Trade and other payables

	2007 '000 RUR	2006 '000 RUR
Trade payables	44 654	5 119
Advances received	-	55 787
Other	1 526	1 073
Total	**46 180**	**61 979**

17 Employees benefits

	2007 '000 RUR	2006 '000 RUR
Bonus accrual	166 265	173 619
Salary payables to employees	10 612	7 345
Unused vacations	9 713	11 060
Total	**186 590**	**192 024**

18 Other taxes payable

	2007 '000 RUR	2006 '000 RUR
Personal income tax	1 503	806
Unified social tax	773	2 097
Property tax	99	125
Value-added tax	-	31 634
Total	**2 375**	**34 662**

19 Financial instruments

(a) Financial risk

The Company's operations are subject to various financial risks, including changes in the exchange rate, changes in interest rates and the possibility of repayment of accounts receivable. The Company does not use a hedging strategy for financial risks.

(b) Credit risk

The carrying amount of financial assets represents the maximum credit exposure. Financial assets on which potential credit risk may arise for the Company are mainly accounted in trade receivables and cash. Although the repayment of these account receivable is dependent on economic factors, Company management believes that there is no material risk of losses. Cash is deposited in financial institutions that had a minimum risk of default at the time of operating of accounts.

The maximum exposure to credit risk at the reporting date was:

	2007 '000 RUR	2006 '000 RUR
Cash and cash equivalents	150 544	7 939
Trade receivables	46 904	243 167
Other receivables	1 167	1 514

Loans to employees	6 241	-
Total	**204 856**	**252 620**

There are no overdue trade and other receivables. No impairment losses were recognized during the period (2006: none).

(c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. Liquidity risk management includes maintaining sufficient cash and marketable securities, the availability of funding from an adequate amount of committed credit facilities and the ability to close out market position.

All trade and other payables are repayable within the next 6 months.

(d) Currency risk

At the balance sheet date there were no concentrations of currency risk, as the Company operates using only national currency.

(e) Interest rate risk

At the balance sheet date the Company has no financial obligations, the amount of financial assets is not material, therefore management considers, that interest rate risk is not significant.

(f) Fair value of financial instruments

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

20 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2007 '000 RUR	2006 '000 RUR
Less than one year	91 061	86 508
Total	**91 061**	**86 508**

The Company leases office building and vehicles under operating lease terms. The leases typically run for an initial term of one year, with an option to renew the lease at the end of the lease term.

21 Contingencies

(a) 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

Company does not have full coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Company property or relating to Company operations. Until the Company obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Company's operations and financial position.

(b) 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.

22 Related party transactions

(a) Control relationships

The Company's parent company is OJSC RAO UES of Russia.

The party with ultimate control over the Company is the government of the Russian Federation, who holds 52,7% of shares of OJSC RAO UES of Russia.

(i) Management remuneration

Key management received the following remuneration during the year, which is included in personnel costs:

	2007	2006
	'000 RUR	'000 RUR
Salaries and bonuses	23 826	25 474
Remuneration to the members of Board of Directors	1 402	1 604
	25 228	**27 078**

(b) Transactions with other related parties

During the reporting period the Company received income from the provision on a contractual basis of advisory and information services on improving the management systems of the regional grid companies (RGC) that are subsidiaries of the Shareholder Group.

Pursuant to the strategic development plans, in 2006 the functions of the chief executive body of the following RGCs were transferred to the Company: OJSC «Belgorodenergo», OJSC «Yarenergo», OJSC «Vologdaenergo», OJSC «Ivenergo», OJSC «Nizhnovenergo», OJSC «Rostovenergo», OJSC «Vladimirenergo», OJSC «Tulaenergo», OJSC «Lipetskenergo», OJSC «Kostromaenergo».

In 2007 the functions of the chief executive body of the following RGCs were transferred to the Company: OJSC «Orelenergo», OJSC «Bryanskenergo», OJSC «Volgogradenergo», OJSC «Astrahanenergo», OJSC «Kalugaenergo», OJSC «Kurskenergo», OJSC «Ryazanenergo», OJSC «Smolenskenergo», OJSC «Tambovenergo», OJSC «Tverenergo», OJSC «Voronejenergo».

The variable component of remuneration under the contracts on the provision of services of the chief executive body is recognized in the revenue of the period in which the remuneration was approved by the Board of Directors of the relevant RGC.

Recognized expenses on related party transactions include expenses on lease of non-residential premises, property and vehicles, accounting and advisory services. Lease payments and prices for services provided are determined based on market conditions.

All accounts receivable and accounts payable on related party transactions are current assets and liabilities.

Determination of the pricing of the Company's services to and purchases from the Shareholder Group is undertaken in conjunction with other Shareholder Group companies.

(i) Revenue

'000 RUR	Transaction value 2007	Outstanding balance 2007	Transaction value 2006	Outstanding balance 2006
Services provided to:				
OJSC «Belgorodenergo»	98 377	7 275	73 264	39 642
OJSC «Rostovenergo»	74 501	-	35 804	25 966
OJSC «Volgogradenergo»	70 305	-	30 383	1 953
OJSC «Nizhnovenergo»	59 653	4 351	42 243	28 663
OJSC «Vologdaenergo»	58 563	1 394	60 608	33 271
OJSC «Lipetckenergo»	55 074	1 640	39 156	12 244
OJSC «Kubanenergo»	50 732	-	2 185	2 578
OJSC «Voronezhenergo»	49 624	1 129	17 227	676
OJSC «Kurskenergo»	48 113	5 632	17 420	884

'000 RUR	Transaction value 2007	Outstanding balance 2007	Transaction value 2006	Outstanding balance 2006
OJSC «Tulaenergo»	45 609	1 038	47 257	36 482
OJSC «Vladimirenergo»	41 101	488	15 941	10 685
OJSC «Yarenergo»	40 591	5 609	21 647	9 616
OJSC «Kostromaenergo»	38 068	2 061	31 426	8 407
OJSC «Smolenskenergo»	37 779	712	15 752	1 151
OJSC «Tverenergo»	35 230	826	16 327	1 929
OJSC «Ryazanenergo»	30 077	597	12 357	871
OJSC «Bryanskenrgo»	26 452	3 870	11 689	2 516
OJSC «Kalugaenergo»	25 305	-	12 306	1 171
OJSC «Tambovenergo»	24 311	3 696	11 285	1 289
OJSC «Ivenergo»	23 473	374	9 449	6 916
OJSC «Astrakhanenergo»	21 122	-	8 896	478
OJSC «Orelenergo»	17 782	5 454	7 117	1 434
OJSC «Moskovskaya gorodskaya elektrosetevaya kompaniya» [Moscow City Grid Company] »	8 553	-	-	-
OJSC «Moskovskaya oblastnaya elektrosetevaya kompaniya» [Moscow Region Grid Company]	5 035	-	163 855	3 391
OJSC «Stavropolenergo»	772	-	30 000	16 900
OJSC «KEYK»	373	-	-	-
OJSC «Dagenergo»	362	-	1 061	-
OJSC «Kalmenergo»	186	411	809	191
OJSC «FGC UES»	-	-	11 907	14 051
OJSC «Korporativnye servisnye sistemy» [Corporate service systems]	-	-	-	707
	987 123	**46 557**	**747 371**	**264 062**

All outstanding balances with related parties at the end of reporting period are unsecured, interest free and settlements are usually made in cash.

(ii) ***Expenses***

'000 RUR	Transaction value 2007	Outstanding balance 2007	Transaction value 2006	Outstanding balance 2006
Services received from:				
Parent company	(46)	(54)	(50)	-

'000 RUR	Transaction value 2007	Outstanding balance 2007	Transaction value 2006	Outstanding balance 2006
Subsidiaries of the Shareholder Group:				
OJSC «MRSK Center and Privoljya»	(61 295)	(6 793)	-	-
OJSC «MRSK Yug»	(47 271)	(2 188)	-	-
OJSC «Belgorodenergo»	(41 951)	-	(34 300)	-
OJSC «MRSK Severo-Zapad»	(16 443)	(2 711)	-	-
OJSC «Kalugaenergo»	(2 508)	(220)	(5 465)	(74)
OJSC «Korporativnye servisnye sistemy» [Corporate service systems]	-	-	(15 614)	(84)
OJSC «Kubanenergo»	-	-	-	(55 787)
OJSC «Rostovenergo»	-	-	(6 192)	-
Other Shareholder Group subsidiaries	(2 026)	-	(4 310)	(925)
	(170 760)	**(11 966)**	**(65 931)**	**(56 870)**

All outstanding balances with related parties at the end of reporting period are unsecured, interest free and settlements are usually made in cash.

(c) State-controlled companies

During its operations the Company performs transactions with other state-controlled companies, including the Shareholder Group and its subsidiaries, state-controlled banks, and various government agencies. Accrual and settlements on taxes are performed according to Russian tax legislation. The value of banking services is determined based on market conditions.

As at 31 December 2007 the cash balance on accounts opened in OJSC «Vneshtorgbank» and OJSC «Sberbank» equaled 3 181 kRUR (2006: 1 826 kRUR).

23 Events subsequent to the balance sheet date

In December 2007, the Board of Directors approved the legal merger with the following entities: OAO «Belgorodenergo», OAO «Bryanskenergo», OAO «Voronejenergo», OAO «Kurskenergo», OAO «Lipeckenergo», OAO «Orelenergo», OAO «Tambovenergo», OAO «Smolenskenergo», OAO «Tverenergo», OAO «Yarenergo», OAO «Kostromaenergo» (hereinafter referred together as "RGCs") through conversion of additionally issued 42 118 200 000 ordinary shares of the Company as follows:

- 78000/738687280 of ordinary shares of OAO «Belgorodenergo» with par value of 3,8 kRUR were converted into one additional issued ordinary share of the Company with par value of 0,1 RUR;
- 78000/676489811 of preference shares of OAO «Belgorodenergo» with par value of 3,8 kRUR were converted into one additional issued ordinary share of the Company with par value of 0,1 RUR;
- 78000/18572663 of ordinary shares of OAO «Bryanskenergo» with par value of 10 RUR were converted into one additional issued ordinary share of the Company with par value of 0,1 RUR;
- 78000/17008845 of preference shares of OAO «Bryanskenergo» with par value of 10 RUR were converted into one additional issued ordinary share of the Company with par value of 0,1 RUR;
- 78000/7453771 of ordinary shares of OAO «Voronejenergo» with par value of 10 RUR were converted into one additional issued ordinary share of the Company with par value of 0,1 RUR;
- 78000/6826164 of preference shares of OAO «Voronejenergo» with par value of 10 RUR were converted into one additional issued ordinary share of the Company with par value of 0,1 RUR;
- 78000/327431 of ordinary shares of OAO «Kostromaenergo» with par value of 0,25 RUR were converted into one additional issued ordinary share of Company with par value of 0,1 RUR;
- 78000/299862 of preference shares of OAO «Kostromaenergo» with par value of 0,25 RUR were converted into one additional issued ordinary share of Company with par value of 0,1 RUR;
- 78000/212429 of ordinary shares of OAO «Kurskenergo» with par value of 1 RUR were converted into one additional issued ordinary share of the Company with par value of 0,1 RUR;
- 78000/194542 of preference shares of OAO «Kurskenergo» with par value of 1 RUR were converted into one additional issued ordinary share of the Company with par value of 0,1 RUR;
- 78000/1798460 of ordinary shares of OAO «Lipeckenergo» with par value of 1 RUR were converted into one additional issued ordinary share of the Company with par value of 0,1 RUR;
- 78000/542455 of ordinary shares of OAO «Orelenergo» with par value of 3,5 RUR were converted into one additional issued ordinary share of Company with par value of 0,1 RUR;
- 78000/496780 of preference shares of OAO «Orelenergo» with par value of 3,5 RUR were converted into one additional issued ordinary share of the Company with par value of 0,1 RUR;
- 78000/918754 of ordinary shares of OAO «Smolenskenergo» with par value of 1 RUR were converted into one additional issued ordinary share of the Company with par value of 0,1 RUR;
- 78000/841395 of preference shares of OAO «Smolenskenergo» with par value of 1 RUR were converted into one additional issued ordinary share of the Company with par value of 0,1 RUR;

- 78000/73076 of ordinary shares of OAO «Tambovenergo» with par value of 1 RUR were converted into one additional issued ordinary share of the Company with par value of 0,1 RUR;
- 78000/66923 of preference shares of OAO «Tambovenergo» with par value of 1 RUR were converted into one additional issued ordinary share of the Company with par value of 0,1 RUR;
- 78000/371625 of ordinary shares of OAO «Tverenergo» with par value of 1 RUR were converted into one additional issued ordinary share of the Company with par value of 0,1 RUR;
- 78000/340334 of preference shares of OAO «Tverenergo» with par value of 1 RUR were converted into one additional issued ordinary share of the Company with par value of 0,1 RUR;
- 78000/13948314 of ordinary shares of OAO «Yarenergo» with par value of 50 RUR were converted into one additional issued ordinary share of the Company with par value of 0,1 RUR;
- 78000/12773866 of preference shares of OAO «Yarenergo» with par value of 50 RUR were converted into one additional issued ordinary share of the Company with par value of 0,1 RUR.

The merger was completed in March 2008.