"FEDERAL GRID COMPANY UES" GROUP
COMBINED AND CONSOLIDATED INTERIM FINANCIAL STATEMENTS
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)
FOR THE SIX MONTHS ENDED 30 JUNE 2007 (UNAUDITED)

PRICEWATERHOUSECOOPERS

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REPORT ON REVIEW OF INTERIM FINANCIAL STATEMENTS

To the Shareholders and the Board of Directors of Open Joint Stock Company «Federal Grid Company of Unified Energy System» (JSC FGC UES):

Introduction

1 We have reviewed the accompanying combined and consolidated interim financial statements of JSC FGC UES and its subsidiaries (the "Group") which comprise the consolidated balance sheet as at 30 June 2007, combined and consolidated statement of operations, combined and consolidated statement of cash flow and combined and consolidated statement of changes in equity for the six months then ended and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of these combined and consolidated interim financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting". Our responsibility is to express a conclusion on these combined and consolidated interim financial statements based on our review. Management has issued interim financial information for the first time as of and for the period ended 30 June 2007 and hence we did not perform a review of interim financial information as of and for the period ended 30 June 2006.

Scope of review

2 We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for qualified conclusion

3 As discussed in Note 6 to the combined and consolidated interim financial statements, the Group's property, plant and equipment have been revalued as at 1 January 2007. The comparative information in relation to property, plant and equipment has not been restated. However, the management performed the previous revaluation of property, plant and equipment at 31 December 2001 and since that date up to 1 January 2007 did not assess if the fair values were significantly different from the carrying amounts. This practice, in our opinion, is not in compliance with International Financial Reporting Standards. The carrying amount of such property, plant and equipment as at 31 December 2006 was RR 173,801 million.

4 Additionally, for certain subsidiaries where there was no revaluation before 31 December 2006, the comparative information of the Group's property, plant and equipment with the carrying value of RR 56,454 million as at 31 December 2006, is presented as at that date at depreciated cost less impairment. This practice, in our opinion, is not in compliance with International Financial Reporting Standards.

Qualified conclusion

5 Based on our review, except for the effect of the matters noted in paragraphs 3 and 4 above on the comparative information, nothing has come to our attention that causes us to believe that the accompanying combined and consolidated interim financial statements do not present fairly, in all material respects, the financial position of the Group as of 30 June 2007, and of the results of its operations and its cash flows for the period then ended in accordance with International Accounting Standard 34 "Interim Financial Reporting".

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Emphasis of matter – governmental economic and social policies

6 Without qualifying our conclusion, we draw attention to Notes 1 and 5 to the accompanying combined and consolidated interim financial statements. The Government of the Russian Federation has an ultimate controlling interest in the Group and governmental economic and social policies affect the Group's financial position, results of operations and cash flows.

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
31 October 2007

FGC UES Group

Consolidated Interim Balance Sheet as at 30 June 2007
(in millions of Russian Roubles)

	Notes	30 June 2007 (Unaudited)	31 December 2006 (as restated)
Assets			
Non-current assets			
Property, plant and equipment	6	288,325	230,255
Intangible assets	7	3,102	2,468
Available-for-sale investments	8	3,031	3,031
Other non-current assets	9	807	3,242
Total non-current assets		**295,265**	**238,996**
Current assets			
Cash and cash equivalents	10	16,648	5,971
Accounts receivable and prepayments	11	20,831	11,505
Inventories	12	1,791	1,470
Loans issued		1,030	929
Other current assets		217	527
Total current assets		**40,517**	**20,402**
TOTAL ASSETS		335,782	259,398
Equity and liabilities			
Equity			
Share capital			
Ordinary shares	13	180,691	121,607
Revaluation reserve	6	29,808	-
Merger reserve	13	(9,402)	(9,402)
Retained earnings		37,745	32,976
Equity attributable to shareholders of FGC UES		238,842	145,181
Minority interest		21,420	16,964
Total equity		**260,262**	**162,145**
Non-current liabilities			
Deferred profit tax liabilities	14	25,238	14,322
Non-current debt	15	25,452	25,445
Pension obligations	16	2,806	2,661
Total non-current liabilities		**53,496**	**42,428**
Current liabilities			
Accounts payable to shareholders of FGC UES	13	-	34,338
Current debt and current portion of non-current debt	17	10,025	10,255
Accounts payable and accrued charges	18	11,597	9,875
Taxes payable	19	402	357
Total current liabilities		**22,024**	**54,825**
Total liabilities		**75,520**	**97,253**
TOTAL EQUITY AND LIABILITIES		**335,782**	**259,398**

30 October 2007

Deputy Chairman of the Management Board — A. A. Demin

Chief Accountant — V.V. Shchukin

The accompanying notes on pages 9 to 36 are an integral part of these combined and consolidated interim financial statements

Combined and Consolidated Interim Statement of Operations for six months ended 30 June 2007 (unaudited)
(in millions of Russian Roubles)

	Notes	Six months ended 30 June 2007	Six months ended 30 June 2006
Revenues	20	31,276	26,756
Operating expenses	21	(22,698)	(20,831)
Reversal of impairment provision for property, plant and equipment	6	3,274	-
Impairment of property, plant and equipment	6	(117)	(417)
Revaluation loss	6	(5,778)	-
Operating profit		**5,957**	**5,508**
Interest income		487	175
Finance cost	22	(1,269)	(815)
Profit before profit tax		**5,175**	**4,868**
Total profit tax charge	14	(1,110)	(1,205)
Profit for the period		**4,065**	**3,663**
Attributable to:			
Shareholders of FGC UES		5,357	3,610
Minority interest		(1,292)	53
Earning per ordinary share for profit attributable to the shareholders of FGC UES – basic and diluted (in Russian Roubles)	23	0.02	0.01

30 October 2007

Deputy Chairman of the Management Board A. A. Demin

Chief Accountant V.V. Shchukin

Combined and Consolidated Interim Cash Flow Statement for the six months ended 30 June 2007 (unaudited)
(in millions of Russian Roubles)

	Notes	Six months ended 30 June 2007	Six months ended 30 June 2006
CASH FLOW FROM OPERATING ACTIVITIES:			
Profit before profit tax		**5,175**	**4,868**
Adjustments to reconcile profit before profit tax to net cash provided by operations			
Depreciation of property, plant and equipment	6	5,558	4,472
Amortisation	7	138	32
Reversal of impairment provision for property, plant and equipment	6	(3,274)	-
Revaluation loss	6	5,778	-
Impairment of property, plant and equipment	6	117	417
Loss on disposal of property, plant and equipment	21	218	413
(Reversal)/accrual of bad debt provision	21	(260)	1,022
Interest income		(487)	(175)
Interest expense	22	1,255	803
Amortization of discount of gain on non-interest bearing debt	22	14	12
Other non-cash transactions		108	(156)
Operating cash flows before working capital changes and profit tax paid		**14,340**	**11,708**
Working capital changes:			
Increase in accounts receivable and prepayments		(6,781)	(4,629)
Decrease in other current assets		310	645
Increase in inventories		(321)	(287)
Decrease in other non-current assets		160	87
Increase in accounts payable and accrued charges		963	1,486
Increase/ (decrease) in taxes payable, other than profit tax		104	(414)
Increase in pension liabilities		145	190
Profit tax paid		(1,485)	(999)
Total cash provided by operating activities		**7,435**	**7,787**
CASH FLOW USED FOR INVESTING ACTIVITIES:			
Additions to property, plant and equipment		(19,665)	(9,835)
Additions to intangible assets		(883)	(606)
Purchase of investments		-	(44)
Loans issued		(101)	(1,000)
Interest received		487	175
Total cash used in investing activities		**(20,162)**	**(11,310)**

Combined and Consolidated Interim Cash Flow Statement for the six months ended 30 June 2007 (unaudited)
(in millions of Russian Roubles)

	Notes	Six months ended 30 June 2007	Six months ended 30 June 2006
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of ordinary shares	13	24,746	-
Proceeds from issuance of non-current debt		-	5,000
Repayment of loans		(8)	(12)
Interest paid		(1,334)	(815)
Total cash from financing activities		**23,404**	**4,173**
Increase in cash		**10,677**	**650**
Cash at the beginning of the period		**5,971**	**1,741**
Cash at the end of the period		**16,648**	**2,391**

30 October 2007

Deputy Chairman of the Management Board A. A. Demin

Chief Accountant V.V. Shchukin

Combined and Consolidated Interim Statement of Changes in Equity for the six months ended 30 June 2007 (unaudited)
(in millions of Russian Roubles)

	Attributable to shareholders of FGC UES						
	Ordinary share capital	Merger reserve	Revaluation reserve	Retained earnings	Total	Minority interest	Total equity
As at 1 January 2006	**121,607**	**20,362**	-	**14,720**	**156,689**	**10,464**	**167,153**
Profit for the period	-	-	-	3,610	3,610	53	3,663
Dividends (Note 13)	-	-	-	(367)	(367)	-	(367)
As at 30 June 2006	**121,607**	**20,362**	-	**17,963**	**159,932**	**10,517**	**170,449**
As at 1 January 2007	**121,607**	**(9,402)**	-	**32,976**	**145,181**	**16,964**	**162,145**
Profit for the period	-	-	-	5,357	5,357	(1,292)	4,065
Effects of revaluation of property plant and equipment (Note 6)	-	-	29,808	-	29,808	5,761	35,569
Issue of share capital (Note 13)	59,084	-	-	-	59,084	-	59,084
Dividends (Note 13)	-	-	-	(588)	(588)	(13)	(601)
As at 30 June 2007	**180,691**	**(9,402)**	**29,808**	**37,745**	**238,842**	**21,420**	**260,262**

30 October 2007

Deputy Chairman of the Management Board A. A. Demin

Chief Accountant V.V. Shchukin

Note 1. The Group and its operations

Open Joint Stock Company "Federal Grid Company of Unified Energy System" ("FGC UES" or "the Company") was established on 25 June 2002 as a wholly-owned subsidiary of the Russian Open Joint Stock Company for Energy and Electrification United Energy System of Russia ("RAO UES") as a result of implementing the decisions of the Board of Directors of RAO UES dated 25 January 2002 and 7 May 2002 in accordance with the Russian Government Resolution № 526 "Electric Utilities Reform in the Russian Federation" dated 11 July 2001.

RAO UES itself was created as the holder of certain significant electricity power generation, transmission and distribution assets during the industry privatization in 1992.

The Company was established in the course of the Russian electric utilities industry restructuring, discussed further below, to maintain and operate the high voltage electricity transmission network, received or earmarked for receipt from RAO UES and its subsidiaries, and to provide electricity transmission services using that network.

In 2002 and 2003 the assets of the transmission business (the high voltage network and related assets under construction) belonging to RAO UES were transferred to the Company by RAO UES as a contribution to the share capital of the Company.

As at 30 June 2007 the FGC UES Group (the "Group") comprises FGC UES and its subsidiaries presented in Note 4, including 42 transmission companies (see also Sector restructuring).

The Group's primary activity is the provision of services for the transmission of electric power via the Unified National Electrical Network (UNEN).

The average number of employees of the Group was approximately 20 thousand as at 30 June 2007 and 31 December 2006.

The registered office of the Company is located at bld. 5a, Academician Chelomey Str., Moscow 117630, Russia.

The Group is considered by management to have a single activity, the provision of electricity transmission services within the Russian Federation, and this activity comprises one industry and one geographic segment. Other activities do not result in significant revenues, assets or liabilities and do not constitute reportable segments as defined by International Accounting Standard 14 "Segment reporting".

Relations with the state. At 30 June 2007 the state owned 52.7 per cent of RAO UES, who, in its turn, owned 87.56 per cent of the voting ordinary shares of the Company. In May 2007 the Russian Federation represented by the Federal Agency for Federal Property Management (FAFPM) acquired an interest of 12.44% in FGC UES. The Government of the Russian Federation ("RF") is the ultimate controlling party of the Company.

The "Concept of RAO UES's Strategy for 2003 – 2008" and the existing legislation governing the process of power reform in the Russian Federation provide that before the end of the transitional period of reform, participation of the RF in the authorised capital of FGC UES shall be secured at the rate of at least 52%. Pursuant to the existing law, the government interest in FGC UES is expected to increase to 75% plus one voting share in the future.

The RF directly affects the Company's operations through regulation by the Federal Tariff Service (FTS). Prior to the RF President Decree "On the System and Structure of Federal Executive Authorities" № 314 dated 9 March 2004 taking effect, tariffs were set by the Federal Energy Commission (FEC).

As discussed in Notes 24 and 25, the government's economic, social and other policies have a material effect on the operations of the Group.

Note 1. The Group and its operations (continued)

Sector restructuring. The Russian electric utilities industry is presently undergoing a restructuring process designed to introduce competition into the electricity sector and to create market conditions to support the raising of capital required to maintain and expand current capacity. The regulatory framework governing the process of reforming the Russian Federation electric utilities industry and the functioning of the industry both during the transition period and subsequent to the completion of reforms is set forth in the following legislation: Federal Law No. 35-FZ of 26 March 2003 "On the Electric Utilities of the Russian Federation" and Federal Law № 36-FZ as of 26 March 2003 "On the Specifics of the Functioning of Electric Utilities During the Transition Period and the Introduction of Amendments to Certain Russian Federation Legislative Acts and the Invalidation of certain Russian Federation Legislative Acts in Connection with the Adoption of the Law "On the Electric Utilities of the Russian Federation".

The key elements of the electric utilities reform program approved by Government Resolution № 526 dated 11 July 2001 envisioned the inclusion by FGC UES of transmission assets within the Unified Energy System previously owned by joint-stock electric and heat companies (AO-energos) and other entities in accordance with the law of Russian Federation.

Commencing 2005 the transmission companies (TCs) started to be formed on the basis of the property of the trunk power grids of reorganised AO-energos. As at 30 June 2007 all TCs were formed.

Following the scheme of consolidation of the UNEN of the AO-energo's, which was approved by the Board of Directors of RAO UES (Minutes No. 188 dated 25 February 2005) and for the purpose of the Federal Law № 36-FZ as of 26 March 2003 "On the Specifics of the Functioning of Electric Utilities During the Transition Period", RAO UES transferred to FGC UES the shares of 42 TCs in August 2006 (see Note 4).

The shares of the remaining TCs will be transferred as partial payment for additional shares of FGC UES, as the shares become registered and necessary corporate measures are taken (see Note 27) and at the expected final stage of RAO UES reorganization in 2008. It is expected that in course of further sector restructuring FGC UES will merge with the TCs.

Note 2. Basis of preparation

Correction of error in 2006 financial statements. In the financial statements for the year ended 31 December 2006 issued on 23 August 2007, the relative amounts of reported profit for the year attributable to the minority interest and to the shareholders of FGC UES were overstated and understated by RR 5,565 million, respectively. The Group originally allocated RR 12,065 million of the profit for the year to minority interest and RR 13,058 million to the shareholders of FGC UES. Following the correction of the error the restated values are RR 6,500 million and RR 18,623 million, for the minority interest and the shareholders of FGC UES, respectively. The correction of the error results in the previously reported earnings per ordinary share for the shareholders of FGC UES - basic and diluted (in Russian Roubles) for the same period increasing from RR 0.05 to RR 0.08 and the equity attributable to shareholders of FGC UES increasing from RR 139,616 million to RR 145,181 million. The revised financial statements for the year ended 31 December 2006 were issued on 23 October 2007. FGC had not previously published interim financial statements for the six months to 30 June 2006. These financial statements are stated after correction of the prior period error. The correction of the error had no effect on the reported profit for the six months ended 30 June 2006 or on the cash flows reported for the same period, or on the assets or liabilities of the Group, or on the total equity of the Group including minority interest. The combined and consolidated interim balance sheet presents the restated comparative information.

Statement of compliance. These combined and consolidated financial statements ("Financial Statements") have been prepared in accordance with IAS 34 "Interim Financial Reporting".

These Financial Statements have been prepared in accordance with, and comply with, International Financial Reporting Standards ("IFRS").

Note 2. Basis of preparation (continued)

Each enterprise of the Group 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 ("RAR"). The accompanying Financial Statements are based on the statutory records and adjusted and reclassified for the purpose of fair presentation in accordance with IFRS.
Reclassifications. The reclassification between categories "power transmission grids" and "substations" of prior year opening balance of the property, plant and equipment has been made in the amount of RR 2,278 million (see Note 6).

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

Predecessor accounting. The changes in Group structure are described in Note 1.

In these Financial Statements the Group accounted for the combination with TCs as transaction amongst entities under common control under an accounting policy using the predecessor values method. Accordingly, assets and liabilities of the combined entities were accounted for at the carrying value, as determined by RAO UES in its IFRS consolidated financial statements. Information in respect of the comparative period has been restated as if the business combination took place at the beginning of the earliest period presented.

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

Minority interest of the Group includes the proportional share of the subsidiaries' equity held by owners other than RAO UES and the results of operations up to the date of merger of the subsidiary with the Group.

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

Seasonality. The Group's business is not materially impacted by seasonality factors. As such no adjustments have been made to these Financial Statements for the impact of seasonality.

New accounting developments. These Financial Statements have been prepared by applying the accounting policies consistent with those of the previous financial year, except for the policies which were changed to comply with the new or amended standards and interpretations that are in force for the year beginning on 1 January 2007.

Listed below are those new or amended standards or interpretations which are in force for the year beginning on 1 January 2007:

- IFRS 7, Financial Instruments: Disclosures and a complementary Amendment to IAS 1 Presentation of Financial Statements – Capital Disclosures;
- IFRIC 7, Applying the Restatement Approach under IAS 29;
- IFRIC 8, Scope of IFRS 2;
- IFRIC 9, Reassessment of Embedded Derivatives; and
- IFRIC 10, Interim Financial Reporting and Impairment.

Note 2. Basis of preparation (continued)

None of the above amendments to standards, new standards and interpretations had a material effect on the Group's Financial Statements.

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2007 and have not been early adopted:

- IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). The Standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments and specifies how an entity should report such information;

- IFRIC 11, IFRS 2 - Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007);

- IFRIC 12, Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008);

- IFRIC 13, Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008);

- IFRIC 14 IAS 19, The Limit of a Defined Benefit Assets, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2008);

- 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 Group expects the revised IAS 1 to affect the presentation of its financial statements but to have no impact on the recognition or measurement of specific transactions and balances; and

- IAS 23, Borrowing Cost (amendment, effective for annual periods beginning on or after 1 January 2009). The main change from the previous version of the standard is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. Management is currently assessing the impact of the amendment to IAS 23 on the Group operations.

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

Note 2. Basis of preparation (continued)

Going concern. The accompanying Financial Statements have been prepared on a going concern basis, which contemplates the realisation of assets and the satisfaction of liabilities in the normal course of business. The accompanying Financial Statements do not include any adjustments that might be necessary should the Group be unable to continue as a going concern.

Use of estimates. Management has made a number of 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 IFRS. Estimates and judgments are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the Financial Statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Property, plant and equipment

Fair value of property, plant and equipment and the remaining useful life of property, plant and equipment have been determined by an independent appraiser at 1 January 2007. The carrying value and depreciation of property, plant and equipment are affected by the estimates of replacement cost, depreciated replacement cost and remaining useful lives, and actual results could differ from these estimates (see Note 6).

Provision for impairment of property, plant and equipment

At each balance sheet date the Group assesses whether there is any indication that the recoverable amount of the Group's assets has declined below the carrying value. The recoverable amount of property, plant and equipment is the higher of an asset's fair value less costs to sell and its value in use. When such a decline is identified, the carrying amount is reduced to the recoverable amount. If conditions change and management determines that the value of an asset other than goodwill has increased, the impairment provision will be fully or partially reversed.

Actual results may differ from the estimates and the Group's estimates can be revised in the future, either negatively or positively, depending upon the outcome or expectations based on the facts surrounding each exposure.

Pension obligations

Post-employment benefits are generally satisfied by plans which are classified and accounted for as defined benefit plans. The present value of defined post-employment benefit obligations and related current service cost are determined in accordance with actuarial valuations, which rely on demographic and financial assumptions including mortality, both during and after employment, rates of employee turnover, discount rate, future salary and benefit levels and, to a limited extent, expected return on plan assets. In the event that further changes in the key assumptions are required, the future amounts of the pension benefit costs may be affected materially.

Tax contingencies

Russian tax legislation is subject to varying interpretations and changes, which can occur frequently. Where the Group management believes it is probable that their interpretation of the relevant legislation and the Group's tax positions cannot be sustained, an appropriate amount is accrued in these IFRS Financial Statements.

Note 3. Summary of significant accounting policies

Principles of consolidation. The Financial Statements comprise the financial statements of FCG UES and the financial statements of those entities whose operations are controlled by FCG UES. Control is presumed to exist when FCG UES controls, directly or indirectly, through subsidiaries, more than 50 percent of voting rights. The Group consolidates a number of companies in which the Group owns less than 50 percent of the voting shares. In these circumstances, control exists on the basis of a significant shareholding combined with other factors which allow the Group to exercise control, namely: FCG UES has the majority in the Board of Directors, FCG UES is the dominant owner. The majority of the subsidiary companies described in Note 4 were formed during the reorganisation of the Energy system and were transferred to the Group by RAO UES. These transfers represent a reorganisation of assets under common control .

All inter-company balances and transactions between Group entities have been eliminated. The minority interest in the Group subsidiaries has been disclosed as part of the Group's equity.

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

Investments. Investments intended to be held for an indefinite period of time are classified as available-for sale; these are included in non-current assets unless management has the express intention of holding the investment for less than 12 months from the balance sheet date, they will need to be sold to raise operating capital or they mature within 12 months, in which case they are included in current assets. Management determines the appropriate categorization, current or non-current, at the time of the purchase and re-evaluates it based on maturity at each reporting date.

Available-for-sale investments comprise non-marketable securities, which are not publicly traded or listed. For these investments, fair value is estimated by reference to a variety of methods including those based on their earnings and those using the discounted value of estimated future cash flows. In assessing the fair value, management makes assumptions that are based on market conditions existing at each balance sheet date. 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, if any.

Purchases and sales of investments are initially measured at fair value and recognised on the settlement date, which is the date that the investment is delivered to or by the Group. Cost of purchase includes transactions costs. The available-for sale investments are subsequently carried at fair value. Unrealised gains and losses arising from changes in the fair value of these investments are included in the fair value reserve in shareholders' equity in the period in which they arise. Realised gains and losses from the disposal of available-for sale investments are included in the statement of operations in the period in which they arise.

The Group does not hold any investments held-to-maturity or for trading purposes.

(in millions of Russian Roubles)

Note 3. Summary of significant accounting policies (continued)

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

As at 30 June 2007, the official rate of exchange, as determined by the Central Bank of the Russian Federation, between the Russian Rouble and the US Dollar ("US$") was 25.82: US$1.00 (31 December 2006: RR 26.33: US$1.00), between the Russian Rouble and Euro RR 34.72: Euro 1.00 (31 December 2006: RR 34.70: Euro 1.00).

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

Property, plant and equipment. Property, plant and equipment are stated at revalued amounts less any subsequent accumulated depreciation and any subsequent accumulated impairment losses, where required.

Property, plant and equipment are subject to revaluation on a regular basis to ensure that the carrying amount does not differ materially from that which would be determined using the fair value at the balance sheet date. The frequency of revaluation depends upon the movements in the fair values of the assets being revalued. Increases in the carrying amount arising on revaluation of property, plant and equipment are credited to the revaluation reserve in equity; the increase is recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss. Decreases are charged against the revaluation reserve directly in equity to the extent they offset previous increases of the same asset recognised in the revaluation reserve; all other decreases are charged to the income statement. The revaluation reserve in equity in respect of an item of property, plant and equipment is transferred directly to retained earnings when the item is derecognised (on the retirement or disposal of the asset).

Renewals and improvements are capitalised and the assets replaced are retired. The cost of repair and maintenance are expensed as incurred. Gains and losses arising from the retirement of property, plant and equipment are included in the income statement as incurred.

Depreciation on property, plant and equipment is calculated on a straight-line basis over the estimated useful life of the asset when it is available for use. The useful lives, in years, of assets by type of facility are as follows:

	Useful lives
Buildings	25-50
Electric power transmission grids	30-50
Substations	30
Other	10-20

The Group annually reviews the remaining useful lives by groups of facilities. The average remaining useful lives, in years, of assets by type of facility are as follows:

	The average remaining useful lives in years as at 1 January 2007
Buildings	41
Electric power transmission grids	31
Substations	17
Other	11

Note 3. Summary of significant accounting policies (continued)

At each reporting date the management assess whether there is any indication of impairment of property, plant and equipment. If any such indication exists, the management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the income statement to the extent it exceeds the previous revaluation surplus in equity on the same asset. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Intangible assets. All of the Company's intangible assets have definite useful lives and primarily include capitalised computer software and licences.

Acquired computer software and licences are capitalised on the basis of the costs incurred to acquire and bring them to use. After initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation of intangible assets is calculated on a straight-line basis over the useful lives.

At each reporting date management assesses whether there is any indication of impairment of intangible assets. If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less cost to sell.

Research costs are recognised as an expense as incurred. Costs incurred on development projects are recognised as intangible assets only when the Company can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, that the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure incurred during the development. Other development expenditures are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. The carrying value of development costs is reviewed for impairment annually.

Cash and cash equivalents. Cash comprises cash in hand and cash deposited on demand at banks. Cash equivalents comprise short-term highly liquid investments that are readily convertible into cash and have a maturity of three months or less from the date of acquisition and are subject to insignificant changes in value.

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

Value added tax on purchases and sales. Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the balance sheet on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, the impairment loss is recorded for the gross amount of the debtor, including VAT. The related deferred VAT liability is maintained until the debtor is written off for tax purposes.

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

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

Note 3. Summary of significant accounting policies (continued)

Deferred profit taxes. Deferred profit tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Accounts payable and accrued charges. Accounts payable are stated inclusive of value added tax. Trade payables are accrued when the counterparty performed its obligations under the contract and are carried at amortised cost using the effective interest method.

Provisions. Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the obligation can be estimated reliably.

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

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

The Group operates defined benefit plans that cover the significant part of the Group's employees. Benefit plans define the amount of pension benefits that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognised in the balance sheet in respect of the defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses. The defined benefit obligations are calculated using the projected unit credit method. The present value of the defined benefit obligations are determined by discounting the estimated future cash outflows using interest rate of government bonds that have terms to maturity approximating the terms of the related pension liabilities.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of 10% of the defined benefit obligations are charged or credited to the statement of operations over the employees' expected average remaining working lives.

Operating leases. Where the Group is a lessee in a lease which does not transfer substantially all the risk and rewards incidental to ownership from the lessor to the Group, the total lease payments, including those on expected termination, are charged to profit or loss on a straight-line basis over the period of the lease.

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

Minority interest. Minority interest represents the minority shareholders' proportionate share of the equity and results of operations of the Group's subsidiaries. This has been calculated based upon the minority interests' ownership percentage of these subsidiaries. Specific rights on liquidation for preference shareholders of subsidiaries are included in the calculation of minority interests. The Group uses the 'economic entity' approach to the recognition of minorities, whereby minorities are treated as equity participants in the Group. As a consequence, any gains or losses resulting from the purchases and sales of the minority interests are recognised in the statement of changes in equity.

Revenue recognition. Revenue from rendering the electricity transmission services is recognised in the period when the services are provided. Revenue amounts are presented exclusive of value added tax.

(in millions of Russian Roubles)

Note 3. Summary of significant accounting policies (continued)

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

Revenue from sales of electricity is recognised on the delivery of electricity, exclusive of value added tax.

Note 4. Subsidiaries

All subsidiaries are incorporated and operate in the Russian Federation. The subsidiaries as at 30 June 2007 are presented below grouped by type of activity.

Transmission companies:

Name	Ownership %	Voting %
JSC "The Arkhangelsk Transmission company"	49.00	59.05
JSC " The Astrakhan Trunk Grids"	48.66	48.66
JSC "The Belgorod Transmission company"	49.00	65.29
JSC "The Bryansk Transmission company"	49.00	65.22
JSC "The Chelyabinsk Electricity Trunk Grids"	49.00	58.06
JSC "The Chuvashian Trunk Grids"	100.00	100.00
JSC "The Daghestani Trunk Grids"	51.00	51.00
JSC "The Ivanovo Trunk Grids"	49.66	56.55
JSC "The Kaluga Transmission company"	52.25	52.25
JSC "The Karelian Trunk Grids"	100.00	100.00
JSC "The Kirov Electricity Trunk Grids"	48.17	48.17
JSC "The Khakassian Trunk Grid Company"	100.00	100.00
JSC "The Kola Trunk Grids"	49.20	65.52
JSC "The Kostroma Trunk Grids"	49.00	65.33
JSC "The Krasnoyarsk Trunk Grids"	51.75	66.33
JSC "The Kursk Trunk Grids"	49.00	59.47
JSC "The Lipetsk Trunk Grids"	49.02	49.02
JSC "The Mari Trunk Grids"	64.44	70.07
JSC "The Mordovian Transmission company"	53.14	53.14
JSC "Mosenergo Transmission company"	50.90	50.90
JSC "The Nizhny Novgorod Transmission company"	49.00	49.00
JSC "The Omsk Transmission company"	49.00	60.39
JSC "The Orenburg Electricity Trunk Grids"	100.00	100.00
JSC "The Oryol Transmission company"	49.00	60.35
JSC "The Penza Transmission company"	49.00	49.00
JSC "The Perm Transmission company"	49.00	64.36
JSC "Petersburg Trunk Grids"	49.00	57.40
JSC "Rostovenergo Transmission company"	48.43	48.43
JSC "The Ryazan Trunk Grids"	49.00	49.00
JSC "The Smolensk Electricity Trunk Grids"	48.68	59.26
JSC "The Sverdlovsk Trunk Grids"	49.00	65.33
JSC "The Tambov Transmission company"	49.01	49.01
JSC "The TomskTrunk Grids"	52.03	59.88
JSC "The Tver Trunk Grids"	49.00	65.33
JSC "The Tula Transmission company"	49.00	49.00
JSC "The Tyumen Transmission company"	100.00	100.00
JSC "The Udmurtian Trunk Grids"	49.00	55.39
JSC "The Vladimir Trunk Grids"	49.00	49.00
JSC "The Volgograd Trunk Grids"	48.99	61.33
JSC "The Vologda Trunk Grids"	49.00	49.00
JSC "The Voronezh Transmission company"	49.01	49.01
JSC "The Yaroslavl Trunk Grids"	47.36	47.36

The shares of all the above transmission companies (TCs), that were formed in 2005, were received by FGC UES in August 2006 as the payment of the additional issue of ordinary shares of FGC UES. These Financial Statements present this transaction as a transaction under common control (Note 2).

(in millions of Russian Roubles)

Note 4. Subsidiaries (continued)

Other companies:

Name	Ownership %	Voting %	Activity
JSC "The Moscow Department of Power Communications"	99.99	99.99	Communication services
JSC "Nurenergo"	77.00	77.00	Generation, distribution and sale of electricity in the Republic of Chechnya

Note 5. Related parties

Transactions with RAO UES and the RAO UES Group

In the normal course of business the Group enters into transactions with RAO UES and companies of the RAO UES Group.

The Group had the following significant transactions and balances with RAO UES and companies of the RAO UES Group:

	Six months ended 30 June 2007	Six months ended 30 June 2006
Transmission revenue	28,990	25,455
Other revenues	95	73

	30 June 2007	31 December 2006
Accounts payable to shareholders (Note 13)	-	34,338
Trade payables	1,889	2,333
Trade receivables (Net of allowance for doubtful debtors of nil as at 30 June 2007 and RR 700 million as at 31 December 2006)	3,765	1,528
Loans issued	1,244	1,004
Other receivables	2,592	978
Loans received	-	505

The Company also guaranteed obligations of certain RAO UES Group companies (Note 24).

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

In the normal course of business the Group enters into transactions with other entities under Government control. Bank loans are provided at the prevailing market rates. Taxes are accrued and settled in accordance with the Russian tax legislation.

(in millions of Russian Roubles)

Note 5. Related parties (continued)

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

	Six months ended 30 June 2007	Six months ended 30 June 2006
Sub-lease expenses of FGC UES paid to ITC Center	1,544	1,522
Operating lease income of TCs received from ITC Center	1,530	1,531
Interest income	246	66
Repair and maintenance services income	1	-

During the six months ended 30 June 2007 and 2006 the JSC "ITC Center" (85% owned by Russian Federation and 15% owned by FGC UES) acted as the lessee of the TC's property, plant and equipment and subleased the property of TCs to FGC UES. Repair and maintenance expenses and depreciation of this property, plant and equipment were borne by the Group entities.

The income received and expenses incurred during the six months ended 30 June 2007 and the six months ended 30 June 2006 in relation to operating leases of the TCs' property, plant and equipment are presented net in these Financial Statements with receivables and payables remaining on the consolidated balance sheet, based on the substance of the arrangement.

	30 June 2007	31 December 2006
Cash and cash equivalents	9,648	1,841
Advances issued	1,730	1,766
Accounts receivable	387	561
Accounts payable	133	5

Tax balances are disclosed in Notes 14 and 19. Tax transactions are disclosed in the statement of operations.

Directors' compensation. Compensation is paid to the members of Management Board for their services in full time management positions. The compensation is made up of a contractual salary, non-cash benefits and a performance bonus depending on results for the period according to Russian statutory financial statements. Also additional medical coverage was provided to the members of Management Board and their family members. Total remuneration in the form of salary, bonuses and non-cash benefits provided to the members of the Board of Directors and Management Board for the six months ended 30 June 2007 was RR 27 million (the six months ended 30 June 2006 – RR 32 million).

The members of Management Board also participate in the Group's pension plan (Note 16).

(in millions of Russian Roubles)

Note 6. Property, plant and equipment

	Industrial buildings	Power trans-mission grids	Substations	Construction in process	Other	Total
Appraisal value or cost						
Opening balance as at 31 December 2006	9,703	155,717	76,077	56,774	25,349	323,620
Elimination of deprecation and impairment	(2,077)	(47,711)	(22,914)	(3,103)	(14,286)	(90,091)
Revaluation increase	1,924	21,305	19,693	3,604	275	46,801
Revaluation loss	(395)	(1,023)	(308)	(999)	(3,053)	(5,778)
Additions	24	334	82	18,851	375	19,666
Transfers	387	2,547	3,777	(10,172)	3,461	-
Disposals	(1)	(9)	(83)	(160)	(51)	(304)
Closing balance as at 30 June 2007	9,565	131,160	76,324	64,795	12,070	293,914
Accumulated depreciation and impairment						
Opening balance as at 31 December 2006	(2,261)	(48,664)	(25,019)	(3,103)	(14,318)	(93,365)
Reversal of impairment provision	184	953	2,105	-	32	3,274
Elimination of deprecation and impairment	2,077	47,711	22,914	3,103	14,286	90,091
Charge for the period	(127)	(2,270)	(2,658)	-	(503)	(5,558)
Impairment loss	-	-	-	(104)	(13)	(117)
Disposals	1	5	48	-	32	86
Closing balance as at 30 June 2007	(126)	(2,265)	(2,610)	(104)	(484)	(5,589)
Net book value as at 30 June 2007	9,439	128,895	73,714	64,691	11,586	288,325
Net book value as at 31 December 2006	7,442	107,053	51,058	53,671	11,031	230,255

(in millions of Russian Roubles)

Note 6. Property, plant and equipment (continued)

	Industrial buildings	Power trans-mission grids	Substations	Construction in process	Other	Total
Appraisal value or cost						
Opening balance as at 31 December 2005	8,543	155,093	66,830	39,334	23,554	293,354
Additions	-	3	61	9,265	508	9,837
Transfers	473	586	2,582	(4,508)	867	-
Disposals	(1)	(1)	(75)	(302)	(49)	(428)
Closing balance as at 30 June 2006	9,015	155,681	69,398	43,789	24,880	302,763
Accumulated depreciation and impairment						
Opening balance as at 31 December 2005	(3,116)	(57,914)	(29,002)	(2,598)	(14,295)	(106,925)
Charge for the period	(129)	(2,265)	(1,227)	-	(851)	(4,472)
Impairment loss	-	-	-	(388)	(29)	(417)
Disposals	-	-	8	-	7	15
Closing balance as at 30 June 2006	(3,245)	(60,179)	(30,221)	(2,986)	(15,168)	(111,799)
Net book value as at 30 June 2006	5,770	95,502	39,177	40,803	9,712	190,964
Net book value as at 31 December 2005	5,427	97,179	37,828	36,736	9,259	186,429

Property, plant and equipment were revalued as of 1 January 2007. The revaluation was performed by independent appraisers who hold a recognised and relevant professional qualification and who have recent experience in valuation of assets of similar location and category. Fair values were determined primarily based on the depreciated replacement cost method. The replacement cost of the major part of buildings, power transmission grids, substation and constructions has been estimated based on technical characteristics, unit construction cost and construction estimates. The replacement cost of major part of equipment was estimated based on data of current purchase contracts and price-list of producers and trading companies. Economic obsolescence was estimated based on profitability test results for each cash-generating unit – each of the Group's entities. The following significant assumptions were applied:

- The Regulatory Asset Base as the tariff-setting mechanism for electricity transmission will be introduced during 2010-2012;
- The return on investment, provided by the tariff after the Regulatory Asset Base is introduced, will be 9.47%;
- Growth of operating costs will be fully accounted for by the FTS in the course of establishing electricity transmission tariffs;
- The average annual inflation rate will not exceed 7.5%; and
- The discount rate range used for profitability test varied from 12.43% to 13.55%.

A change in the expected return on the investment by 1% or the delay in the introduction of the Regulatory Asset Base tariff-setting mechanism by one year would impact the carrying value of property, plant and equipment by approximately 17% and 11%, respectively.

Increases in the carrying amount arising on revaluation of property, plant and equipment are credited to the revaluation reserve in equity; decreases are recognised in the statement of operations as revaluation loss.

(in millions of Russian Roubles)

Note 6. Property, plant and equipment (continued)

As a result of the revaluation, the Group's equity increased by RR 35,569 million, comprising an increase in carrying value of property, plant and equipment of RR 46,801 million, net of a related deferred tax liability of RR 11,232 million. As a result of recognizing the results of the revaluation, RR 3,274 million of previously recognized impairment loss was reversed, and a revaluation loss of RR 5,778 million was recognised, in the statements of operations. The remaining effect of the revaluation, RR 29,808 million was recognized directly in equity as a revaluation reserve.

Construction in process represents the carrying amount of property, plant and equipment that has not yet been put into operation, and advances to construction companies and suppliers of property, plant and equipment. As at 30 June 2007 such advances amounted to RR 13,515 million (as at 31 December 2006: RR 6,916 million).

Depreciation is charged once an asset is available for service.

Other property, plant and equipment include motor vehicles, computer equipment, office fixtures and other equipment.

The Group's assets do not include the land on which the Group's buildings and facilities are situated. The Group has the option to purchase this land upon application to the state registration body or to formalize the right for rent. According to Russian legislation expiry date to this option is 1 January 2008. As discussed below, the Group has the right of prolongation of the lease agreements. As at 30 June 2007 the Group's companies have not filed any application to exercise the purchase option.

Impairment. The impairment loss recognised during the reporting period in the amount of RR 117 million (for the six months ended 30 June 2006: RR 417 million) arose in relation to property, plant and equipment of JSC "Nurenergo". As a consequence of the military, political and economic situation in Chechen Republic, the earnings of JSC "Nurenergo" from the sales of electricity purchased on wholesale electricity market do not exceed current operating expenditures. A 100% impairment loss was recognised in respect of the balance of JSC "Nurenergo" for construction in progress.

Operating leases. The Group leases a number of land areas owned by the local government under operating leases. The lease payments due are determined by agreements and are payable as follows:

	30 June 2007	31 December 2006
Before one year	138	45
Between two and five years	207	87
After five years	1,122	814
Total	**1,467**	**946**

The above lease agreements are usually concluded for 1-49 years and carry a right of prolongation. The lease payments are subject to regular review that may result in adjustment to reflect the market conditions. The agreements concluded by TCs will continue to be exercised by FGC after the merger.

(in millions of Russian Roubles)

Note 7. Intangible assets

	Corporate system of managing geographically dispersed resources	Other software and licenses	Total
As at 31 December 2005			
Cost	572	552	1,124
Accumulated amortisation	-	(32)	(32)
Net book value as at 31 December 2005	572	520	1,092
Six months ended 30 June 2006			
Additions	253	354	607
Disposals	-	-	-
Amortisation charge	-	(32)	(32)
As at 30 June 2006			
Cost	825	906	1,731
Accumulated amortisation	-	(64)	(64)
Net book value at 30 June 2006	825	842	1,667
As at 31 December 2006			
Cost	883	1,813	2,696
Accumulated amortisation	(20)	(208)	(228)
Net book value as at 31 December 2006	863	1,605	2,468
Six months ended 30 June 2007			
Additions	243	640	883
Disposals	-	(111)	(111)
Transfers	67	(67)	-
Amortisation charge	(100)	(38)	(138)
As at 30 June 2007			
Cost	1,193	2,275	3,468
Accumulated amortisation	(120)	(246)	(366)
Net book value at 30 June 2007	1,073	2,029	3,102

The Corporate system of managing geographically dispersed resources is a software system for gathering, processing and storaging of information on conditions in the transmission network, which is required for the effective maintenance of UNEN. The Corporate system of managing geographically dispersed resources is amortised during 5 years starting from December 2006.

Other software and licenses include cost and prepayments made in respect of implementation of SAP R-3 software and related licenses. Amortisation of software will be started on completion of the implementation projects.

Note 8. Available-for-sale investments

Available-for-sale investments include shares in JSC "Sangtudinskaya GES-1", a company which is incorporated and operates in Tajikistan. As at 30 June 2007 and 31 December 2006 the Group's interest in JSC "Sangtudinskaya GES-1" is 21.16%. The shares of this company are not quoted and reliable financial information about its operations is not available. Consequently, management could not reliably estimate the fair value of the above investments and have recorded these at cost.

Management had assessed the level of influence that the Group has over JSC "Sangtudinskaya GES-1" and determined that this does not amount to significant influence. Consequently, the investment in JSC "Sangtudinskaya GES-1" has been classified as non-current available-for-sale investment.

(in millions of Russian Roubles)

Note 9. Other non-current assets

	30 June 2007	31 December 2006
VAT recoverable	389	2,674
Long-term loans issued	215	82
Rosbank promissory notes	202	184
Other non-current assets	1	302
Total	**807**	**3,242**

During 2005 the Group acquired non-interest bearing promissory notes of Rosbank in the amount of RR 483 million maturing in 2015. These promissory notes were initially recognised in the Financial Statements at their fair value at the acquisition date. Their fair value was determined using a 12 percent discount rate and with reference to their maturity. The discounting effect on these promissory notes was included in finance cost (Note 22).

Note 10. Cash and cash equivalents

	30 June 2007	31 December 2006
Cash at bank and in hand	9,648	5,971
Cash equivalents	7,000	-
Total	**16,648**	**5,971**

Cash equivalents comprise short-term investments in certificates of deposit.

Note 11. Accounts receivable and prepayments

	30 June 2007	31 December 2006
Advances to suppliers and prepayments	5,223	2,431
Trade receivables		
(Net of allowance for doubtful debtors of RR 1,067 million as at 30 June 2007 and RR 1,327 million as at 31 December 2006)	4,599	2,811
VAT recoverable	4,675	1,571
Other receivables	6,334	4,692
Total	**20,831**	**11,505**

Trade and other receivables are non-interest bearing and generally have 30-90 day term. Due to their short maturities, the fair value of trade and other receivables approximates to their book value.

The above other receivables balance as at 30 June 2007 includes RR 1,312 million of VAT prepayments (as at 31 December 2006: RR 2,722 million), which are to be settled against future VAT liabilities.

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

(in millions of Russian Roubles)

Note 11. Accounts receivable and prepayments (continued)

The movement of the provision is shown in the table below.

	Six months ended 30 June 2007	Six months ended 30 June 2006
As at 1 January	1,327	396
Reversal of provision	(724)	-
Accrued provision	464	1,022
As at 30 June	**1,067**	**1,418**

As of 30 June 2007, trade receivables of RR 309 million (31 December 2006: RR 175 million) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The aging analysis of these trade receivables is as follows:

	30 June 2007	31 December 2006
3 to 6 months	134	175
6 to 12 months	175	-
Total	**309**	**175**

Note 12. Inventories

	30 June 2007	31 December 2006
Repair materials	1,259	895
Spare parts	511	525
Other inventories	21	50
Total	**1,791**	**1,470**

The cost of inventories is shown net of an obsolescence provision for RR 6 million as at 30 June 2007 and 31 December 2006. At 30 June 2007 and 31 December 2006 the Group had no inventories pledged as security under loan and other agreements.

Note 13. Equity

Basis of presentation of movements in equity. The Group was formed by the combination of electricity transmission businesses under common control. Due to the use of the predecessor basis of accounting (Note 3), the majority of the net equity recognised by the Group is based on the historic carrying value of the net assets of the businesses contributed as recorded in the IFRS financial records of the predecessor enterprises, rather than the fair values of those net assets. Similarly, for the purpose of comparability, the equity of the Group has been presented for comparative periods and as at 1 January 2006 as if the current Group structure has existed from 1 January 2006 (Note 4).

Share Capital

	Number of shares issued and fully paid			
	30 June 2007	31 December 2006	30 June 2007	31 December 2006
Ordinary shares	361,382,207,920	243,214,483,559	180,691	121,607

At 30 June 2007 authorised share capital is 403,214,483,559 ordinary shares with a nominal value of RR 0.5 per share.

(in millions of Russian Roubles)

Note 13. Equity (continued)

In 2006 the Company commenced the process of issuing an additional 118,167,724,361 ordinary shares. As at 31 December 2006 the Company had received consideration for 68,675,855,789 shares in the total amount of RR 34,338 million. This consideration was received from RAO UES in the form of shares of TCs with a Russian statutory value of RR 29,764 million, grid assets with a Russian statutory value of RR 1,529 million and cash of RR 3,045 million. As at 31 December 2006 the issue was not registered by the Federal Commission for the Securities Market (FCSM) and, consequently, the consideration received was classified at that date as a liability to shareholders in these Financial Statements. During the six months ended 30 June 2007 the remaining RR 2,266 million and RR 22,480 million were paid in cash by RAO UES and the Russian Federation, respectively. The issue of a total of 118,167,724,361 ordinary shares for a total consideration of RR 59,084 million was registered by FCSM in May 2007. As a result of this issue the Russian Federation represented by the Federal Agency for Federal Property Management (FAFPM) acquired an interest of 12.44% in FGC UES. The interest of RAO UES in FGC UES dropped from 100% to 87.56%.

Merger reserve. Based on the application of predecessor accounting (Note 2), the difference of RR 9,402 million between the statutory value of the share capital to be issued, the IFRS carrying values of the contributed assets and the minority interest has been recorded as a merger reserve within equity.

Dividends. The annual statutory accounts of the parent company, FGC UES, form the basis for the annual profit distribution and other appropriations. Specific Russian legislation identifies the basis of distribution as the net profit. For the year ended 31 December 2006, the statutory net profit of the parent company, FGC UES, as reported in the published statutory financial statements, was RR 1,833 million (for the year ended 31 December 2005: RR 1,997 million). However this legislation and other statutory laws and regulations dealing with the distribution rights are open to legal interpretation and, accordingly, management believes at present it would not be appropriate to disclose an amount for the distributable reserves in these Financial Statements.

A dividend was declared in June 2007 in respect of the year ended 31 December 2006 of RR 0.001626664 per ordinary share for total amount of RR 588 million (in respect of the year ended 31 December 2005 – RR 0.00151016 per ordinary share for total amount of RR 367 million).

Note 14. Profit tax

Profit tax charge comprises the following:

	Six months ended 30 June 2007	Six months ended 30 June 2006
Current profit tax charge	1,426	863
Deferred profit tax (benefit)/charge	(316)	342
Total profit tax charge	**1,110**	**1,205**

During the six months ended 30 June 2007 and 2006 the Group was subject to profit tax rate of 24 percent on taxable profit.

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

Net profit before profit tax for financial reporting purposes is reconciled to profit tax expenses as follows:

	Six months ended 30 June 2007	Six months ended 30 June 2006
Profit before profit tax	5,175	4,868
Theoretical profit tax charge at statutory tax rate of 24 percent	1,242	1,168
Tax effect of items which are not deductible or assessable for taxation purposes	(302)	(272)
Non-recognised deferred tax asset	170	309
Total profit tax charge	**1,110**	**1,205**

(in millions of Russian Roubles)

Note 14. Profit tax (continued)

The Group has unrecognised potential deferred tax assets in respect of unused tax loss carry forwards of RR 1,423 million (31 December 2006: RR 1,253 million) at JSC "Nurenergo". The tax loss carry forwards expire in 10 years from their origination.

The marginally lower effective tax rate for 6 months 2007 reflects the recognition of an additional deferred tax asset, previously unrecognised, in relation to the tax effect of changes in the valuation of a financial asset.

Deferred profit tax. Differences between IFRS and Russian statutory taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. Deferred profit tax assets and liabilities are measured at 24 percent, the rate expected to be applicable when the asset or liability will reverse.

Deferred profit tax assets and liabilities for the six months ended 30 June 2007

	30 June 2007	Movements for the six months recognised in the Equity statement	recognised in the Statement of operations	31 December 2006
Deferred profit tax liabilities	**(26,089)**	**(11,232)**	**216**	**(15,073)**
Property, plant and equipment	(25,972)	(11,232)	261	(15,001)
Trade receivables	(117)	-	(45)	(72)
Deferred profit tax assets	**851**	-	**100**	**751**
Property, plant and equipment	251	-	(22)	273
Pension obligations	466	-	25	441
Trade receivables	106	-	69	37
Other	28	-	28	-
Deferred profit tax liabilities, net	**(25,238)**	**(11,232)**	**316**	**(14,322)**

Property, plant and equipment movements include a deferred tax expense of RR 786 million in relation to the reversal of a previously recognised impairment loss (Note 6).

The deferred tax liability of RR 11,232 million recognised in equity relates to the revaluation of property, plant and equipment (Note 6).

Deferred profit tax assets and liabilities for the six months ended 30 June 2006

	30 June 2006	Movements for the six months recognised in the Statement of operations	31 December 2005
Deferred profit tax liabilities	**(8,874)**	**(429)**	**(8,445)**
Property, plant and equipment	(8,794)	(429)	(8,365)
Trade receivables	(80)	-	(80)
Deferred profit tax assets	**1,264**	**87**	**1,177**
Property, plant and equipment	683	(120)	803
Pension obligations	410	36	374
Trade receivables	154	154	-
Other	17	17	-
Deferred profit tax liabilities, net	**(7,610)**	**(342)**	**(7,268)**

As at 30 June 2007 and as at 31 December 2006 the Group has not recognized a deferred tax liability in respect of temporary differences associated with investments in its subsidiaries. The Group has control over the timing of the reversal of these temporary differences and it is likely that the temporary differences will not reverse in the foreseeable future.

(in millions of Russian Roubles)

Note 15. Non-current debt

	Currency	Effective interest rate	Due	30 June 2007	31 December 2006
Certified interest-bearing non-convertible bearer bonds Issue 01	RR	8.80%	18.12.2007	5,000	5,000
Certified interest-bearing non-convertible bearer bonds Issue 02	RR	8.25%	22.06.2010	7,000	7,000
Certified interest-bearing non-convertible bearer bonds Issue 03	RR	7.10%	12.12.2008	7,000	7,000
Certified interest-bearing non-convertible bearer bonds Issue 04	RR	7.30%	06.10.2011	6,000	6,000
Certified interest-bearing non-convertible bearer bonds Issue 05	RR	7.20%	01.12.2009	5,000	5,000
Other non-current debt				452	445
Total non-current debt				**30,452**	**30,445**
Less: current portion of non-current debt				(5,000)	(5,000)
Total				**25,452**	**25,445**

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

During 2004-2006 the Group issued Certified interest-bearing non-convertible bearer coupon bonds for the total nominal value of RR 30,000 million. The interest is defined at the time of the issue and is fixed for the maturity period. The coupon is payable semi-annually.

The bonds of Issue 01 mature in December 2007, accordingly, the bond value of RR 5,000 million is included in current debt.

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

As at 30 June 2007 the estimated fair value of total non-current debt (including the current portion) was RR 30,513 million (31 December 2006: RR 30,335 million), which is estimated using the market prices for quoted FGC UES bonds as at 30 June 2007.

(in millions of Russian Roubles)

Note 16. Pension obligations

The post employment and retirement program of the Group consists of the voluntary occupational pension plans and various post employment, long-term and jubilee benefits. The post employment and retirement program is a defined benefit plan, under which the participants accrue pension entitlements on the basis of a formula or defined rule. The occupational pension program carried through Non-state pension fund of electrical energy industry (NPFE) comprises the main part of the program.

According to the rules of the pension plan, employees with 10 years of service in the Group or RAO UES at the date of retirement or dismissal from the Company are eligible for a voluntary pension program.

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

Additionally, the Group provides financial support payments of a defined benefit nature to certain former employees, who have received awards from the government, industry or the Company. Such benefits are paid to both those who qualify for the occupational pension plan and those who do not.

The latest independent actuarial valuation of pension and other post employment and long-term benefits in accordance with the provisions of IAS 19 was performed as at 31 December 2006 using individual member's census data as at the valuation date.

The tables below provide information about benefit obligations, plan assets and actuarial assumptions used as at 30 June 2007 and 31 December 2006.

Amounts recognised in the Group's combined and consolidated balance sheet:

	30 June 2007	31 December 2006
Present value of defined benefit obligations	3,459	3,367
Unrecognised actuarial gains	130	130
Unrecognised past service cost	(783)	(836)
Net pension liabilities in balance sheet	**2,806**	**2,661**

Amounts recognised in the Group's combined and consolidated statement of operations:

	Six months ended 30 June 2007	Six months ended 30 June 2006
Current service cost	112	114
Interest cost	111	111
Recognised past service cost	53	53
Net expense recognised in the statement of operations	**276**	**278**

(in millions of Russian Roubles)

Note 16. Pension obligation (continued)

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

	Six months ended 30 June 2007	Six months ended 30 June 2006
Present value of defined benefit obligations at the beginning of the period	3,367	3,328
Service cost	112	114
Interest cost	111	111
Benefits paid	(131)	(86)
Present value of defined benefit obligations as at the end of the period	**3,459**	**3,467**

Principal actuarial assumptions are as follows:

	30 June 2007	31 December 2006
Nominal discount rate	6.75%	6.75%
Nominal pension entitlement increase (prior to benefit commencements)	7.0%	7.0%
Nominal increase in pensions-in-pay (after benefit commencement)	5.0%	5.0%
Mortality	Russian population mortality table 1998	Russian population mortality table 1998

The expected contributions under the voluntary pension program in 2007 are RR 115 million.

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

	Effective interest rate	30 June 2007	31 December 2006
Loan from European Bank for reconstruction and development	MosPrime + 2.15%	5,000	5,000
Current portion of non-current debt	8.8%	5,000	5,000
Other current debt		25	255
Total		**10,025**	**10,255**

Current debts include a loan from European Bank for Reconstruction and Development in the amount of RR 5,000 million payable in 2013. The loan was obtained for modernisation and reconstruction of large high-voltage electric substations – the Central Substation and the Arzamas Substation. The loan interest is variable at MosPrime plus 2.15%.

As at 31 December 2006 the Group was not in compliance with the liquidity requirements stated in the conditions of a loan agreement with the European Bank for Reconstruction and Development due to the unaccomplished and unregistered share issue and the recognition of a current liability in respect of this issue in amount of RR 34,338 million at 31 December 2006 (Note 13). These breaches give the European Bank for Reconstruction and Development the right to demand immediate repayment of the loan. Consequently, this loan has been reclassified to current debt at the balance sheet date.

Note 18. Accounts payable and accrued charges

	30 June 2007	31 December 2006
Trade payables	8,052	7,650
Accrued liabilities and other creditors	2,265	1,240
Advances received	1,280	985
Total	**11,597**	**9,875**

(in millions of Russian Roubles)

Note 19. Taxes payable

	30 June 2007	31 December 2006
Value added tax	151	162
Employee taxes	101	28
Property tax	80	74
Profit tax	5	64
Other taxes	65	29
Total	**402**	**357**

The value added tax payable is recorded inclusive of deferred value added tax in the amount of RR 149 million (31 December 2006: RR 149 million), which had been incurred prior to 31 December 2005 due to the time difference between revenue recognition and cash receipt from customers. Starting from 1 January 2006 value added tax is payable to the tax authorities on an accrual basis (Note 3), while value added tax originated prior to 1 January 2006 is payable to the tax authorities based on cash receipts from customers or appropriate accounts receivable write-off, but not later than 1 January 2008.

Note 20. Revenues

	Six months ended 30 June 2007	Six months ended 30 June 2006
Transmission fees	29,689	25,991
Electricity sales	418	240
Rental income	248	29
Grids repair and maintenance services	126	41
Other revenues	795	455
Total	**31,276**	**26,756**

During the six months ended 30 June 2007 and 2006 the Group provided electricity transmission services using rented transmission assets of other owners – TCs which are not subsidiaries of FGC UES as at 30 June 2007, but which should be merged with the Group in the future (Note 1).

Note 21. Operating expenses

	Six months ended 30 June 2007	Six months ended 30 June 2006
Purchased electricity	5,924	6,011
Depreciation of property, plant and equipment	5,558	4,472
Employee benefit expenses and payroll taxes	4,606	3,418
Repair and maintenance services	2,223	2,509
Rent	837	591
Materials and supplies	509	351
Security services	337	254
Insurance	307	392
Research and development	233	223
Loss on disposal of property, plant and equipment	218	413
Consulting, legal and auditing services	203	174
Taxes, other than on income	200	195
Communication services	165	59
Transportation services	154	202
Amortisation of intangible assets	138	32
Business trip and field travel expenses	111	95
Doubtful debtor (income) / expense	(260)	1,022
Other	1,235	418
Total	**22,698**	**20,831**

(in millions of Russian Roubles)

Note 21. Operating expenses (continued)

During the six months ended 30 June 2007 and 2006 the Group provided electricity transmission services using rented transmission assets of other owners (Note 20). The Group also performs maintenance of the transmission assets owned by these entities.

Starting from 2006 FGC UES purchased electricity to compensate electricity losses during transportation. Prior to that date such electricity losses were a direct cost of the users of the UNEN. As a result of this change the transmission tariffs were adjusted to compensate for this additional expense.

Employee benefit expenses include the expenses associated with the voluntary pension program and long-term benefits (Note 16).

Note 22. Finance cost

	Six months ended 30 June 2007	Six months ended 30 June 2006
Interest expense	1,255	803
Amortization of discount of gain on non-interest bearing debt	14	12
Total finance cost	**1,269**	**815**

The discounting of non-interest bearing debt gives rise to a gain. Subsequent to its initial recognition, the discount is amortised over the period of the debt as an expense.

Note 23. Earnings per ordinary share for profit attributable to the shareholders of FGC UES

	Six months ended 30 June 2007	Six months ended 30 June 2006
Weighted average number of ordinary shares issued (millions of shares)	273,413	243,214
Profit attributable to the shareholders of FGC UES (millions of RR)	5,357	3,610
Weighted average earnings per share - basic and diluted (in RR)	**0.02**	**0.01**

Note 24. Contingencies, Commitments and Operating Risks

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

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

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

Note 24. Contingencies, Commitments and Operating Risks (continued)

Tax contingency. Russian tax, currency and customs legislation is subject to varying interpretation, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances tax reviews may cover longer periods.

As at 31 December 2006 management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained, including the uncertainty of deductibility of certain types of costs for taxation purposes. Where management believes it is probable that a position cannot be sustained, an appropriate amount has been accrued for in these Financial Statements. The Group estimates that possible claims in respect of certain open tax positions of Group companies related to deductibility of VAT and certain types of costs for taxation purposes could amount to as much as RR 2,700 million if the tax positions would be successfully challenged.

Environmental matters. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. Group entities periodically evaluate their obligations under environmental regulations.

Potential liabilities might arise as a result of changes in legislation and regulation or civil litigation. The impact of these potential changes cannot be estimated, but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage, other than any amounts which have been accrued in the accompanying consolidated balance sheet.

Operating environment. Whilst there have been improvements in economic trends in the Russian Federation, the country continues to display certain characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the Russian Federation and relatively high inflation. The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and changes, which can occur frequently.

The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

Capital commitments. Future capital expenditures for which contracts have been signed amount to RR 80,767 million and RR 61,599 million at 30 June 2007 and 31 December 2006, respectively.

Obligations under guarantee contracts. Guarantee contracts are irrevocable assurances that the Group will make payments in the event of the other party's default on its obligations. The Group guarantees the fulfilment of JSC Kubanenergo's obligations under the loan agreement with JSC Gazprombank in the amount of RR 387 million. The date of termination of the security obligation is 20 November 2008. In addition, the Group issued a guarantee to meet JSC Promsvyazleasing obligations under loan agreements with RF Savings Bank in the amount of RR 10 million.

(in millions of Russian Roubles)

Note 25. Financial instruments and financial risk factors

During the normal course of conducting business activities, the Group is exposed to a variety of financial risks including, but not limited to: market risk (currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. These risks create volatilities in earnings, equity, cash flows and fair value from period to period. The Group's financial management policies are aimed at minimizing or eliminating potential adverse effects these risks may have on the Group's financial performance. Historically, the Group has not entered into derivative financial instruments to hedge its financial risk exposures but may, from time to time, as part of its risk management strategy, use derivative financial instruments to hedge its exposures to financial risks.

(a) Market risk.

(i) Foreign exchange risk. The Group operates within the Russian Federation. The major part of the Group's purchases is denominated in Russian Roubles. Consequently, the Group is not significantly exposed to foreign exchange risk.

(ii) Cash flow and fair value 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. The Group is only exposed to the interest rate risk in connection with the market value of interest-bearing long-term borrowings. The largest part of long-term borrowings interest rate is fixed, except for the EBRD loan obtained at variable rate (see Note 17). The Group's interest bearing assets are represented by RR 7,000 million of bank deposits (see Note 10).

(b) Credit risk. Financial assets, which potentially subject the Group to concentrations of credit risk, consist principally of trade receivables. Although collection of receivables could be influenced by economic factors, management of the Company believes that there is no significant risk of loss to the Group beyond the provision for impairment of receivables already recorded.

Cash is placed in financial institutions, which are considered at the time of deposit to have minimal risk of default.

Credit risk is managed on a Group basis. For the Group's customers there are generally no independent credit ratings and the Group therefore assesses the credit quality of the customer, taking into account its financial position, past experience and other factors.

The Group customers principally represent RAO UES group entities, see Note 5. The table below shows the balance of the ten major customers at the balance sheet date:

	30 June 2007	31 December 2006
Altayenergo	481	148
ITC Center	424	591
Inter RAO UES	408	872
Dagenergo	286	49
Kolenergo	267	-
Tumenenergo	224	72
Dalnevostochnaya distribution grid company	144	90
Arkhenergo	136	-
Tyvaenergo	135	19
Moskovskaya obyedinennaya power grid	125	18
Total	**2,630**	**1,859**

(c) Liquidity risk. Liquidity risk is managed at the Group level and includes maintaining a sufficient cash balance, conservative management of excess liquidity, access to funding from an adequate amount of committed credit facilities and limits on bank concentrations.

(in millions of Russian Roubles)

Note 25. Financial instruments and financial risk factors (continued)

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

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
At 30 June 2007					
Borrowings	5,025	7,452	18,000	5,000	35,477
Interest payments on borrowings	2,470	2,002	2,985	566	8,023
Trade and other payables	11,999	-	-	-	11,999
Total at 30 June 2007	**19,494**	**9,454**	**20,985**	**5,566**	**55,499**
At 31 December 2006					
Bank borrowing	5,255	7,445	18,000	5,000	35,700
Interest payments on borrowings	2,690	2,250	3,673	755	9,368
Trade and other payables	10,232	-	-	-	10,232
Total at 31 December 2006	**18,177**	**9,695**	**21,673**	**5,755**	**55,300**

Fair values. Management believes that the fair value of its financial assets and liabilities approximates their carrying amounts. The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to the short-term nature of trade receivables. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available for Group for similar financial instruments.

The maximum exposure for each risk is limited to the fair value of each class of financial instrument.

Note 26. Capital risk management

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

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

The Group monitors capital on the basis of a number of ratios, including gearing ratio, based on quarterly statutory financial statements of FGC UES.

Note 27. Post-balance sheet events

Additional issue of shares of FGC UES. In August 2007 FGC commenced the process of issuing of additional ordinary shares. The number of ordinary shares to be issued is 120,000,000,000 with a nominal value per share of 0.5 Russian Roubles. This issue is to be purchased by RAO UES and the Russian Federation.

Changes in FGC Group structure. In September 2007 RAO UES partially paid for the additional shares issued by FGC by means of transferring to FGC the controlling interests in 8 TCs and a 50% share in JSC OES Gruzrosenergo.

Extraordinary shareholders' meeting. In October 2007, the Board of Directors of the Company took a decision to call an extraordinary shareholders' meeting on 14 December 2007. The shareholders meeting will consider matters related to FGC's reorganization (in accordance with the scheme of RAO UES's reorganization approved by the Board of Directors of RAO UES in March 2007). It will also consider an additional ordinary shares issue of 960,000,000,000 shares with a nominal value of RR 0.5 per share for the total amount of RR 480,000 million.