

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

INDEPENDENT AUDITOR'S REPORT

To the shareholders and the Board of Directors of Open Joint Stock Company "Federal Hydrogenerating Company HydroOGK" (OJSC "RusHydro"):

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

ZAO PricewaterhouseCoopers Audit

26 June 2008
Moscow, Russian Federation

RusHydro Group
Combined and Consolidated Balance Sheet as at 31 December 2007
(in thousands of Russian Rubles)

| | Note | 31 December 2007 | 31 December 2006 |
|---|------|--------------------|--------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 6 | 223,958,216 | 106,226,323 |
| Investments in associates and jointly controlled entities | 7 | 6,965,770 | - |
| Other non-current assets | 8 | 1,923,025 | 5,383,348 |
| Total non-current assets | | 232,847,011 | 111,609,671 |
| Current assets | | | |
| Cash and cash equivalents | 9 | 5,779,538 | 5,571,987 |
| Accounts receivable and prepayments | 10 | 32,518,975 | 19,741,847 |
| Inventories | 11 | 692,893 | 728,298 |
| Other current assets | 12 | 5,997,556 | 1,196,151 |
| Total current assets | | 44,988,962 | 27,238,283 |
| TOTAL ASSETS | | 277,835,973 | 138,847,954 |
| EQUITY AND LIABILITIES | | | |
| Equity | | | |
| Share capital | 13 | 156,864,374 | 140,954,760 |
| Treasury shares | 13 | (5,427,507) | - |
| Share premium | 13 | 12,005,099 | 391,080 |
| Merger reserve | 13 | (74,170,611) | (72,274,301) |
| Retained earnings and other reserves | | 95,538,351 | 13,532,302 |
| Equity attributable to shareholders of OJSC RusHydro | | 184,809,706 | 82,603,841 |
| Minority interest | | 30,201,349 | 21,597,165 |
| TOTAL EQUITY | | 215,011,055 | 104,201,006 |
| Non-current liabilities | | | |
| Deferred profit tax liabilities | 14 | 32,584,226 | 6,071,529 |
| Non-current debt | 16 | 17,258,542 | 15,425,501 |
| Other non-current liabilities | 17 | 937,924 | 819,141 |
| Total non-current liabilities | | 50,780,692 | 22,316,171 |
| Current liabilities | | | |
| Current debt and current portion of non-current debt | 16 | 1,018,854 | 2,682,074 |
| Accounts payable and accruals | 18 | 10,135,625 | 8,543,660 |
| Current profit tax payable | | 41,342 | 61,720 |
| Other taxes payable | 18 | 848,405 | 1,043,323 |
| Total current liabilities | | 12,044,226 | 12,330,777 |
| TOTAL LIABILITIES | | 62,824,918 | 34,646,948 |
| TOTAL EQUITY AND LIABILITIES | | 277,835,973 | 138,847,954 |

Acting for Chairman of the Management Committee

V.A. Zubakin

V.A. Zubakin

Chief Accountant



O.V. Otto

O.V. Otto

25 June 2008

RusHydro Group
Combined and Consolidated Income Statement for the year ended 31 December 2007
(in thousands of Russian Rubles)

| | Note | Year ended 31 December 2007 | Year ended 31 December 2006 |
|--|------|--------------------------------|--------------------------------|
| Revenue | 19 | 47,769,571 | 24,092,390 |
| Operating expenses | 20 | (37,229,091) | (23,354,525) |
| Impairment release | 6 | - | 26,196,588 |
| Operating profit | | 10,540,480 | 26,934,453 |
| Finance income | 21 | 1,070,047 | 594,000 |
| Finance costs | 21 | (1,864,100) | (886,440) |
| Finance costs, net | | (794,053) | (292,440) |
| Share of loss of associates and jointly controlled entities | 7 | (222,803) | - |
| Profit before profit tax | | 9,523,624 | 26,642,013 |
| Total profit tax charge | 14 | (2,998,576) | (6,524,929) |
| Profit for the period | | 6,525,048 | 20,117,084 |
| Attributable to: | | | |
| Shareholders of OJSC RusHydro | | 6,530,075 | 16,285,873 |
| Minority interest | | (5,027) | 3,831,211 |
| Earnings per ordinary share for profit attributable to the shareholders of OJSC RusHydro – basic and diluted (in Russian Rubles per share) | 22 | 0.0452 | 0.1341 |
| Weighted average shares outstanding – basic and diluted | 22 | 144,382,463 | 121,414,115 |

Acting for Chairman of the Management Committee

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V.A. Zubakin

Chief Accountant



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O.V. Otto

25 June 2008

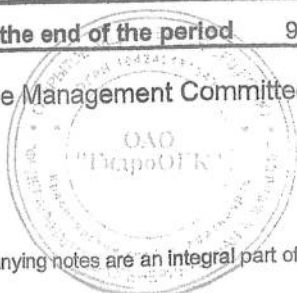
RusHydro Group
Combined and Consolidated Cash Flow Statement for the year ended 31 December 2007

(in thousands of Russian Rubles)

| | Note | Year ended 31 December 2007 | Year ended 31 December 2006 |
|--|------|--------------------------------|--------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Profit before tax | | 9,523,624 | 26,642,013 |
| Depreciation of property, plant and equipment | 20 | 7,771,975 | 3,492,713 |
| Loss on disposal of property, plant and equipment | 20 | 52,262 | 2,531,663 |
| Interest expense | 21 | 794,053 | 292,440 |
| Impairment release | 6 | - | (26,196,588) |
| Gain on disposal of subsidiary | | (270,565) | - |
| Write-off and charge for impairment of accounts receivable | 20 | 448,706 | 247,603 |
| Share of loss of associate and jointly controlled entities | 7 | 222,803 | - |
| Other | | (184,004) | 513,734 |
| Operating cash flows before working capital changes and profit tax paid | | 18,358,854 | 7,523,578 |
| Working capital changes: | | | |
| Increase in accounts receivable and prepayments | | (12,995,478) | (15,676,308) |
| Decrease in other current assets | | 23,526 | 44,364 |
| Increase in inventories | | (127,102) | (150,840) |
| Decrease in other non-current assets | | 48,398 | 646,637 |
| Increase in accounts payable and accruals | | 6,782,797 | 907,409 |
| Decrease in taxes payable | | (202,530) | (204,257) |
| Decrease in other non-current liabilities | | (725,073) | (121,742) |
| Profit tax paid | | (4,290,987) | (1,969,740) |
| Net cash generated by operating activities | | 6,872,405 | (9,000,899) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Sale of property, plants and equipment | | 213,890 | - |
| Purchase of property, plant and equipment | | (22,941,769) | (15,631,594) |
| Loan issued | 8 | (311,681) | (1,900,000) |
| Purchase of promissory notes and other short-term investments, net | | (6,777,483) | (423,383) |
| Proceeds from redemption of loan issued | | 2,074,923 | - |
| Interest received | | 726,394 | - |
| Net cash used in investing activities | | (27,015,726) | (17,954,977) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Proceeds from short-term debt | | 7,643,568 | 1,325,885 |
| Proceeds from long-term debt | | 1,500,000 | 14,300,000 |
| Repayment of debt | | (923,152) | (3,494,043) |
| Interest paid | | (1,334,503) | (581,216) |
| Dividends paid to RAO UES | 13 | (1,928,000) | (931,088) |
| Dividends paid by the Group to minority interest shareholders | 13 | (582,475) | (317,665) |
| Proceeds from share issuance | 13 | 25,377,507 | 20,000,000 |
| Purchase of treasury shares | 13 | (5,427,507) | - |
| Purchase of the Group's subsidiaries additional share issuance by RAO UES | 13 | - | 892,427 |
| Advances received from RAO UES under Investment agreements | 18 | 4,344 | 1,291,358 |
| Repayment of advances to RAO UES under investment agreements | 18 | (3,760,442) | (834,520) |
| Finance lease payments | | (218,468) | (343,693) |
| Net cash generated by financing activities | | 20,350,872 | 31,307,445 |
| Increase in cash and cash equivalents | | 207,551 | 4,351,569 |
| Cash and cash equivalents at the beginning of the period | 9 | 5,571,987 | 1,220,418 |
| Cash and cash equivalents at the end of the period | 9 | 5,779,538 | 5,571,987 |

Acting for Chairman of the Management Committee

Chief Accountant



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V.A. Zubakin

O.V. Otto

25 June 2008

RusHydro Group
Combined and Consolidated Statement of Changes in Equity for the year ended 31 December 2007
(in thousands of Russian Rubles)

| | Ordinary share capital | Treasury shares | Share premium | Merger reserve | Revaluation reserve | Retained earnings | Equity attributable to shareholders of OJSC | | Minority interest | Total equity |
|--|------------------------|--------------------|-------------------|---------------------|---------------------|--------------------|---|-----------|-------------------|--------------------|
| | | | | | | | RusHydro | | | |
| As at 1 January 2006 | 103,951,323 | - | - | (54,841,231) | - | (1,017,187) | 48,092,905 | | 17,276,807 | 65,369,712 |
| Share issuance (Note 13) | 37,003,437 | - | 391,080 | (17,149,516) | - | - | 20,245,001 | | - | 20,245,001 |
| Effect of changes in minority interest (Note 13) | - | - | - | - | - | - | (24,185) | (110,327) | 916,612 | 892,427 |
| Acquisition of subsidiary (Note 13) | - | - | - | (110,327) | - | - | (110,327) | | - | (110,327) |
| Effect of carve-out accounting (Note 13) | - | - | - | (173,227) | - | - | (173,227) | | - | (173,227) |
| Profit for the period | - | - | - | - | - | 16,285,873 | 16,285,873 | | 3,831,211 | 20,117,084 |
| Dividends (Note 13) | - | - | - | - | - | (1,712,199) | (1,712,199) | | (427,465) | (2,139,664) |
| As at 31 December 2006 | 140,954,760 | - | 391,080 | (72,274,301) | - | 13,532,302 | 82,603,841 | | 21,597,165 | 104,201,006 |
| As at 1 January 2007 | 140,954,760 | - | 391,080 | (72,274,301) | - | 13,532,302 | 82,603,841 | | 21,597,165 | 104,201,006 |
| Share issuance (Note 13) | 15,909,614 | - | 11,614,019 | (750,260) | - | - | 26,773,373 | | - | 26,773,373 |
| Purchase of treasury shares (Note 13) | - | (5,427,507) | - | - | - | - | (5,427,507) | | - | (5,427,507) |
| Revaluation of property, plant and equipment (Note 6) | - | - | - | - | 74,190,300 | - | 74,190,300 | | 13,978,481 | 88,168,781 |
| Effect of share option plan (Note 5) | - | - | - | - | - | 268,405 | 268,405 | | - | 268,405 |
| Effect of changes in minority interest (Note 13) | - | - | - | - | - | (244,139) | (244,139) | | (2,634,286) | (2,878,425) |
| Disposal of subsidiary to entity under common control (Note 2 and Note 13) | - | - | - | - | (218,395) | 2,598,803 | 2,380,408 | | (2,380,408) | - |
| Loss arising of recognition of associate | - | - | - | (1,146,050) | - | - | (1,146,050) | | - | (1,146,050) |
| Profit for the period | - | - | - | - | - | 6,530,075 | 6,530,075 | | (5,027) | 6,525,048 |
| Dividends (Note 13) | - | - | - | - | - | (1,119,000) | (1,119,000) | | (354,576) | (1,473,576) |
| As at 31 December 2007 | 156,864,374 | (5,427,507) | 12,005,099 | (74,170,611) | 73,971,905 | 21,566,446 | 184,809,706 | | 30,201,349 | 215,011,055 |

Acting for Chairman of the Management Committee

V.A. Zubakin

Chief Accountant



O.V. Otto

25 June 2008

Note 1. The Group and its operations

Open Joint Stock Company Federal Hydrogenerating Company (OJSC RusHydro - hereinafter referred to as "the Company") was founded by the sole foundering party - the Russian Open Joint Stock Company for Energy and Electrification Unified Energy System of Russia (hereinafter referred to as "RAO UES") on 26 December 2004 based on the Decision of the Board of Directors of RAO UES dated 24 December 2004 in accordance with the Resolution of the Russian Government No 526 dated 11 July 2001 "On reforming the Russian Federation electric utilities industry" and Resolutions of the Russian Government No1254-r dated 1 September 2003 and No 1367-r dated 25 October 2004.

RusHydro Group (hereinafter referred to as "the Group") was formed for the purpose of implementation of the Russian Federation government policy in the hydropower industry, creating the conditions for effective functioning of wholesale electricity generation market, implementation of a strategy toward attracting of funds and capital raising for the purpose of development of the hydropower industry, development and realization of scientific and technological policy and implementation of new progressive types of equipment and technology, including exploration of renewable sources of electric energy.

The Group's primary activity is generation and sale of electricity (power).

The Company's registered office is located at 51, Respubliki Street, Krasnoyarsk, Krasnoyarsk region, the Russian Federation.

The Group consists of the Company and its related subsidiaries, associates and jointly controlled entities. The Group's principal subsidiaries are presented in Note 2. The Group's associates and jointly controlled entities are presented in Notes 5 and 7.

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

Relations with the State and current regulation. As at 31 December 2007, RAO UES owned 96.16 percent of the voting ordinary shares of the Company (as at 31 December 2006 – 100 percent) and the Russian Federation owned 1.84 percent. The Group's customer base includes a number of entities controlled by the State (Note 5).

The Government affects the Group's operations through:

- participation of its representatives in the Board of Directors of RAO UES, which performed the function of Company's shareholders meeting till August 2007, and the Board of Directors of the Company;
- its tariff regulation within wholesale electricity markets;
- its control over and approval of the Company's investment program and
- its antimonopoly regulation.

The Federal Service on Tariffs (hereinafter referred to as "FST") regulates electricity and heat tariffs by setting maximum electricity tariff levels for final consumers and on the wholesale market, and the Regional services on tariffs (hereinafter referred to as "RSTs") set tariffs for electricity and heat tariffs for electricity and heat for final consumers and tariffs for electricity distribution through the low voltage grids on regional retail markets. Although there is now some free trading of limited volumes of electricity, currently for the great majority of sales the tariffs which the Group may charge for sales of electricity are governed both by regulations specific to the electricity industry and by regulations applicable to natural monopolies.

Investment program of the Group is subject to approval by state regulation bodies: Ministry of Industry and Energy and FST.

According to the decision made by the Government of the Russian Federation dated 3 August 2006 the construction of the Group's major hydropower assets in 2007 was financed by including the investment share in the Company's tariff for the supplies on the wholesale market.

The operations of all generating facilities are coordinated by OJSC System Operator – Central Dispatch Unit of Unified Energy System (hereinafter referred to as "SO-CDU") in order to meet system requirements in an efficient manner. SO-CDU is controlled by RAO UES.

As described above, the government's economic, social and other policies could have material effects on the operations of the Group.

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

The targets of reforming of the Russian electric utilities industry are set by the Resolution of the Russian Government No 526 dated 11 July 2001 "On reforming the Russian Federation electric utilities industry".

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 dated 26 March 2003 "On Electric Utilities" and Federal Law No.36-FZ dated 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" (Federal Law No.36-FZ).

The Group holds the key position in the reform process of the Russian electric utilities industry the main objective of which is to increase the efficiency of the companies operating in the industry and to provide conditions for the industry development by means of investments, maintenance of reliable and uninterrupted energy supply of consumers.

In the process of reforming the structure of electric utilities industry changes, which includes the separation of natural monopoly activities (power transmission, operating control) and potentially competitive activities (electric power production and supply, repair and maintenance). As a result the new companies specializing on the separate functions are created.

The Company will be merged into a holding company and the shares of the Company will be distributed between the Government, shareholders of RAO UES and shareholders of the Group's subsidiaries.

The reorganisation of RAO UES is designed to create conditions for competitive electricity market development. Prices in this market will not be regulated by the Government, but will be formed on a demand and supply basis.

As at 1 September 2006, a new liberalized model of the wholesale and retail electricity (power) markets was launched according to the Government's Resolution No 529 "On Improvement of the Procedure for Functioning of Wholesale Electricity (Power) Market" and No 530 "On Rules for the Functioning of Retail Electricity Markets". Under the new wholesale market model, the existing electricity and power purchase-and-sale relations in the regulated market sector were replaced by a regulated bilateral contract system. From January 2007 the volumes of electricity (power) traded on the wholesale energy market under regulated contracts should be not less than 95 percent of the basic forecasted volume of electricity (power), and from 1 July 2007 - not less than 90 percent. The pace of reduction will be set annually by the Government according to the Rules for the Functioning of Retail Electricity Markets. From 1 January 2011 all electricity will be traded at free prices. The new market model implies two ways of electricity trading at free prices, being free bilateral contracts and a day-ahead market. Under free bilateral contracts market participants have the right to choose contracting parties, prices and supply volumes. The day-ahead market is based on competitive selection of bids submitted by suppliers and buyers a day before the electricity is actually supplied. The competitive selection is performed by the non-commercial partnership Trade System Administrator of the Wholesale Electricity Market.

Establishment and reorganisation of the Group.

RAO UES made the following contributions to the share capital of the Company when the Company was established (Note 13):

- shares of subsidiaries: OJSC Volzhskaya HPP, OJSC Zhigulevskaya HPP, OJSC Votkinskaya HPP, OJSC Sayano-Shushenskaya HPP named after P.S. Neporozhny, OJSC Zeiskaya HPP, OJSC Boguchanskaya HPP, OJSC Zaramagskie HPPs, OJSC Zelenchukskie HPPs, OJSC Kabbalk HPP, OJSC Sulakenergo, OJSC Nizhegorodskaya HPP, OJSC Saratovskaya HPP, OJSC Kamskaya HPP, OJSC Kaskad VV HPPs, OJSC RusHydro Management Company;

RusHydro Group

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

(in thousand of Russian Rubles)

- shares of OJSC Bureiskaya HPP;
- cash funds.

On 30 September 2005 the decision of the Board of Directors of RAO UES approved the target model of the Company's operation. When the model is finalized the Company will be the unified operating company that manages its branches - hydroelectric power plants (hereinafter referred to as "HPP" or "HPPs") and subsidiaries created for the purposes of new activities and implementation of investment projects. The ownership share of the Russian Federation in the share capital of the Company will be not less than 50% + 1 share.

In August 2006, in the course of further sector reorganisation, RAO UES made the following contributions to the Company in exchange of additional share issue (Note 13):

- shares of subsidiaries: OJSC Cheboksarskaya HPP, OJSC Dagestanskaya Regional Hydrogenerating Company, OJSC Zagorskaya HAEPP, OJSC Stavropolskaya Electric Hydrogenerating Company, OJSC B. E. Vedeneev Russian Research Institute of Hydrotechnic Engineering, OJSC Scientific Research Institute of Energy Structures, OJSC Zaramagskie HPPs and OJSC Zelenchukskie HPPs;
- the assets of Novosibirskaya HPP;
- cash funds;
- other assets.

On 27 April 2007 the Board of Directors of RAO UES approved the scheme of the accelerated consolidation of the Company into the unified operating company which provides for the following stages:

Stage 1. Additional issue of the Company's shares in 2007:

The decision about the increase in the charter capital was made by the Board of Directors of RAO UES on 25 May 2007.

The Report on the results of the additional issue was registered by the Federal Service on Financial Markets of Russia on 1 November 2007. As a result additional 15,909,613,920 shares were placed (Note 13).

In October 2007 RAO UES and the Russian Federation made contributions to the Group in exchange for an additional share issue.

RAO UES contribution was made by:

- shares of subsidiaries: OJSC Verhne-Mutnovskaya GeoES, OJSC Zelenchukskie HPPs, OJSC Zaramagskie HPPs, OJSC Sulakenergo, OJSC ESKO UES, OJSC Severo-Osetinskaya Hydrogenerating company, OJSC Geoterm (Note 13);
- shares of other companies: OJSC Vilyuiskaya HPP-3, OJSC Krasnoyarskaya HPP (Note 8);
- cash funds.

The Russian Federation contributions were made by cash.

Stage 2. The Company's reorganisation:

Within the framework of the Company's reorganisation it is planned to merge 22 subsidiaries and associates, OJSC State Holding HydroWGC and OJSC Minority Holding of HydroWGC, which are spun-off during the reorganisation of RAO UES.

The following were merged into the Company on 9 January 2008: OJSC Volzhskaya HPP, OJSC Zhigulevskaya HPP, OJSC Votkinskaya HPP, OJSC Sayano-Shushenskaya HPP named after P.S. Neporozhny, OJSC Zeiskaya HPP, OJSC Sulakenergo, OJSC Zelenchukskie HPPs, OJSC Kabbalk HPP, OJSC Dagestanskaya Regional Hydrogenerating Company, OAO Stavropolskaya Electric Hydrogenerating Company, OJSC Zagorskaya HAEPP, OJSC Bureiskaya HPP, OJSC Severo-Osetinskaya Hydrogenerating Company, OJSC Cheboksarskaya HPP, OJSC Nizhegorodskaya HPP, OJSC Saratovskaya HPP, OJSC Kamskaya HPP, OJSC Kaskad VV HPPs, CSJC EOZ.

The following entities are planned to be merged into the Company by 1 July 2008: OJSC Kaskad NCh HPPs, OJSC Irganaiskaya HPP.

The target model of the Company's operation is planned to be completed in July 2008.

Seasonality of business. The Group's own production of electricity is subject to weather conditions and

water content in the rivers. Demand for electricity is influenced by both the season of the year and the relative severity of the weather. Concentration of electricity sales occurs within the October to March period. The seasonality of electricity production has a corresponding impact on the Group's purchase of power.

Recent volatility in global financial markets. Since the second half of 2007 there has been a sharp rise in foreclosures in the USA subprime mortgage market. The effects have spread beyond the USA housing market as global investors have re-evaluated their exposure to risks, resulting in increased volatility and lower liquidity in the fixed income, equity and derivative markets. The volume of wholesale financing has significantly reduced since August 2007. Such circumstances may affect the ability of the Group to obtain new borrowings and refinance its existing borrowings at terms and conditions that applied to similar transactions in recent periods. Debtors of the Group may also be affected by the lower liquidity situation which could in turn impact their ability to repay their amounts owed. Management is unable to reliably estimate the effects on the Group's financial position of any further possible deterioration in the liquidity of the financial markets and their increased volatility.

Note 2. Principal subsidiaries

The following are the principal subsidiaries which have been consolidated into these combined and consolidated financial statements (hereinafter referred to as "Financial Statements"). All subsidiaries are incorporated and operate in the Russian Federation.

| | | 31 December 2006 | | 31 December 2007 | |
|----|--|------------------|----------------|------------------|----------------|
| | | % of ownership | % of voting | % of ownership | % of voting |
| 1 | OJSC Zhigulevskaya HPP | 84.11% | 86.86% | 84.11% | 86.86% |
| 2 | OJSC Sayano-Shushenskaya HPP named after P.S. Naporozhny | 78.90% | 82.78% | 78.90% | 82.78% |
| 3 | OJSC Saratovskaya HPP | 100% - 1 share | 100% - 1 share | 100% - 1 share | 100% - 1 share |
| 4 | OJSC Sulakenergo | 53.62% | 53.62% | 71.74% | 71.74% |
| 5 | OJSC Volzhskaya HPP | 83.31% | 86.39% | 83.31% | 86.39% |
| 6 | OJSC Cheboksarskaya HPP | 100% - 1 share | 100% - 1 share | 100% - 1 share | 100% - 1 share |
| 7 | OJSC Dagestanskaya Regional Hydrogenerating Company | 51.00% | 51.00% | 51.00% | 51.00% |
| 8 | OJSC Nizhegorodskaya HPP | 100% - 1 share | 100% - 1 share | 100% - 1 share | 100% - 1 share |
| 9 | OJSC Kamskaya HPP | 100% - 1 share | 100% - 1 share | 100% - 1 share | 100% - 1 share |
| 10 | OJSC Zagorskaya HAEP | 50.90% | 50.90% | 50.90% | 50.90% |
| 11 | OJSC Zelenchukskie HPPs | 53.49% | 53.49% | 99.97% | 99.97% |
| 12 | OJSC Votkinskaya HPP | 59.84% | 74.20% | 59.84% | 74.20% |
| 13 | OJSC Zaramagskie HPPs | 89.87% | 89.87% | 95.45% | 95.45% |
| 14 | OJSC Zeiskaya HPP | 56.39% | 72.20% | 56.39% | 72.20% |
| 15 | OJSC Kaskad VV HPPs | 100% - 1 share | 100% - 1 share | 100% - 1 share | 100% - 1 share |
| 16 | OJSC Stavropolskaya Electric Hydrogenerating Company | 55.12% | 71.93% | 55.12% | 71.93% |
| 17 | OJSC Severo-Osetinskaya Hydrogenerating Company | 50.33% | 50.33% | 97.43% | 97.43% |
| 18 | OJSC Kabbalk HPP | 50.34% | 50.34% | 50.34% | 50.34% |
| 19 | OJSC Karachaev-Cherkesskaya Hydrogenerating Company | 53.49% | 53.12% | 99.97% | 99.97% |
| 20 | OJSC Nizhne-Zeiskaya HPP | 99.99% | 99.99% | 99.99% | 99.99% |
| 21 | OJSC Nizhne-Bureiskaya HPP | 99.99% | 99.99% | 99.99% | 99.99% |
| 22 | OJSC Boguchanskaya HPP | 64.22% | 64.22% | - | - |
| 23 | HydroOGK Power Company Ltd | 100.00% | 100.00% | 100.00% | 100.00% |
| 24 | HydroOGK Aluminium Company Ltd | 100.00% | 100.00% | 100.00% | 100.00% |
| 25 | OJSC Malaya Mezenskaya TidalPP | 100.00% | 100.00% | 100.00% | 100.00% |
| 26 | OJSC Prometey | 51.00% | 51.00% | 51.00% | 51.00% |
| 27 | CJSC Boguchanskaya HPP | 100.00% | 100.00% | 100.00% | 100.00% |
| 28 | OJSC Scientific Research Institute of Energy Structures | 100% - 1 share | 100% - 1 share | 100% - 1 share | 100% - 1 share |
| 29 | OJSC B.E.Vedeneev Russian Research Institute of Hydrotechnic Engineering | 100% - 1 share | 100% - 1 share | 100% - 1 share | 100% - 1 share |
| 30 | OJSC Turboremont VKK | 83.31% | 86.39% | 83.31% | 86.39% |
| 31 | OJSC REMIK | 56.39% | 72.20% | 56.39% | 72.20% |
| 32 | OJSC Sayano-Shushensky gidroremont | 78.90% | 82.78% | 78.90% | 82.78% |
| 33 | OJSC Sayano-Shushensky avtotransportnyi ceh | 78.90% | 82.78% | 78.90% | 82.78% |

RusHydro Group

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

(in thousand of Russian Rubles)

| | 31 December 2006 | | 31 December 2007 | |
|---|------------------|----------------|------------------|----------------|
| | % of ownership | % of voting | % of ownership | % of voting |
| 34 OJSC Electromont VKK | 84.11% | 86.86% | 84.11% | 86.86% |
| 35 OJSC Yuzhno-Yakutsky GEK | 99.99% | 99.99% | 99.99% | 99.99% |
| 36 OJSC ESKO UES | 51.00% | 51.00% | 100.00% | 100.00% |
| 37 OJSC Gidromont VKK | 84.11% | 86.86% | 84.11% | 86.86% |
| 38 OJSC Zagorskaya HAEPP -2 | 99.99% | 99.99% | 99.99% | 99.99% |
| 39 OJSC RusHydro Management Company | 100% - 1 share | 100% - 1 share | 100% - 1 share | 100% - 1 share |
| 40 CJSC EOZ | - | - | 99.98% | 99.98% |
| 41 OJSC Verhne-Mutnovskaya GeoES | - | - | 56.03% | 56.03% |
| 42 OJSC Geoterm | - | - | 71.61% | 71.61% |
| 43 OJSC Lengidoproekt | - | - | 100.00% | 100.00% |
| 44 OJSC Novy binarny energoblok | - | - | 100% - 1 share | 100% - 1 share |
| 45 OJSC Sulaksky gidrokaskad | - | - | 71.74% | 71.74% |
| 46 CJSC Boguchanskaya HPP Construction Organizer | - | - | 51.00% | 51.00% |
| 47 CJSC Boguchansky Aluminium Plant Construction Customer | - | - | 51.00% | 51.00% |

Differences between the ownership interest and voting interest held in subsidiaries normally represent the effect of preference shares.

Acquisitions and disposals

2006

In August 2006, in the course of sector restructuring, RAO UES made contributions to the Company in exchange for additional shares issued (Note 1).

During 2006 the interest in OJSC Zelenchukskie HPPs decreased from 97.3 percent to 53.5 percent due to an additional share issue which was fully paid by RAO UES (Note 13).

In September 2006 the Group established the wholly-owned subsidiaries: HydroOGK Power Company Ltd and HydroOGK Aluminium Company Ltd registered in the Republic of Cyprus within the Boguchansk Energy-Metallurgical Association (hereinafter referred to as "BEMA") framework agreement.

In 2006 the Group acquired 56.0 percent of the share capital of OJSC Severo-Osetinskaya Hydrogenerating Company from OJSC Sevkavkazenergo, a fellow subsidiary of RAO UES.

2007

In October 2007, in the course of further sector restructuring, RAO UES made further contributions to the Group in exchange for additional shares issued (Note 1).

The increase of ownership percent in OJSC Sulakenergo and OJSC Zaramagskie HPPs partially explained by additional shares issues acquired by the Group for cash (Note 13).

In May 2007 the Group acquired a 99.98 percent interest in CJSC EOZ from a third party (Note 13).

The change in ownership in other subsidiaries was due to the establishment of these new entities in the reporting period ended 31 December 2007.

Disposal to jointly controlled Groups

In May 2006 the Company, RAO UES and RUSAL signed an agreement on mutual financing, construction and exploitation of Boguchanskaya HPP and Boguchansky Aluminium Plant.

The BEMA project includes the completion of construction of Boguchanskaya HPP with installed capacity of 3,000 MWT on the Angara River and construction of Boguchansky Aluminium Plant with a capacity in the order of 600,000 tons a year, which will become one of the major consumers of the power generated by HPP.

Pursuant to the terms of the agreement and for financing and controlling of construction and exploitation of Boguchanskaya power plant and Boguchansky Aluminium Plant, the Company and RUSAL have established two limited liability companies in Cyprus with an authorized share capital of ten thousand Cyprus Pounds each, which are jointly controlled by the Company and RUSAL, namely BoGES Ltd and BALP Ltd.

RusHydro Group

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

(in thousand of Russian Rubles)

In June 2007 the Company transferred its 64.22 percent interest in OJSC Boguchanskaya HPP, which currently undertakes construction of the Boguchanskaya power plant, and RUSAL transferred its 29.47 percent interest in OJSC Boguchanskaya HPP, USD 80 million of cash and a RUSAL BoAZ Ltd promissory note with a nominal value of USD 30 million to BoGES Ltd. According to the Subscription agreement in respect of BoGES Ltd, the Company's and RUSAL's contributions shall be equal to USD 203.88 million each.

In June 2007 the Company transferred its 50 percent interest in CJSC Boguchansky Aluminium Plant and a RUSAL BoAZ Ltd promissory note with a nominal value of USD 30 million and RUSAL transferred its 50 percent interest in CJSC Boguchansky Aluminium Plant and a RUSAL Energy Ltd promissory note with a nominal value of USD 30 million to BALP Ltd. According to the Subscription agreement in respect of BALP Ltd, the Company's and RUSAL's contributions shall be equal to USD 30 million each.

In December 2007 the promissory notes received by BALP Ltd for total amount of USD 60 million exchanged for a license for aluminium production technology, which in turn will be transferred to CJSC Boguchansky Aluminium Plant.

As a result of the above transactions the Company and RUSAL have created: BoGES Group, consisting of BoGES Ltd and OJSC Boguchanskaya HPP, and BALP Group, consisting of BALP Ltd and CJSC Boguchansky Aluminium Plant.

Management assessed the level of control that the Group has over the BoGES Group and the BALP Group and determined that BoGES Group and the BALP Group are jointly controlled and the Group applies the equity accounting method to recognise these investments.

The carrying value of assets and liabilities de-recognised as a result of the formation of the jointly controlled Groups was as follows:

| | Carrying value |
|--|-----------------------|
| Property, plant and equipment | 16,945,703 |
| Investments in jointly controlled entity | 8,169 |
| Other non-current assets | 1,084,690 |
| Accounts receivable and prepayments | 983,435 |
| Cash and cash equivalents | 945,555 |
| Deferred profit tax assets | 6,032 |
| Non-current and current debt | (12,919,128) |
| Accounts payable and accrued charges | (435,395) |
| Carrying value of net assets | 6,619,061 |

A gain of RR 270,565 thousand was recognised on the transfer of the Company's interest in OJSC Boguchanskaya HPP from a subsidiary to the jointly controlled BoGES Group.

Note 3. Basis of preparation

Statement of compliance

These Financial Statements have been prepared in accordance with International Financial Reporting Standards (hereinafter referred to as "IFRS") and related interpretations adopted by the International Accounting Standards Board (hereinafter referred to as "IASB").

Each company 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 (hereinafter referred to as "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

Certain reclassifications have been made to prior year data to conform with the current year presentation.

Before 31 December 2006 property, plant and equipment were divided into groups, according to their function, such as electricity and heat generation. Dividing of property, plant and equipment according to their functional area no longer provides useful information. Management considers that classifying property, plant and equipment by their nature rather than by their function provides more useful information. Comparative

RusHydro Group**Notes to the Combined and Consolidated Financial Statements for the year ended 31 December 2007**
(in thousand of Russian Rubles)

information for 2006 and 2005 has been reclassified in line with the new classification.

| PPE groups for IFRS purposes (in accordance with previously adopted classification) | 31 December 2006 | 31 December 2005 |
|--|-------------------------|-------------------------|
| Electricity and heat generation | 61,815,936 | 35,403,127 |
| Electricity transmission | 4,249,226 | 3,350,326 |
| Heating networks | 22,911 | 76,225 |
| Construction in progress | 35,378,457 | 27,589,255 |
| Other | 4,759,793 | 4,094,875 |
| Total | 106,226,323 | 70,513,808 |

| PPE groups for IFRS purposes (in accordance with newly adopted classification) | 31 December 2006 | 31 December 2005 |
|---|-------------------------|-------------------------|
| Production buildings | 13,188,598 | 8,491,787 |
| Hydrotechnical buildings | 31,019,155 | 19,860,984 |
| Substation's equipment | 22,298,062 | 11,220,066 |
| Electricity grids | 695,228 | 466,216 |
| Construction in progress | 35,378,457 | 27,589,255 |
| Other | 3,646,823 | 2,885,500 |
| Total | 106,226,323 | 70,513,808 |

Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble (hereinafter referred to as "RR"), which is the Group functional currency and the currency in which these Financial Statements are presented. All financial information presented in RR has been rounded to the nearest thousand.

Accounting for the effects of hyperinflation

The Russian Federation has previously experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29 "Financial Reporting in Hyperinflationary Economies" (hereinafter referred to as "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.

Predecessor accounting

In these combined and consolidated financial statements, the Group accounted for the acquisition of businesses under the control of RAO UES and its subsidiaries as business combinations amongst entities under common control under an accounting policy using the predecessor values method (Note 4). Accordingly, assets and liabilities of the contributed entity were accounted for at the carrying value as determined by RAO UES in its IFRS consolidated financial statements. Information in respect of the comparative period and opening balances as at 1 January 2006 has been restated as if the business combination took place at the beginning of the earliest period presented.

The prior year income statement is not the same as what was presented last year because of and that it cannot be reconciled due to the transfer of businesses under common control that have been accounted for using the predecessor values method.

All businesses acquired in 2006 were accounted for using predecessor values. In 2007 OJSC Verhne-Mutnovskaya GeoES and OJSC Geoterm were accounted for using the predecessor values method.

Acquisitions of associates and assets that are not business from entities under common control are not accounted for using the predecessor values method but rather are accounted for under appropriate accounting standards.

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

New accounting developments

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

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

- IFRIC 7, "Applying the Restatement Approach under IAS 29", effective for annual periods beginning on or after 1 March 2006. This amendment did not have a material effect on the Group's financial statements;
- IFRIC 8, "Scope of IFRS 2", effective for annual periods beginning on or after 1 May 2006. This amendment did not have a material effect on the Group's financial statements;
- IFRIC 9, "Reassessment of Embedded Derivatives", effective for annual periods beginning on or after 1 June 2006. This amendment did not have a material effect on the Group's financial statements;
- IFRIC 10, "Interim financial reporting and impairment", effective for annual periods beginning on or after 1 November 2006. This amendment did not have a material effect on the Group's financial statements;
- IFRIC 11, "IFRS 2 - Group and Treasury share transactions", effective for annual periods beginning on or after 1 March 2007. This amendment did not have a material effect on the Group's financial statements;
- IFRS 7, "Financial instruments: Disclosures", effective for annual periods beginning on or after 1 January 2007. IAS 1, "Amendments to capital disclosures", effective for annual periods beginning on or after 1 January 2007. The Group has adopted IFRS 7 and the amendment to IAS 1 starting from 1 January 2007.

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;
- Amendment to IAS 23, "Borrowing Cost" (effective for borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009). The main change from the previous version is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. The Group will apply the new amendment from January 2008 and is currently assessing what impact the new IFRS will have on the Group's accounts;
- Amendment to IAS 1, "Presentation of Financial Statements" (revised September 2007, effective for annual periods beginning on or after 1 January 2009). The main change in IAS 1 is the replacement of the 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;
- Amendment to IAS 32 and IAS 1, "Puttable financial instruments and obligations arising on liquidation" (effective for annual periods beginning on or after 1 January 2009). The objective of the amendment is to improve the financial reporting of particular types of financial instruments that represent a residual interest in the entity but are, at present, classified as financial liabilities. The amendments classify the following types of financial instruments as equity, provided they have particular features and meet specific conditions - puttable financial instruments; instruments, or components of instruments, that

impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation;

- Amendments to IFRS 2, "Share-based Payment Vesting Conditions and Cancellations" (effective for annual periods beginning on or after 1 January 2009). The amendment deals with two matters. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. It also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment;
- IAS 27 (Revised), "Consolidated and Separate Financial Statements", effective for annual periods beginning on or after 1 July 2009;
- IFRS 3 (Revised), "Business Combinations", effective for annual periods beginning on or after 1 July 2009;
- IFRIC 12, "Service concession agreements", effective for annual periods beginning on or after 1 January 2008;
- IFRIC 13, "Customer Loyalty Programs", which is effective for annual periods beginning on or after 1 January 2008;
- IFRIC 14 IAS 19, "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction", which is effective for annual periods beginning on or after 1 January 2008.

Unless otherwise described above, the analysis in respect of these new standards and interpretations has been carried out by the Group, and they are not expected to significantly affect the Group's financial statements.

Critical accounting estimates and assumptions

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

Revaluation of property, plant and equipment

Fair value of property, plant and equipment (except for construction in progress) and the remaining useful life of property, plant and equipment of the Group companies have been determined by independent appraisers as at 1 January 2007. The carrying value and depreciation of property, plant and equipment are effected by the estimates of replacement cost, depreciated replacement cost and remaining useful life. Changes in these assumptions could have a material impact to the fair value of property, plant and equipment (Note 6).

Impairment provision of accounts receivable

Provision for impairment of accounts receivable is based on the Group's assessment of whether the collectibility of specific customer accounts deteriorated compared to prior estimates. If there is a deterioration in a major customer's creditworthiness or actual defaults are higher than the estimates, the actual results could differ from these estimates (Note 10).

Impairment of other assets and accounting for provisions

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 is the higher of an asset's fair value less costs to sell and its value in use. When such a decline is identified, the carrying amount is reduced to the recoverable amount. The amount of the reduction is recorded in the period in which the reduction is identified. If conditions change and management determines that the assets' value has increased, the impairment provision will be fully or partially reversed.

Accounting for impairment includes provisions against property, plant and equipment, investments, other non-current assets and inventory obsolescence. The provisions for liabilities and charges primarily include provisions for pension liabilities and legal proceedings. The Group records impairment or accrues these provisions when its assessments indicate that it is probable that a liability has been incurred or an asset will not be recovered and an amount can be reasonably estimated. The Group's estimates for provisions for

liabilities and charges are based on currently available facts and the Group's estimates of the ultimate outcome or resolution of the liability in the future.

Provisions for pension obligations are periodically adjusted based on updated actuarial assumptions (Note 15).

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.

Tax contingencies

Russian tax legislation is subject to varying interpretations and changes, which can occur frequently. Where the Group management believes it is probable that their interpretation of the relevant legislation and the Group's tax positions cannot be sustained, an appropriate amount is accrued for in the IFRS financial information (Note 26).

Useful life of property, plant and equipment

The estimation of the useful life of an item of property, plant and equipment is a matter of management judgment based upon experience with similar assets. In determining the useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear and tear and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments for future depreciation rates.

Note 4. Summary of significant accounting policies

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

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

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

Investments in associates and jointly controlled entities. Investments in associated enterprises and jointly controlled entities are accounted for using the equity method of accounting, based upon the percentage of ownership held by the Group. Associated enterprises are entities over which the Company exercises significant influence but which it does not control.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Jointly controlled entities are joint ventures that involve the establishment of a corporation, partnership or other entity in which each venturer has an interest. The entities operate in the same way as other entities, except that a contractual arrangement between the venturers establishes joint control over the economic activity of the entities.

The Group discontinues the use of the equity method from the date on which it ceases to have joint control over, or have significant influence in, associates and jointly controlled entities.

Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in the entity.

Investments. Investments intended to be held for an indefinite period of time are classified as available-for-sale. These are included in other non-current assets unless management has expressed 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 other current assets and classified as trading investments. Available-for-sale investments are measured at fair value with gains and losses recorded directly in equity. 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. Impairment losses are recognised in profit or loss when incurred as a result of one or more events that occurred after the initial recognition of available-for-sale investments.

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

Carve-out methodologies. The assets of Novosibirskaya HPP transferred by RAO UES as a contribution to the Company's charter capital on 1 November 2006 were rented out by the Company to OJSC Novosibirskenergo until 31 December 2006. The contribution of the property, plant and equipment and related rental contracts was accounted for as a business combination amongst entities under common control and accounted for under the predecessor values method.

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 RR at the exchange rates prevailing at that date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

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

Property, plant and equipment. In years 2005 and 2006 property, plant and equipment were recognised at the carrying value determined in accordance with IFRS at the date of their transfer to the Group from the predecessor entities.

Starting from 1 January 2007 the Group changed its accounting policy for property, plant and equipment (except for construction in progress) which are now stated at revalued cost. Prior to 1 January 2007 property, plant and equipment were stated at depreciated cost less impairment. Deemed cost for the purposes of presenting IFRS financial statements for the first time by the predecessor was initially determined by a third party valuation as at 31 December 1997 and restated for the impact of inflation until 31 December 2002. Adjustments are made for additions, disposals and depreciation charges. At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If such indication exists, management estimates the recoverable amount which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the difference is recognised as an expense (impairment loss) in the income statement. An impairment loss recognised in prior years is reversed if there has been a change in the estimates used to determine an asset's recoverable amount.

Property, plant and equipment are subject to revaluation on a regular basis. 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 revaluation reserves in equity, unless there is a decrease of the reserve previously recognised in the statement of operations. Decreases that offset previous increases of the same asset are charged against revaluation reserves directly in equity, all other decreases are charged to the income statement. Any accumulated depreciation at the date of revaluation is eliminated against the gross amount of the asset, and the net amount is restated to the revalued amount of the asset.

The Group charges deferred tax liabilities directly to equity in respect of revaluation of property, plant and equipment that are recorded directly in equity.

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. For the property, plant and equipment which were subject to the third party valuation as at 31 December 1997, the depreciation rate applied is based on the estimated remaining useful life as at the valuation date. The remaining useful life are reviewed annually.

RusHydro Group

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

(in thousand of Russian Rubles)

Prior to 31 December 2006 for the property, plant and equipment which were subject to the third party valuation as at 31 December 1997, the depreciation rate applied was based on the estimated remaining useful life as at the valuation date. The useful life, in years, of assets by type of facility were as follows:

| Type of facility | Acquired prior to 31 December 1997 | Acquired subsequent to 31 December 1997 | Revised starting from 1 January 2006 |
|--------------------------|---------------------------------------|--|---|
| Electricity generation | 22-28 | 20-50 | 3-40 |
| Electricity distribution | 26-30 | 25 | 26 |
| Heating network | 15 | 20 | 18 |
| Other | 8 | 10 | 8 |

The useful life, in years, of assets by type of facility after reclassification were as follows (Note 3):

| Type of facility | Acquired prior to 31 December 1997 | Acquired subsequent to 31 December 1997 |
|--------------------------|---------------------------------------|--|
| Production buildings | 5-40 | 50 |
| Hydrotechnical buildings | 4-65 | 50 |
| Substations' equipment | 5-40 | 20-30 |
| Electricity grids | 5-35 | 25 |
| Other | 3-43 | 7-20 |

Beginning from 1 January 2007 the depreciation rate applied is based on the estimated remaining useful life as at valuation date.

Useful life of property, plant and equipment are subject to annual assessment by management and if expectations differ from previous estimates, the changes of useful life are accounted for as a change in an accounting estimate prospectively.

The revised useful life, in years, of revalued assets by type of facility after reclassification were as follows (Note 3):

| Type of facility | Revised starting from 1 January 2007 |
|--------------------------|--------------------------------------|
| Production buildings | 20-70 |
| Hydrotechnical buildings | 35-75 |
| Substations' equipment | 5-40 |
| Electricity grids | 6-30 |
| Other | 4-35 |

Borrowing costs incurred for the financing of construction of property, plant and equipment are not capitalised within the cost of property, plant and equipment.

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

Impairment of property, plant and equipment. Impairments of property, plant and equipment are calculated as the difference between the carrying values of the net assets of cash-generating units, including where appropriate, investments, and their recoverable amounts. Recoverable amount is defined as the higher of net realisable value or estimated value in use at the date the impairment review is undertaken. Net realisable value represents the amount that can be generated through the sale of assets. Value in use represents the present value of expected future cash flows discounted on a pre-tax basis, using the estimated cost of capital of the cash-generating unit.

Impairment reviews are carried out when there is an indication that an impairment may have occurred, or where it is otherwise required to ensure that property, plant and equipment are not carried above their estimated recoverable amounts. Impairments are recognised in the profit and loss account, and, where material, are disclosed as exceptional. Impairment reversals are recognised when there is a change in the estimates that gave rise to an impairment and when, in management's opinion, the reversal is permanent.

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

Accounts receivable and prepayments. Accounts receivable are recorded inclusive of value added taxes. Accounts receivable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method less provision for impairment. A provision for impairment of trade

receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 90 days overdue - total receivable amount is provided, from 45 to 90 days overdue - half of receivable amount is provided) are considered indicators that the trade receivable is impaired. The amount of the allowance is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers at the date of origination of receivables.

Inventories. Inventories are recorded 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 taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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 for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

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

Deferred tax is not provided for the undistributed earnings of subsidiaries and jointly controlled entities, as it is probable that the temporary difference will not be reversed in the foreseeable future (Note 14).

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 income statement as an interest expense over the period of the debt obligation.

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

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

The Group also operates a defined benefit plan that covers the majority of its employees. Defined benefit plans define the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognised in the balance sheet in respect of defined benefit pension plans operated by the Group is the present value of the defined benefit obligation at the balance sheet date together with adjustments for unrecognised actuarial gains or losses. The defined benefit obligations are calculated using the projected unit credit method. The present value of the defined benefit obligations are determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid associated with the operation of the plans, and that have terms to maturity approximating the terms of the related pension liabilities.

The Group recognises past service cost as an expense on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits are already vested immediately following the introduction of, or changes to, a defined benefit plan, the Group recognises past service cost immediately.

Past service cost arises when the Group introduces a defined benefit plan or changes the benefits payable under an existing defined benefit plan. Such changes are in return for employee service over the period until the benefits concerned are vested. Therefore, past service cost is recognised over that period, regardless of the fact that the cost refers to employee service in previous periods. Past service cost is measured as the change in the liability resulting from the amendment.

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

Value added tax on purchases and sales. Output VAT related to sales is payable to tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice.

The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases 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, 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.

Share-based payment transactions. The share option programme allows the Group employees to acquire shares of the Company. The fair value of the options is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options is measured based on the Black-Scholes formula.

Finance lease liabilities. Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in borrowings. The interest cost is charged to the income statement over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

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.

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

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

Segment reporting. The Group operates in a single geographical area and industry, generation of electricity in the Russian Federation.

Earnings per share. The earnings per share are determined by dividing the profit attributable to ordinary shareholders of the parent company of the Group by the weighted average number of ordinary shares outstanding during the reporting period, excluding the average number of treasury shares held by the Group.

Treasury shares. Treasury shares are stated at weighted average cost. Any gains or losses arising on the disposal of treasury shares are recorded directly in shareholders' equity.

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

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

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

Note 5. Related party transactions

The Group's principal related parties are RAO UES and its subsidiaries, enterprises controlled by the state and directors of the Group.

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

RAO UES

Balances with RAO UES were as follows:

Short-term

| | 31 December 2007 | 31 December 2006 |
|---|------------------|------------------|
| Trade and other accounts receivable (Note 10) | 24,860 | 26,193 |
| Promissory notes receivable: effective interest rate: 11.6 percent p.a. (included in accounts receivable and prepayments) (Note 10) | 2,023,409 | 6,219,850 |
| Dividends payable (Note 13) | - | 809,000 |
| Advances received (Note 18) | 1,239,838 | 4,995,936 |
| Accounts payable (Note 18) | 4,875,323 | - |

During 2007 significant purchases of movable assets and real estate assets were made by the Group under the contracts with RAO UES. Total amount of property, plant and equipment purchased under the contract amounted to RR 1,073,473 thousand.

RAO UES's subsidiaries and associates

Balances with subsidiaries and associates of RAO UES were as follows:

Long-term

| | 31 December 2007 | 31 December 2006 |
|------------------------------|------------------|------------------|
| Accounts receivable (Note 8) | - | 67,053 |
| Accounts payable (Note 17) | 19,572 | 86,257 |

RusHydro Group**Notes to the Combined and Consolidated Financial Statements for the year ended 31 December 2007**

(in thousand of Russian Rubles)

Short-term

| | 31 December 2007 | 31 December 2006 |
|---|------------------|------------------|
| Trade and other accounts receivable (Note 10) | 2,014,345 | 1,172,804 |
| Promissory notes receivable: effective interest rate: 11.6 percent p.a. (included in accounts receivable and prepayments) (Note 10) | 4,389,290 | 7,568,075 |
| Promissory notes receivable: yield to maturity 9.8-13.2 percent p.a. (included in other current assets) | - | 725,094 |
| Advances received (Note 18) | 152,713 | - |
| Trade and other accounts payable (Note 18) | 631,842 | 1,018,677 |

Transactions with subsidiaries and associates of RAO UES were as follows:

| | Year ended 31 December 2007 | Year ended 31 December 2006 |
|---------------------------------------|--------------------------------|--------------------------------|
| Electricity (power) revenue (Note 19) | 28,043,226 | 15,933,669 |
| Other revenue (Note 19) | 254,975 | 2,342,309 |
| Purchased power expenses (Note 20) | 977,684 | 1,266,994 |
| Services of SO-CDU (Note 20) | 1,226,714 | 1,076,840 |
| Other expenses (Note 20) | 380,574 | 308,589 |

The Group associates and jointly controlled entities

During the reporting period the Group had the following significant transactions with associates and jointly controlled entities:

Associates*Long-term*

| | 31 December 2007 | 31 December 2006 |
|--|------------------|------------------|
| Loan receivable from OJSC Bureiskaya HPP (effective interest rate: MOSPRIME plus 5.2 percent, due to 2020) (Note 8) | - | 1,900,000 |

Short-term

| | 31 December 2007 | 31 December 2006 |
|---|------------------|------------------|
| Trade and other accounts receivable (Note 10) | 345,034 | - |
| Promissory notes receivable (Note 10) | 12,160,793 | - |
| Trade and other accounts payable (Note 18) | 339,764 | - |

During the year ended 31 December 2007 the Group rented production equipment from OJSC Bureiskaya HPP, amount of transactions was RR 1,919,911 thousand. Also the Group rendered to OJSC Bureiskaya HPP services related to repair of production equipment in the amount of RR 212,230 thousand.

Jointly controlled entities*Long-term*

| | 31 December 2007 | 31 December 2006 |
|--|------------------|------------------|
| Long-term loan receivable from Fund New energy (Net of discount of RR 54,309 thousand, effective interest rate: 11.8%, due 2011 as at 31 December 2007) (Note 8) | 83,691 | - |

are approved by the Chairman of the Management Board according to his perception of the value of their contribution.

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

Total remuneration in the form of salaries paid to the members of the Board of Directors and Management Board for the year ended 31 December 2007 was RR 94,545 thousand (2006: RR 67,431 thousand).

Employee share option programme. In May 2007 the Board of Directors approved the Share Option Programme of the Company (hereinafter referred to as "the Programme").

The Programme provides for the granting of share options at predetermined fixed price to the members of the Company's Management Board and other key employees of the Group (hereinafter referred to as "the Programme participants") starting from the date of signing of the first share option contract, i.e. from 3 September 2007.

The Programme participants will be rewarded for their work in the Group over the period of 3 years, starting from 3 September 2007.

Participation of the members of the Company's Management Board, the General Director and Deputies of the General Director of the Company in the Share Option Programme and the number of shares in their share option agreements are determined by decision of the Company's Board of Directors. The Chairman of the Company's Management Board determines the list of employees who will participate in the Programme, the number of such persons and personal volumes of participation.

A total of up to 3,137,287,475 ordinary shares are allocated under the Programme (or approximately two percent of the issued ordinary shares of the Company). 917,656,581 ordinary shares are allocated for granting share options to the members of the Company's Management Board, the rest - to other key employees of the Group. The ordinary shares ultimately allocated under the Programme were allocated from treasury shares purchased by the Group for this purpose for LLC EZOP - operator of the share option programme. The treasury shares held for the purpose of the Programme were not allowed to vote.

The number of shares, which the Programme participants may purchase as part of implementation of the Programme, will be calculated proportionally based on the number of days worked prior to terminating the employment. In case of breaching certain defined provisions of the labor agreement and termination of employment at the initiative of the Group, the Programme participants will lose their right to purchase the shares.

The exercise price of the share option is RR 1.73 per share which equals to actual price of the Company's ordinary shares issued in 2007.

One of the vesting terms of the share option is prepayment by the members of the Company's Management Board, General Director and Deputies of the Company (in the amount of 10 percent of the share option agreement) and by the other key employees (in the amount of 0.2 percent of the share option agreement).

In 2007 the Company issued to the members of the Company's Management Board and other top-management interest free loans for the prepayments for the share options agreements. The loans were issued with the maturity till 31 March 2011. As at 31 December 2007 the amount of loans issued to employees was RR 121,027 thousand (Net of discount of RR 52,653 thousand, effective interest rate: 11.8%).

The Programme participant can exercise the share option at any time over the period of 2 September 2010 through 16 April 2011. The requirement for the exercise of the stock option agreements is to have the Company's shares traded on a public security market as at 3 August 2010.

As at 31 December 2007 the Company signed the option agreements for 1,685,127,092 shares, including 917,656,581 shares to the Company's Management Board.

RusHydro Group
Notes to the Combined and Consolidated Financial Statements for the year ended 31 December 2007
(in thousand of Russian Rubles)

prepayments for the share options agreements. The loans were issued with the maturity till 31 March 2011. As at 31 December 2007 the amount of loans issued to employees was RR 121,027 thousand (Net of discount of RR 52,653 thousand, effective interest rate: 11.8%).

The Programme participant can exercise the share option at any time over the period of 2 September 2010 through 16 April 2011. The requirement for the exercise of the stock option agreements is to have the Company's shares traded on a public security market as at 3 August 2010.

As at 31 December 2007 the Company signed the option agreements for 1,685,127,092 shares, including 917,656,581 shares to the Company's Management Board.

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

| | |
|---|-------------|
| Share price (in RR) | 1.73 |
| Exercise price (in RR) | 1.73 |
| Expected volatility | 27% |
| Option life | 1,096 days |
| Risk-free interest rate | 6.13% |
| Fair value of the option at measurement date (in RR) | 0.45 |

The measure of volatility used in the option pricing model is the annualised standard deviation of the continuously compounded rates of return on the publicly traded shares over a period of time. To determine volatility the Group used the historical volatility of the share price of similar entities following a comparable period in their lives.

In year 2007 the Group recognised an expense of RR 268,405 thousand within employee costs related to the fair value of the options.

State-controlled entities

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

During the year ended 31 December 2007 the Group sold electricity to a number of state-controlled entities to the amount of RR 1,336,434 thousand. The major customers were LLC Transnefteservice-S, OJSC Nijnovatomenenergobit and OJSC Nevinnomisskiy Azot.

RusHydro Group
Notes to the Combined and Consolidated Financial Statements for the year ended 31 December 2007

(in thousand of Russian Rubles)

Note 6. Property, plant and equipment

| Cost | Production buildings | Hydrotechnical buildings | Electricity grids | Substation's equipment | Assets under construction | Other | Total |
|--|-----------------------------|---------------------------------|--------------------------|-------------------------------|----------------------------------|--------------------|---------------------|
| Opening balance as at 31 December 2006 | 21,901,515 | 42,083,686 | 1,320,615 | 47,683,457 | 53,993,560 | 9,297,150 | 176,279,983 |
| Elimination of accumulated depreciation | (7,709,768) | (10,681,416) | (533,000) | (23,649,708) | - | (4,173,961) | (46,747,853) |
| Revaluation reserve | 31,693,192 | 50,425,236 | 438,527 | 31,119,708 | - | 2,334,891 | 116,011,554 |
| Additions | 1,034,303 | 1,044,324 | 42,776 | 83,653 | 23,295,716 | 619,605 | 26,120,377 |
| Transfers | 4,637,231 | 2,119,516 | 70,796 | 2,381,946 | (10,687,741) | 1,478,252 | - |
| Disposals | (53,066) | - | (4,734) | (303,235) | (176,896) | (84,890) | (622,821) |
| Disposal of subsidiary to entity under common control (Note 2) | (752,501) | - | (34,478) | (87,750) | (28,859,944) | (684,993) | (30,419,666) |
| Transfer from joint venture (Note 2) | 162,120 | - | 101,588 | 387,810 | 110,697 | 308,464 | 1,070,679 |
| Closing balance as at 31 December 2007 | 50,913,026 | 84,991,346 | 1,402,090 | 57,615,881 | 37,675,392 | 9,094,518 | 241,692,253 |
| Accumulated depreciation (including impairment) | | | | | | | |
| Opening balance as at 31 December 2006 | (8,712,917) | (11,064,531) | (625,387) | (25,385,395) | (18,615,103) | (5,650,327) | (70,053,660) |
| Elimination of accumulated depreciation | 7,709,768 | 10,681,416 | 533,000 | 23,649,708 | - | 4,173,961 | 46,747,853 |
| Charge for the year | (1,293,118) | (1,694,362) | (89,231) | (3,740,196) | - | (955,068) | (7,771,975) |
| Disposals | 22,467 | - | 201 | 205,167 | - | 23,335 | 251,170 |
| Disposal of subsidiary to entity under common control (Note 2) | 43,334 | - | 887 | 6,822 | 13,389,508 | 33,412 | 13,473,963 |
| Transfer from joint venture (Note 2) | (89,131) | - | (32,927) | (161,521) | - | (97,809) | (381,388) |
| Closing balance as at 31 December 2007 | (2,319,597) | (2,077,477) | (213,457) | (5,425,415) | (5,225,595) | (2,472,496) | (17,734,037) |
| Net book value as at 31 December 2007 | 48,593,429 | 82,913,869 | 1,188,633 | 52,190,466 | 32,449,797 | 6,622,022 | 223,958,216 |
| Net book value as at 31 December 2006 | 13,188,598 | 31,019,155 | 695,228 | 22,298,062 | 35,378,457 | 3,646,823 | 106,226,323 |
| Cost | Production buildings | Hydrotechnical buildings | Electricity grids | Substation's equipment | Assets under construction | Other | Total |
| Opening balance as at 31 December 2005 | 21,433,498 | 39,888,715 | 1,206,869 | 47,063,332 | 48,108,255 | 7,870,643 | 165,571,312 |
| Additions | 174,629 | 1,105,277 | 2,084 | 271,140 | 14,538,619 | 345,638 | 16,437,387 |
| Transfers | 295,441 | 1,129,921 | 111,755 | 711,709 | (3,417,846) | 1,169,020 | - |
| Disposals | (2,053) | (40,227) | (93) | (362,724) | (5,235,468) | (88,151) | (5,728,716) |
| Closing balance as at 31 December 2006 | 21,901,515 | 42,083,686 | 1,320,615 | 47,683,457 | 53,993,560 | 9,297,150 | 176,279,983 |
| Accumulated depreciation (including impairment) | | | | | | | |
| Opening balance as at 31 December 2005 | (12,941,711) | (20,027,731) | (740,653) | (35,843,266) | (20,519,000) | (4,985,143) | (95,057,504) |
| Charge for the year | (327,686) | (1,058,494) | (57,949) | (1,265,176) | - | (783,408) | (3,492,713) |
| Impairment reversal | 4,989,956 | 10,543,022 | 204,339 | 12,707,069 | - | 317,549 | 28,761,935 |
| Impairment charge | (434,531) | (551,811) | (31,189) | (1,266,022) | - | (281,794) | (2,565,347) |
| Disposals | 1,055 | 30,483 | 65 | 282,000 | 1,903,897 | 82,469 | 2,299,969 |
| Closing balance as at 31 December 2006 | (8,712,917) | (11,064,531) | (625,387) | (25,385,395) | (18,615,103) | (5,650,327) | (70,053,660) |
| Net book value as at 31 December 2006 | 13,188,598 | 31,019,155 | 695,228 | 22,298,062 | 35,378,457 | 3,646,823 | 106,226,323 |
| Net book value as at 31 December 2005 | 8,491,787 | 19,860,984 | 466,216 | 11,220,066 | 27,589,255 | 2,885,500 | 70,513,808 |

RusHydro Group

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

(in thousand of Russian Rubles)

Construction in progress represents the carrying amount of property, plant and equipment that has not yet been put into operation, including generating stations under construction, and advances to construction companies and suppliers of property, plant and equipment. As at 31 December 2007 such advances amounted to RR 4,385,324 thousand (as at 31 December 2006 – RR 1,325,631 thousand).

In 2006 the Company signed an Investing agreement with the Federal Agency of Railway Transport and OJSC Russian Railway. The purpose of the agreement is the joint construction and renovation of a railway line Izvestkovaya-Chegdomin, which is close to the zone of water reservoirs of Bureiskaya HPP. The Company incurred costs in 2007 in the amount of RR 956,800 thousand. The project is to be completed and the railway line is to be put into operation in 2008. After the railroad construction is finished, the Company will get a share of the constructed asset proportional to the share of its investment. The amount of the Company's investment in this project was included in Construction in progress as at 31 December 2007.

In March 2007 the Joint Venture under partnership agreement signed in 1998 between OJSC Geoterm, RAO UES, OJSC Kamchatskenergo and Kamchatka Region State Property Management Committee (hereinafter referred to as "KUGI"), which financed construction of Mutnovskaya GeoES, ceased and the assets were transferred to OJSC Geoterm. As a result, OJSC Geoterm's interest in Mutnovskaya GeoES increased from 74,76 percent to 100 percent, and shown as "Transfer from joint venture".

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 assets transferred to the Group upon privatization did not include the land on which the Group's buildings and facilities are situated. The relationships of use and alienability of the land are regulated by Land Code of the Russian Federation. According to the Land Code the plots of land located under hydraulic engineering structures are limited in their alienability and shall not be conveyed to become private property, except for the cases established by federal laws.

Property, plant and equipment movement for the year 2006 includes a deferred tax expense of RR 6,902,864 thousand in relation to the reversal of a previously recognised impairment loss of RR 28,761,935 thousand before tax.

Revaluation. Starting from 1 January 2007 the Group has adopted the revaluation model for property, plant and equipment (except for construction in progress) (Note 4). Fair values were determined by independent appraisers primarily based on the depreciated replacement cost method. The replacement cost of buildings, constructions, machinery and equipment and transfer devices were estimated based on technical characteristics, unit construction cost and construction estimates. The replacement cost of equipment was estimated based on data of aggregative replacement cost, current purchase contracts and price-list of producers and trading companies. The economic obsolescence was estimated based on profitability test results for each cash-generating unit. The discount rate used in the profitability tests varied from 10.5 to 19.1 percent. The forecast period is 19 - 20 years for all Group companies. The long-term rate of growth in sales volumes is approximately 3 percent for all Group companies.

As a result of the revaluation, the Group's equity increased by RR 88,168,781 thousand, comprising an increase in the carrying value of property, plant and equipment of RR 116,011,554 thousand, net of a related deferred tax liability of RR 27,842,773 thousand.

For each revalued class of property, plant and equipment stated at revalued amount in these financial statements, the carrying amount that would have been recognised had the assets been carried under the cost model is as follows:

| | Production buildings | Hydrotechnical buildings | Electricity grids | Substation's equipment | Assets under construction | Other | Total |
|---------------------------------------|----------------------|--------------------------|-------------------|------------------------|---------------------------|-----------|-------------|
| Net book value as at 31 December 2007 | 18,068,148 | 33,082,672 | 797,810 | 23,633,523 | 32,449,797 | 4,614,436 | 112,646,386 |

Leased property, plant and equipment. The Group leases property, plant and equipment under a number of finance lease agreements. At the end of each of the leases the Group has the option to purchase the equipment at a beneficial price. At as 31 December 2007 the net book value of leased property plant and equipment was RR 2,147,253 thousand (as at 31 December 2006 – RR 1,495,143 thousand). The leased equipment is pledged as a security for the lease obligation.

RusHydro Group
Notes to the Combined and Consolidated Financial Statements for the year ended 31 December 2007

(in thousand of Russian Rubles)

Operating lease. The Group leases a number of land areas owned by local governments under non-cancellable operating lease agreements. Land lease payments are determined by lease agreements. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

| | 31 December 2007 | 31 December 2006 |
|---------------------------------|-------------------|-------------------|
| Less than one year | 320,910 | 259,049 |
| Between one year and five years | 1,201,575 | 946,837 |
| After five years | 11,178,365 | 9,237,288 |
| Total | 12,700,850 | 10,443,174 |

The land areas leased by the Group are the territories on which the Group's electric power stations and other assets are located. The leases typically run for an initial period of 5-49 years with an option to renew the lease after that date. Lease payments are reviewed regularly to reflect market rentals.

Note 7. Investments in associates and jointly controlled entities

As at 31 December 2007 the Group's interests in associates and jointly controlled entities and their summarised financial information were as follows:

| | Carrying value as at 31 December 2006 | Additions | Share of profit/ (loss) of associates and jointly controlled entities | Carrying value as at 31 December 2007 |
|--|---|------------------|---|---|
| Associates | | | | |
| OJSC Bureiskaya HPP | - | 963,279 | (103,494) | 859,785 |
| OJSC Corporation of South Yakutiya development | - | 37,650 | (4,629) | 33,021 |
| CJSC Boguchanskaya HPP Construction Customer (Note 2) | - | 5 | 1 | 6 |
| CJSC Boguchansky Aluminium Plant Construction Organizer (Note 2) | - | 5 | 247 | 252 |
| Total Associates | - | 1,000,939 | (107,875) | 893,064 |
| Jointly controlled entities | | | | |
| BoGES Group | - | 5,282,443 | (201,240) | 5,081,203 |
| BALP Group | - | 766,094 | 98,967 | 865,061 |
| New energy Fund | - | 10 | (10) | - |
| LLC Corporation of Zabaikalie Development | - | 30,000 | (13,151) | 16,849 |
| OJSC Corporation of Krasnoyarsk region development | - | 30,000 | 506 | 30,506 |
| RusSUNHydroLimited | - | 79,087 | - | 79,087 |
| Total Jointly controlled entities | - | 6,187,634 | (114,928) | 6,072,706 |
| Total Investments in associates and jointly controlled entities | | 7,188,573 | (222,803) | 6,965,770 |

The following is summarised financial information, in aggregate, in respect of the associates and the jointly controlled entities:

| 31 December 2007 | Ownership, % | Voting, % | Assets | Liabilities | Revenues | Expenses | Profit / (Loss) |
|--|-----------------|--------------|------------|-------------|-----------|-------------|--------------------|
| Associates | | | | | | | |
| OJSC Bureiskaya HPP | 16.12 | 16.12 | 41,823,871 | 20,373,933 | 1,083,906 | (1,725,925) | (642,019) |
| OJSC Corporation of South Yakutiya development | 25.10 | 25.10 | 134,042 | (2,485) | 5,960 | (24,403) | (18,443) |

RusHydro Group
Notes to the Combined and Consolidated Financial Statements for the year ended 31 December 2007

(in thousand of Russian Rubles)

| 31 December 2007 | Ownership, % | Voting, % | Assets | Liabilities | Revenues | Expenses | Profit / (Loss) |
|---|-----------------|--------------|------------|--------------|----------|-----------|--------------------|
| CJSC Boguchanskaya HPP Construction Customer | 49.00 | 49.00 | 2,290 | (2,277) | 29,358 | (29,355) | 3 |
| CJSC Boguchansky Aluminium Plant Construction Organizer | 49.00 | 49.00 | 11,876 | (11,361) | 83,862 | (83,357) | 505 |
| Jointly controlled entities | | | | | | | |
| BoGES Group | 50.00 | 50.00 | 24,110,291 | (14,191,405) | 147,722 | (550,201) | (402,479) |
| BALP Group | 50.00 | 50.00 | 14,439,512 | (12,701,222) | 343,803 | (145,870) | 197,933 |
| New energy Fund LLC Corporation of Zabaikalie | 50.00 | 50.00 | 487,407 | (545,546) | 78,435 | (164,303) | (85,868) |
| Development OJSC Corporation of Krasnoyarsk region development | 50.00 | 50.00 | 36,409 | (2,711) | - | (26,301) | (26,301) |
| | 25.00 | 25.00 | 121,908 | (955) | 8,229 | (6,204) | 2,025 |
| RusSUNHydroLimited | 50.00 | 50.00 | 79,087 | - | - | - | - |

As at 31 December 2006 investment in OJSC Bureiskaya HPP was accounted for as available-for-sale (carried at cost) (Note 8). During 2007 the Company's management re-assessed the level of influence that the Company had over OJSC Bureiskaya HPP and determined that the Company started to exercise significant influence over OJSC Bureiskaya HPP as the number of the Company's representatives in the Board of Directors of OJSC Bureiskaya HPP was increased.

During 2007 the Group entered into the following arrangements:

- together with OJSC Techsnabexport, OJSC IG ALROSA, CJSC Yakutskie ugli - Novie tehnologii and Government of SAHA region the Group participated in *LCC Corporation of South Yakutiya Development*. One of the main purpose of this project is the construction of Kankunskaya HPP on the river Timpton with the capacity of 1,600 MWT;
- together with LLC IFC Metropol the Group participated in the foundation of *LLC Corporation of Zabaikalie Development*. The purpose of this company is the construction of a large industrial complex, including Mokskaya HPP and Ivanovskaya HPP on the river Vitim with total capacity of 1,410 MWT and other industrial facilities to consume the electricity produced by these HPPs;
- together with LLC Company Bazovy element, OJSC Krasnoyarskiy zavod cvetnyh metallov named after V.N. Gulidov, Vnesheconombank the Group participated in *OJSC Corporation of Krasnoyarsk region Development* for the purpose of development the Krasnoyarskiy region and joint investment into construction of OJSC Boguchanskaya HPP and CJSC Boguchansky Aluminium Plant together with OJSC RUSAL;
- in June 2007 the Group and the SUN Group of India signed a memorandum about cooperation in the development of the hydropower industry in India. As a result, the jointly controlled entity *RusSunHydro* was created for the purpose of managing the construction of new HPPs on the territory of India;
- Fund New Energy was created in January, 2007 by the following participants: Company (50%), Non-state pension fund of electrical energy industry (25%), Non-commercial investing ecological organization Energy carbonic fund (25%). The purpose of the fund is development of renewable energy sources;
- in June 2007, together with RUSAL, the Group established BoGES Group and BALP Group, CJSC Boguchanskaya HPP Construction Customer, CJSC Boguchansky Aluminium Plant Construction Organizer (Note 2).

RusHydro Group
Notes to the Combined and Consolidated Financial Statements for the year ended 31 December 2007
(in thousand of Russian Rubles)

Note 8. Other non-current assets

| | 31 December 2007 | 31 December 2006 |
|---|------------------|------------------|
| Available-for-sale investments (carried at cost) | 123,994 | 1,982,590 |
| VAT recoverable | 506,595 | 731,242 |
| Long-term loans receivable (Net of discount of RR 101,357 thousand, effective interest rate: 11.8%, due 2011 as at 31 December 2007) | 210,324 | 1,900,000 |
| Other long-term assets (Net of provision for impairment debtors of RR 172,137 thousand, effective interest rate: 11%, due 2010 as at 31 December 2007 and RR 62,731 thousand as at 31 December 2006, effective interest rate: 15.5%, due 2009 – 2013) | 1,082,112 | 769,516 |
| Total other non-current assets | 1,923,025 | 5,383,348 |

Available-for-sale-investments. As at 31 December 2006 included within investments available-for-sale investments (carried at cost) is a 16.12 percent interest in OJSC Bureiskaya HPP totalling RR 1,976,000 thousand. As at December 2007 the investment in OJSC Bureiskaya HPP was accounted within Investments in associates and jointly controlled entities (Note 7).

In year 2007 the Company received contribution to share capital made by RAO UES by the following shares: 1.9 percent interest in OJSC Vilyuiskaya HPP-3 and 0.12 percent interest in OJSC Krasnoyarskaya HPP (Note 2).

Long-term loans receivable. As at 31 December 2006 included in other non-current assets was a loan to OJSC Bureiskaya HPP in the amount of RR 1,900,000 thousand. This loan was repaid early in 2007 (Note 5).

Note 9. Cash and cash equivalents

| | 31 December 2007 | 31 December 2006 |
|--|------------------|------------------|
| Cash at bank and in hand | 3,419,538 | 1,793,917 |
| Cash equivalents (contractual interest rate: 2.5 - 8.75 percent) | 2,360,000 | 3,778,070 |
| Total cash and cash equivalents | 5,779,538 | 5,571,987 |

Cash equivalents held as at 31 December 2007 and 31 December 2006 comprised short-term RR bank deposits of less than 3 months duration.

Cash balances denominated in USD currency amounts as at 31 December 2007 were RR 2,539 thousand (31 December 2006: RR 726 thousand). Cash balances denominated in EURO were RR 24 thousand as at 31 December 2007 (31 December 2006: RR 1,805 thousand).

| | Rating | Rating agency | 31 December 2007 | 31 December 2006 |
|----------------------------------|--------|-------------------|------------------|------------------|
| Bank deposits | | | | |
| OJSB Alemar Bank | - | - | 500,000 | - |
| OJSB Asiatsko-Tihookeanskii Bank | - | - | - | 39,000 |
| OJSB Vostochnyi | - | - | - | 120,000 |
| OJSB Sberbank | Baa2 | Moody's | 60,000 | - |
| OJSB Bank of Moscow | Baa2 | Moody's | - | 70 |
| OJSB KIT Finance | A3 | Moody's | 1,800,000 | 3,000,000 |
| OJSB Gazprombank | BBB- | Standard & Poor's | - | 56,000 |
| OJSB VTB Bank | Baa2 | Moody's | - | 563,000 |
| Total bank deposits | | | 2,360,000 | 3,778,070 |
| Cash at banks | | | | |
| OJSB Gazprombank | BBB- | Standard & Poor's | 1,615,705 | 69,050 |
| OJSB VTB Bank | Baa2 | Moody's | 697,378 | 463,966 |
| OJSB Evrofinance Mosnarbank | Ba3 | Moody's | 424,904 | 292,103 |
| OJSB Sberbank | Baa2 | Moody's | 334,024 | 54,412 |

RusHydro Group
Notes to the Combined and Consolidated Financial Statements for the year ended 31 December 2007
(in thousand of Russian Rubles)

| | Rating | Rating agency | 31 December 2007 | 31 December 2006 |
|----------------------------|--------|-------------------|------------------|------------------|
| OJSB Bank of Khakasia | - | - | 116,663 | 5,061 |
| OJSB RosEvroBank | - | - | 85,734 | - |
| OJSB Bank of Moscow | Baa2 | Moody's | 42,015 | 194,631 |
| RTS Settlement Chamber | - | - | 30,025 | 54,620 |
| OJSB TransinvestBank | - | - | - | 398,961 |
| OJSB Sobinbank | Baa2 | Moody's | - | 168,987 |
| OJSB Dagenergobank | - | - | - | 44,550 |
| OJSB Rosbank | BB+ | Standard & Poor's | 22,653 | 8,513 |
| OJSB Mezhtopenergobank | - | - | 20,216 | 1,125 |
| OJSB CB ChirkeyEnergoBank | - | - | 15,044 | 676 |
| OJSB Volgoprombank | - | - | 4,190 | 2,527 |
| Other | - | - | 10,987 | 34,735 |
| Total cash at banks | | | 3,419,538 | 1,793,917 |

Note 10. Accounts receivable and prepayments

| | 31 December 2007 | 31 December 2006 |
|---|-------------------|-------------------|
| Trade receivables (Net of provision for impairment debtors of RR 183,474 thousand as at 31 December 2007 and RR 142,083 thousand as at 31 December 2006) | 2,519,921 | 943,865 |
| Promissory notes: (Net of discount of RR 193,290 thousand as at 31 December 2007: effective interest rate 11.6 percent p.a. (Note 5) and RR 0 thousand as at 31 December 2006) | 21,937,443 | 13,787,925 |
| Total financial assets | 24,457,364 | 14,731,790 |
| Advances to suppliers and prepayments (Net of provision for impairment debtors of RR 49,951 thousand as at 31 December 2007 and RR 2,207 thousand as at 31 December 2006) | 1,249,397 | 741,608 |
| Income tax receivables | 635,699 | 836,315 |
| Value added tax recoverable | 4,481,753 | 2,577,393 |
| Other prepaid taxes | 15,543 | 5,318 |
| Other receivables (Net of provision for impairment debtors of RR 74,162 thousand as at 31 December 2007 and RR 0 thousand as at 31 December 2006) | 1,679,219 | 849,423 |
| Total accounts receivable and prepayments | 32,518,975 | 19,741,847 |

Management believes that the majority of customers, balances of which are included into trade receivables, comprise a single class, as they bear the same characteristics. Those customers belong to the same wholesale market of electric power (hereinafter referred to as "NOREM"), which is regulated by Non-commercial Partnership Administrator of Trade System (hereinafter referred to as "NP ATS").

Management has determined the provision for impairment of accounts receivable based on specific customer identification, customer payment trends, subsequent receipts and settlements and the analyses of expected future cash flows. The management of the Group believes that the 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.

As at 31 December 2007, receivables of RR 340,310 thousand (31 December 2006: RR 239,604 thousand) were past due but not impaired. These relate to a number of independent customers without recent history of default. The ageing analysis of these trade receivables is as follows:

| 31 December 2007 | Less than 1 month | Between 1 and 3 months | Between 3 and 12 months | Beyond 12 months | Total |
|--|-------------------|------------------------|-------------------------|------------------|---------|
| Accounts Receivable past due, not impaired | 194,439 | 65,816 | 76,998 | 3,057 | 340,310 |
| % to total | 57% | 19% | 23% | 1% | 100% |

RusHydro Group

Notes to the Combined and Consolidated Financial Statements for the year ended 31 December 2007
(in thousand of Russian Rubles)

| 31 December 2006 | Less than 1 month | Between 1 and 3 months | Between 3 and 12 months | Beyond 12 months | Total |
|--|----------------------|------------------------------|-------------------------------|---------------------|---------|
| Accounts Receivable past due, not impaired | 182,219 | 21,796 | 35,589 | - | 239,604 |
| % to total | 76% | 9% | 15% | 0% | 100% |

Trade and other receivables individually determined to be impaired (gross):

| | Year ended 31 December 2007 | Year ended 31 December 2006 |
|--|--------------------------------|--------------------------------|
| As at 1 January | 144,290 | 155,061 |
| Charge for the year | 179,589 | 77,589 |
| Reversal of impairment | (9,732) | (88,360) |
| Trade receivables written-off as uncollectible during 2007 | (6,560) | - |
| As at 31 December | 307,587 | 144,290 |

Management assesses that counterparties, balances of which fall into trade receivables and other receivables, and which are neither past due nor impaired, have approximately the same credit quality.

The Group does not hold any collateral as security.

Note 11. Inventories

| | 31 December 2007 | 31 December 2006 |
|--------------------------|------------------|------------------|
| Materials and supplies | 398,082 | 570,082 |
| Other inventories | 294,811 | 158,216 |
| Total inventories | 692,893 | 728,298 |

The above inventory balances are shown net of an obsolescence provision for RR 28,062 thousand and RR 62,963 thousand as at 31 December 2007 and 31 December 2006 respectively.

As at 31 December 2007 and 31 December 2006, the inventory balances did not include any inventories pledged as collateral under loan agreements.

Note 12. Other current assets

| | 31 December 2007 | 31 December 2006 |
|--|------------------|------------------|
| Promissory notes: yield to maturity 9.8 – 13.2 percent p.a. (Note 5) | 5,960,234 | 1,135,307 |
| Other short-term investments | 37,322 | 60,844 |
| Total other current assets | 5,997,556 | 1,196,151 |

| Bank and other promissory notes | Rating | Rating agency | 31 December 2007 | 31 December 2006 |
|--|--------|-------------------|------------------|------------------|
| LLC FK Otkrytie | CCC | Standard & Poor's | 3,008,130 | - |
| OJSC Bureiskaya HPP | - | - | 1,261,930 | - |
| OJSC Sulaksky Gidrokaskad | - | - | 680,838 | - |
| OJSC Ust-Srednekamskaya HPP | - | - | 612,800 | - |
| OJSC Kaskad NCh HPP | - | - | 257,324 | 725,094 |
| OJSC Dagenergo | - | - | - | 81,782 |
| OJSC Kabbalkenergo | - | - | 139,212 | 327,025 |
| Other | - | - | - | 1,406 |
| Total bank and other promissory notes | | | 5,960,234 | 1,135,307 |

Note 13. Equity

Basis of presentation of movements in equity. The Group was formed by the combination of a number of businesses under common control. Because of the consequent use of the predecessor basis of accounting (Note 3), the principal component of the net equity recognised for the Group is based on the historic carrying value of the net assets of the businesses contributed as recorded in the IFRS financial records of the predecessor enterprises, rather than the fair values of those net assets. Similarly, for the purpose of comparability, the equity of the Group has been presented for comparative period and as at 1 January 2006 as if the current Group structure had existed from 1 January 2006 (Note 3). As the Group was formed as a result of share issues completed after 1 January 2006, the equity statement reflects additions to share capital in the amount equal to the statutory nominal value of the shares issued which is based on the fair value of the net assets of the businesses contributed. In accordance with the predecessor basis of accounting, the effect of such additions to equity is offset by a corresponding adjustment in the merger reserve and recognition of minority interest.

| | Ordinary shares 31 December 2007 | Ordinary shares 31 December 2006 |
|----------------------------------|-------------------------------------|-------------------------------------|
| Number of issued ordinary shares | 156,864,373,776 | 140,954,759,856 |
| Par value (in RR) | 1.00 | 1.00 |

On 26 December 2004, the date when the Company was established, the number of issued ordinary shares amounted to 103,951,322,702 with a par value of RR 1.00 each.

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

- RR 103,849,528 thousand received by way of contribution of RAO UES' controlling interest in the Group's subsidiaries and investments in other companies (Note 2);
- cash contributions amounted to RR 101,795 thousand.

In August 2006, in the course of further sector restructuring, 37,003,437,154 additional ordinary shares of the Company with a par value of RR 1.00 each were issued. RAO UES made the following contributions to the Company in exchange for additional shares issued:

- RR 14,346,885 thousand received by way of contribution of RAO UES' controlling interest in the Group's subsidiaries and investments in other companies (Note 2);
- RR 91,058 thousand received by way of contribution of RAO UES' 12.4 percent interest in OJSC Zaramagskie HPPs and 1.6 percent interest in OJSC Zelenchukskie HPPs;
- RR 2,711,573 thousand received by way of contribution of Novosibirskaya HPP assets (business);
- cash contributions amounted to RR 20,000,000 thousand;
- RR 245,001 thousand received by way of contribution of other various assets.

Total contribution was RR 37,394,517 thousand. Share premium received in excess of the par value was RR 391,080 thousand.

In October 2007, in the course of further sector restructuring 15,909,613,920 additional ordinary shares of the Company with a par value of RR 1 each were issued. RAO UES made the following contributions to the Company in exchange for additional share issue:

- RR 2,146,125 thousand received by way of contribution of RAO UES' interest in the Group's subsidiaries and investments in other companies (Note 2);
- cash contributions amounted to RR 14,950,000 thousand.

Russian Federation cash contributions amounted to RR 5,000,000 thousand.

The total contribution was RR 27,523,632 thousand, including treasury shares purchased by the Company. Share premium received in excess of the par value was RR 11,614,019 thousand.

Treasury shares. In 2007 the Group purchased ordinary treasury shares. Treasury shares as at 31 December 2007 represent 3,137,287,475 ordinary shares in the amount of RR 5,427,507 thousand.

Merger reserve. Based on the application of predecessor accounting (Note 3) the difference of RR 74,170,611 thousand (2006 – RR 72,274,301 thousand) between the statutory value of share capital

issued and the IFRS carrying value of the contributed assets and minority interest has been recorded as a merger reserve within equity.

Effect of changes in minority interest. In 2006 OJSC Zelenchukskie HPPs issued 89,242,749 additional ordinary shares with a par value of RR 10.0 each fully paid by RAO UES. The cash contribution amounted to RR 892,427 thousand and the effect of the partial disposal of OJSC Zelenchukskie HPPs have been recorded within equity at the date of the additional share issue.

In 2007 OJSC Sulakenergo issued 145,280,300 additional ordinary shares with a par value of RR 10 each fully paid by the Group. The cash contribution amounted to RR 1,452,803 thousand and the decrease of minority interest was reflected in the statement of changes in equity at the date of the additional share issue.

In 2007 OJSC Zaramagskie HPPs issued 1,004,740 additional ordinary shares with a par value of RR 1,000 each fully paid by the Group. The cash contribution amounted to RR 1,004,740 thousand and the decrease of minority interest was reflected in the statement of changes in equity at the date of the additional share issue.

In 2007 shares of OJSC Zelenchukskie HPPs, OJSC Severo-Osetinskaya Hydrogenerating Company, OJSC ESKO UES were received as a contribution to the Company's share capital made by RAO UES as described above.

In year 2007 minority interest in OJSC Karachaevo-Cherkesskaya Hydrogenerating Company was increased as a result of increase in the Group's share in OJSC Zelenchukskie HPPs.

Acquisition and disposal of subsidiaries. In 2006 the Group acquired 56.0 percent of the share capital of OJSC Severo-Osetinskaya Hydrogenerating Company from OJSC Sevkavkazenergo, a subsidiary of RAO UES, for a cash consideration of RR 110,327 thousand.

The acquisition of OJSC Severo-Osetinskaya Hydrogenerating Company was accounted for using the predecessor basis of accounting method from 1 January 2005. The assets and liabilities of the subsidiary transferred under common control are recognised at the predecessor entity's carrying amounts. The difference between the carrying amount of net assets and the purchase consideration is accounted for in these consolidated financial statements as an adjustment to merger reserve in the statement of changes in equity.

In 2007 all the contributions and purchases of shares were of entities that were already subsidiaries of the Group except for OJSC Geoterm and OJSC Verhne-Mutnovskaya GeoES.

In 2007 the Group acquired 99.98 percent of the share capital of CJSC EOZ from a third party for a cash consideration of RR 969,203 thousand. CJSC EOZ only owned a building and therefore this transaction is not a business combination and no goodwill arose on the acquisition.

In 2007 OJSC Boguchanskaya HPP was disposed from a subsidiary to jointly-controlled entity (Note 2).

Effect of carve-out accounting. In 2006 the Group recorded the effect resulting from the carve-out accounting of Novosibirskaya HPP and related rental agreement for the period and from the predecessor legal entity. Included within the merger reserve in 2006 there is RR 173,227 thousand of carved out rental revenues and expenses related to periods from 1 January 2005 to 1 November 2006 for Novosibirskaya HPP property, plant and equipment within RAO UES, predecessor legal entity (Note 3).

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

The dividends declared by the Company were recognised as a liability and deducted from equity for the year ended 31 December 2007 in the amount RR 1,119,000 thousand (for the year ended 31 December 2006 – RR 1,712,199 thousand).

RusHydro Group

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

(in thousand of Russian Rubles)

Note 14. Profit tax

Profit tax charge is as follows:

| | Year ended 31 December 2007 | Year ended 31 December 2006 |
|--------------------------------|--------------------------------|--------------------------------|
| Current profit tax expense | 4,477,258 | 1,647,835 |
| Deferred profit tax expense | (1,478,682) | 4,877,094 |
| Total profit tax charge | 2,998,576 | 6,524,929 |

During 2007 and 2006 most entities of the Group were subject to tax rates of 24 percent on taxable profit.

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

A reconciliation between the expected and the actual taxation charge is provided below:

| | Year ended 31 December 2007 | Year ended 31 December 2006 |
|--|--------------------------------|--------------------------------|
| Profit before profit tax | 9,523,624 | 26,642,013 |
| Theoretical profit tax charge at an average statutory tax rate of 24 percent | (2,285,670) | (6,394,083) |
| Tax effect of items which are not deductible or assessable for taxation purposes | (712,906) | (130,846) |
| Total profit tax charge | (2,998,576) | (6,524,929) |

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 assets or liabilities will reverse.

| | 31 December 2007 | Charged (credited) to the income statement | Charged directly to equity | Disposal of subsidiary | 31 December 2006 |
|---|--------------------|---|----------------------------------|---------------------------|--------------------|
| Deferred profit tax liabilities | 35,969,050 | (366,941) | 27,985,347 | (109,738) | 8,460,382 |
| Property, plant and equipment | 35,289,634 | (283,162) | 27,842,773 | (107,331) | 7,837,354 |
| Loans and borrowings | 477,763 | (83,672) | - | (48) | 561,483 |
| Other | 201,653 | (107) | 142,574 | (2,359) | 61,545 |
| Deferred profit tax assets | (3,384,824) | (1,111,741) | - | 115,770 | (2,388,853) |
| Property, plant and equipment | (2,114,082) | (540,097) | - | 105,073 | (1,679,058) |
| Accounts receivables | (608,414) | (15,207) | - | 8,104 | (601,311) |
| Other | (662,328) | (556,437) | - | 2,593 | (108,484) |
| Deferred profit tax liabilities, net | 32,584,226 | (1,478,682) | 27,985,347 | 6,032 | 6,071,529 |

RusHydro Group
Notes to the Combined and Consolidated Financial Statements for the year ended 31 December 2007

(in thousand of Russian Rubles)

| | 31 December 2006 | Charged (credited) to the income statement | 31 December 2005 |
|---|--------------------|---|--------------------|
| Deferred profit tax liabilities | 8,460,382 | 3,508,782 | 4,951,600 |
| Property, plant and equipment | 7,837,354 | 3,976,090 | 3,861,264 |
| Loans and borrowings | 561,483 | (40,724) | 602,207 |
| Other | 61,545 | (426,584) | 488,129 |
| Deferred profit tax assets | (2,388,853) | 1,368,312 | (3,757,165) |
| Property, plant and equipment | (1,679,058) | 1,404,466 | (3,083,524) |
| Accounts receivables | (601,311) | (135,626) | (465,685) |
| Other | (108,484) | 99,472 | (207,956) |
| Deferred profit tax liabilities, net | 6,071,529 | 4,877,094 | 1,194,435 |

Investments in subsidiaries and jointly controlled entities. Prior to 31 December 2007 the Group did not record a deferred profit tax liability in respect of taxable temporary differences associated with investments in subsidiaries and jointly controlled entity as it was not probable that the Company would receive dividends in the foreseeable future. The estimated unrecorded deferred tax liabilities for such differences as at 31 December 2006 were RR 15,150,212 thousand. With effect from 1 January 2008 no tax is payable on dividends paid to a parent by subsidiaries (if certain requirements are met). Also, on 9 January 2008 20 subsidiaries were cease to exist as separate legal entities and become branches of the Company. Consequently, as at 31 December 2007, no significant unrecorded deferred tax liabilities existed in the Group in respect of investments.

Note 15. Pension benefits

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

| | 31 December 2007 | 31 December 2006 |
|--|------------------|------------------|
| Present value of defined benefit obligations | 1,525,409 | 1,181,650 |
| Present value of unfunded obligations | 1,525,409 | 1,181,650 |
| Unrecognised actuarial (loss)/gains | (22,826) | 6,320 |
| Unrecognised past service cost | (658,728) | (498,499) |
| Net liability | 843,855 | 689,471 |

Amounts recognised in the Group's consolidated income statement:

| | Year ended 31 December 2007 | Year ended 31 December 2006 |
|---|--------------------------------|--------------------------------|
| Current service cost | 60,269 | 2,074 |
| Interest cost | 79,761 | 9,629 |
| Net actuarial loss | 10,853 | - |
| Past service cost | 124,137 | - |
| Other | - | 731,414 |
| Net expense recognized in income statement | 275,020 | 743,117 |

RusHydro Group
Notes to the Combined and Consolidated Financial Statements for the year ended 31 December 2007

(in thousand of Russian Rubles)

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

| | 31 December 2007 | 31 December 2006 |
|--|------------------|------------------|
| Projected Benefit Obligation at beginning of the year | 1,181,650 | 144,058 |
| Service cost | 60,269 | 2,074 |
| Interest cost | 79,761 | 9,629 |
| Actuarial loss/(gain) | 33,679 | (1,619) |
| Past service cost | 290,687 | 303,083 |
| Benefits paid | (120,637) | (6,989) |
| Other | - | 731,414 |
| Present value of pension benefit obligations at end of the year | 1,525,409 | 1,181,650 |

Experience adjustment on plan liabilities is as follows:

| | 31 December 2007 | 31 December 2006 |
|--|------------------|------------------|
| Defined benefit obligation | 1,525,409 | 1,181,650 |
| Plan assets | - | - |
| Deficit | (1,525,409) | (1,181,650) |
| Experience adjustments on plan liabilities | 33,681 | (1,619) |
| Experience adjustments on plan assets | - | - |

The Group expects to contribute RR 345,613 thousand to the defined benefit plans during the year beginning 1 January 2008.

Principal actuarial assumptions are as follows:

| | 31 December 2007 | 31 December 2006 |
|-----------------------|------------------|------------------|
| Nominal discount rate | 6.75% | 6.8% |
| Wage growth rate | 7.0% | 7.0% |
| Inflation rate | 6.0% | 5.0% |

Note 16. Current and non-current debt
Non-current debt

| | Currency | Effective interest rate | Due date | 31 December 2007 | 31 December 2006 |
|---|----------|-------------------------|----------|-------------------|-------------------|
| EBRD (tranche 1) | RR | 3.65%+MOSPRIME | 2020 | 2,000,015 | 2,000,015 |
| EBRD (tranche 2) | RR | 2.75%+MOSPRIME | 2014 | 850,000 | 850,000 |
| EBRD (tranche 3) | RR | 3.05%+MOSPRIME | 2016 | 3,150,000 | 3,150,000 |
| Bonds issue (OJSC RusHydro Management Company) | RR | 8.10% | 2011 | 5,000,000 | 5,000,000 |
| Morgan Stanley Bank International Ltd | RR | 8.75% | 2013 | 3,000,000 | 3,000,000 |
| Morgan Stanley Bank International Ltd | RR | 1.5%+MOSPRIME | 2014 | 1,500,000 | - |
| Municipal authority of Kamchatka region | RR | LIBOR+3% | 2035 | 964,528 | 992,710 |
| Other long-term debt | RR | - | - | 174,923 | - |
| Finance lease liabilities | RR | 11.10% | - | 930,998 | 729,611 |
| Total | | | | 17,570,464 | 15,722,336 |
| Less current portion of finance lease liabilities | | | | (269,000) | (257,370) |
| Less current portion of non-current debt | | | | (42,922) | (39,465) |
| Total non-current debt | | | | 17,258,542 | 15,425,501 |

European Bank for Reconstruction and Development (hereinafter referred to as "EBRD"). In September 2006 the Group received a loan, in three tranches, of RR 6,300,000 thousand from European Bank for Reconstruction and Development. Tranche 1 is stated net of transaction costs incurred in the

RusHydro Group

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

(in thousand of Russian Rubles)

amount of RR 299,985 thousand as at 31 December 2007. The funds will be used to finance a program to upgrade and re-equip HPPs of the Volzhskaya-Kamskaya Cascade. The loan is co-arranged by Standard Bank PLC, CJSC Bank Austria Creditanstalt AG and ING Bank (Eurasia). The lead arrangers are Calyon, Fortis SA/NV and CJSC Raiffeisenbank Austria and the arrangers are CJSC Citibank, Credit Suisse and Banque Societe Generale Vostok. Interest is payable quarterly. The Group is subject to certain financial and other covenants under the facility. As at 31 December 2007, the Group was in compliance with all its covenants under the facility.

Bonds issue. In July 2006 OJSC RusHydro Management Company issued bonds in a public offering on the MICEX Stock Exchange. The total value of bonds issue was RR 5,000,000 thousand. The bonds were sold at a par value of RR 1,000 rubles, with a yield of 8.1 percent per annum. The yield is payable every six months. The bonds are repayable in July 2011. The bonds issue was sponsored by the KIT Finance Investment Bank. The bond issue proceeds will be used to finance the completion of Boguchanskaya HPP and the needs of Group's subsidiaries.

Morgan Stanley Bank International Ltd. (hereinafter referred to as "Morgan Stanley"). In April 2007 the Group obtained a loan of RR 1,500,000 thousand from Morgan Stanley. The funds are intended to be used for financing capital expenditure projects in accordance with the Group's investment programme. The loan bears interest at 1.5%+MOSPRIME per annum and is scheduled for repayment in April 2014. The interest is payable each half a year. The Group is subject to certain financial and other covenants under the facility. As at 31 December 2007, the Group was in compliance with all its covenants under the facility.

In December 2006 the Group obtained a loan of RR 3,000,000 thousand from Morgan Stanley. The funds are intended to be used for financing of the Company's investment programme. The loan bears interest at a 8.75 percent per annum and is scheduled for repayment in December 2013. The interest is payable on a monthly basis. The Group is subject to certain financial and other covenants under the facility. As at 31 December 2007, the Group was in compliance with all its covenants under the facility.

Municipal authority of Kamchatka region. The loan was received for the purpose of Mutnovskaya GeoES construction. Loan is scheduled for repayment by 1 January 2035 through annual payments. Interests of 1 percent is charged on the rest amount of the loan. Debt is stated at present value, discount rate is 8.57 percent.

Current debt

| | Currency | Effective interest rate | 31 December 2007 | 31 December 2006 |
|---|----------|-------------------------|------------------|------------------|
| JSC Mezhtopenenergobank | RR | 11.00 % - 14.30% | 214,018 | 872,613 |
| AB Otkritie | RR | 11.00% | 138,000 | - |
| Aluminium Group Ltd | RR | 12.00% | - | 966,562 |
| Settimel Holding Ins | RR | 12.00% | - | 182,000 |
| Other current debt | RR | - | 4,399 | 54,938 |
| Finance lease liabilities | RR | 11.10% | 269,000 | 257,370 |
| Current portion of non-current debt | RR | | 42,922 | 39,465 |
| Interest payable | RR | | 350,515 | 309,126 |
| Total current debt and current portion of non-current debt | | | 1,018,854 | 2,682,074 |

During 2006 the Group obtained debt from Aluminium Group Ltd and Settimel Holding Ins, both RUSAL Group affiliates, to help finance the construction of Boguchanskaya HPP, which were transferred to BoGES Group upon BEMA establishment in year 2007 (Note 2).

RusHydro Group

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

(in thousand of Russian Rubles)

Debt maturity

| Due for repayment | 31 December 2007 | 31 December 2006 |
|------------------------------------|-------------------|-------------------|
| Between three years and four years | 5,174,923 | - |
| Between four years and five years | - | 5,000,000 |
| After five years | 11,421,621 | 9,953,260 |
| Total | 16,596,544 | 14,953,260 |

Effective interest rate. The effective interest rate is the market interest rate applicable to the loans at the date of origination for fixed rate loans and the current market rate for floating rate loans. The Group has not entered into any hedging arrangements in respect of interest rate exposures.

Finance lease liabilities. Minimum lease payments under finance leases and their present values are as follows:

| | Due in 1 year | Due between 2 and 5 years | Due after 5 years | Total |
|--|----------------|------------------------------|-------------------|------------------|
| Minimum lease payments at 31 December 2007 | 321,761 | 725,190 | 12,095 | 1,059,046 |
| Less future finance charges | (52,761) | (74,322) | (965) | (128,048) |
| Present value of minimum lease payments at 31 December 2007 | 269,000 | 650,868 | 11,130 | 930,998 |
| Minimum lease payments at 31 December 2006 | 293,683 | 500,867 | 8,011 | 802,561 |
| Less future finance charges | (36,313) | (36,005) | (632) | (72,950) |
| Present value of minimum lease payments at 31 December 2006 | 257,370 | 464,862 | 7,379 | 729,611 |

Note 17. Other non-current liabilities

| | 31 December 2007 | 31 December 2006 |
|--|------------------|------------------|
| Pension obligations | 843,855 | 689,470 |
| Other non-current liabilities | 94,069 | 129,671 |
| Total other non-current liabilities | 937,924 | 819,141 |

Note 18. Accounts payable and accruals

| | 31 December 2007 | 31 December 2006 |
|--|-------------------|------------------|
| Trade payables | 1,936,193 | 1,150,749 |
| Advances received from RAO UES (Note 5) | 1,239,838 | 4,995,936 |
| Accounts payable to RAO UES (Note 5) | 4,875,323 | - |
| Advances received | 337,484 | 120,000 |
| Dividends payable (Note 13) | 19,091 | 1,055,990 |
| Settlements with personnel | 509,879 | 335,380 |
| Other accounts payable | 1,217,817 | 885,605 |
| Total accounts payable and accruals | 10,135,625 | 8,543,660 |

Advances received from RAO UES. As at 31 December 2007 the Group has investment agreements with RAO UES to finance the construction of various HPP assets located in OJSC Zaramagskie HPPs, OJSC Zelenchukskie HPPs, and OJSC Kabbalk HPP. The Group expects to settle these obligations in 2008.

All accounts payable and accruals are denominated in Russian Rubles.

Trade payables are classified as financial liabilities. Total amount of financial liabilities as at 31 December 2007 comprises RR 20,213,589 thousand (as at 31 December 2006: RR 19,256,324 thousand) and

RusHydro Group**Notes to the Combined and Consolidated Financial Statements for the year ended 31 December 2007**

(in thousand of Russian Rubles)

includes, beside trade payables, non-current borrowings and current borrowings and current portion of non-current borrowings (Note 16).

Management believes that the majority of suppliers, balances of which are included into trade payables, comprise a single class, as they have the same characteristics. Those suppliers are mainly providers of repair and maintenance services.

Other taxes payable represent the following:

| | 31 December 2007 | 31 December 2006 |
|----------------------------------|------------------|------------------|
| Value added tax | 101,507 | 257,549 |
| Property tax | 485,808 | 475,900 |
| Unified social tax | 64,079 | 49,596 |
| Other taxes | 197,011 | 260,278 |
| Total other taxes payable | 848,405 | 1,043,323 |

Note 19. Revenue

| | Year ended 31 December 2007 | Year ended 31 December 2006 |
|------------------------------|--------------------------------|--------------------------------|
| Sales of electricity (power) | 45,865,718 | 20,938,215 |
| Other revenue | 1,903,853 | 3,154,175 |
| Total revenues | 47,769,571 | 24,092,390 |

Note 20. Operating expenses

| | Year ended 31 December 2007 | Year ended 31 December 2006 |
|---|--------------------------------|--------------------------------|
| Purchased power expenses | 9,941,329 | 4,222,949 |
| Depreciation of property, plant and equipment | 7,771,975 | 3,492,713 |
| Employee benefit expenses and payroll taxes | 4,721,467 | 3,231,134 |
| Third parties services, including: | 8,320,411 | 5,004,463 |
| Rent, Repairs and Maintenance | 4,173,204 | 2,302,051 |
| Services of SO-CDU | 1,226,714 | 1,076,840 |
| Consulting, legal and information expenses | 942,922 | 291,202 |
| Security expenses | 425,879 | 186,899 |
| Insurance cost | 465,555 | 267,979 |
| Expenses related to reorganization | 103,369 | 5,616 |
| Transportation expenses | 119,167 | 78,686 |
| Other third parties services | 863,601 | 795,190 |
| Taxes other than profit tax | 2,506,521 | 1,927,672 |
| Other materials | 1,002,382 | 619,952 |
| Water usage expenses | 797,000 | 967,586 |
| Social charges | 566,020 | 257,376 |
| Loss on disposals of property, plant and equipment, net | 52,262 | 2,531,663 |
| Write-off and charge of impairment of accounts receivable | 448,706 | 247,603 |
| Other expenses | 1,101,018 | 851,414 |
| Total operating expenses | 37,229,091 | 23,354,525 |

Loss on disposals of property, plant and equipment. In 2006 included within loss on disposals of property, plant and equipment is a RR 2,335,351 thousand net loss which resulted from a disposal of construction in progress to OJSC Dagautodor. The disposed assets comprised of roads, bridges and other infrastructure under construction in Dagestan.

RusHydro Group**Notes to the Combined and Consolidated Financial Statements for the year ended 31 December 2007**

(in thousand of Russian Rubles)

Note 21. Finance cost

| | Year ended 31 December 2007 | Year ended 31 December 2006 |
|--------------------------|--------------------------------|--------------------------------|
| Interest income | 726,394 | 142,882 |
| Interest expense | (1,375,892) | (514,781) |
| Finance lease expense | (39,460) | (43,225) |
| Other (expense)/income | (105,095) | 122,684 |
| Finance cost, net | (794,053) | (292,440) |

Note 22. Earnings per share

| | Year ended 31 December 2007 | Year ended 31 December 2006 |
|---|--------------------------------|--------------------------------|
| Weighted average number of ordinary shares issued (thousand of shares) | 144,382,463 | 121,414,115 |
| Profit attributable to the shareholders of OJSC RusHydro (in thousand RR) | 6,530,075 | 16,285,873 |
| Weighted average earnings per share – basic and diluted (in RR) | 0.0452 | 0.1341 |

Note 23. Financial risks management

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

Currency risk. Power and heat produced by the Group is sold on the internal market of the Russian Federation with prices fixed in the currency of the Russian Federation. Hence, the Group is little subject to the foreign currency exchange risk. The financial condition of the Company, its liquidity, financing sources and the results of activities do not considerably depend on currency rates as the Group activities are planned to be performed in such a way that its assets and liabilities be denominated in the national currency. Moreover, the Group does not plan to perform activities on the outer market. That is why the influence of changes in the domestic currency rate as related to foreign currency rates on the financial condition of the Group is estimated as insignificant.

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 company obtains borrowings both with fixed and with floating rate and is subject to the risk of interest rate changes. The Group's significant interest bearing liabilities are disclosed in Note 16. The company obtains loans in the national currency with floating rate, which are established on the basis of the MosPrime rate.

Management performed sensitivity analyses of rates fluctuations for 2007 and 2006 years based on expected forecasts of rates changes at the date of redemption of exchange commitments. If the MosPrime rate increased by 0.5 percent the profit after tax would decreased by RR 28.5 million for the year ended 31 December 2007 and by RR 22.8 mln for the year ended 31 December 2006.

With the purpose of interest risk reduction the Group makes the following arrangements:

- credit market monitoring to identify favourable credit conditions;
- attraction of credit resources at rates that lower than the refinancing rate of the Central Bank of the Russian Federation;
- diversification of credit portfolio by attracting of borrowings with fixed rates and floating rates.

Credit risk. Credit risk is the risk of financial loss for the Group in the case of non-fulfilment by the Contractor of the obligations on the financial instrument under the proper contract. Financial assets on which the Group has the potential credit risk are represented mainly by the accounts receivable of buyers and customers (in amount of RR 2,519,921 thousands; 2006 – RR 943,865 thousands), cash and cash equivalents (in amount of RR 5,779,538 thousands; 2006 – RR 5,571,987 thousands), promissory notes (in

RusHydro Group**Notes to the Combined and Consolidated Financial Statements for the year ended 31 December 2007**

(in thousand of Russian Rubles)

amount RR 27,897,677 thousands; 2006 – RR 14,923,232 thousands), long-term loans issued (RR 210,324 thousands in 2007, RR 1,900,000 thousands in 2006), available for sale investments (RR 123,994 thousands in 2007, RR 1,982,590 thousands in 2006), totalling RR 36,531,454 thousands (2006 – RR 25,321,674 thousands). Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provision for impairment of receivables already recorded.

For Group customers there is no independent rating and therefore the Group assesses the credit quality of the customer at the contract execution stage. The Group takes into account the customer's financial position and its credit history. The Group monitors the existing receivables on the ongoing basis in the profile departments and takes actions regularly to their collection.

Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provision for impairment of receivables already recorded.

Cash has been deposited in the financial institutions with no more than minimal exposure to the default risk at the time of account opening. The Board of Directors approved the list of banks for deposits, as well as rules for the placement of deposits. Moreover, the Company constantly evaluates the financial condition, ratings assigned by independent agencies, background and other factors.

The table in Note 9 shows the deposits with banks of the major counterparties and their ratings at the balance sheet date.

Liquidity risk. Prudent liquidity risk management includes maintaining sufficient cash and marketable securities, the availability of funding from an adequate amount of committed credit facilities. The Company adheres to the balanced model of financing of working capital – both at the expense of short-term sources and long-term sources. Temporarily free funds are placed into short-term financial instruments, mainly bank deposits and bills of exchange. Current liabilities are represented mainly by the account payable to suppliers and contractors.

The company has implemented a control system under its contract conclusion process by introduction and application of typical financial arrangements which include standardised payment structure, payment deadlines, percentage ratio between advance and final settlement, etc. In such a manner company control capital maturity.

The table below analyses the Group's financial liabilities (including interest accrued) 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 discounted balances (Note 16).

| | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | More than 5 years |
|----------------------------|---------------------|--------------------------|--------------------------|----------------------|
| At 31 December 2007 | | | | |
| Loans and borrowings | 753,435 | - | 5,825,791 | 11,432,752 |
| Promissory notes | 265,383 | - | - | - |
| Accounts payable | 1,936,193 | - | - | - |
| At 31 December 2006 | | | | |
| Loans and borrowings | 1,850,753 | - | 5,464,862 | 9,960,640 |
| Promissory notes | 872,613 | - | - | - |
| Accounts payable | 1,150,749 | - | - | - |

Reconciliation of classes of financial instruments with measurement categories

For the purposes of measurement, IAS 39, Financial Instruments: Recognition and Measurement, classifies financial assets into the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss (hereinafter referred to as "FVTPL"). The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2007:

| | Loans and receivables | Available-for- sale investments | Total |
|--|--------------------------|------------------------------------|-------------|
| ASSETS | | | |
| Other non-current assets (Note 8) | | | 334,318 |
| Long-term loans receivable | 210,324 | - | - |
| Available-for sale investments | - | 123,994 | - |
| Trade and other receivables (Note 10) | | | 24,457,364 |
| Trade receivables | 2,519,921 | - | - |
| Promissory notes receivable | 21,937,443 | - | - |
| Other current assets (Note 12) | | | 5,960,234 |
| Promissory notes | 5,960,234 | - | - |
| Cash and cash equivalents (Note 9) | | | 5,779,538 |
| Cash and cash equivalents | 5,779,538 | - | - |
| TOTAL FINANCIAL ASSETS | | | 36,531,454 |
| NON-FINANCIAL ASSETS | | | 241,304,519 |
| TOTAL ASSETS | | | 277,835,973 |

The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2006:

| | Loans and receivables | Available-for- sale investments | Total |
|--|--------------------------|------------------------------------|-------------|
| ASSETS | | | |
| Other non-current assets (Note 8) | | | 3,882,590 |
| Long-term loans receivable | 1,900,000 | - | - |
| Available-for sale investments | - | 1,982,590 | - |
| Trade and other receivables (Note 10) | | | 14,731,790 |
| Trade receivables | 943,865 | - | - |
| Promissory notes receivable | 13,787,925 | - | - |
| Other current assets (Note 12) | | | 1,135,307 |
| Promissory notes | 1,135,307 | - | - |
| Cash and cash equivalents (Note 9) | | | 5,571,987 |
| Cash and cash equivalents | 5,571,987 | - | - |
| TOTAL FINANCIAL ASSETS | | | 25,321,674 |
| NON-FINANCIAL ASSETS | | | 113,526,280 |
| TOTAL ASSETS | | | 138,847,954 |

All of the Group's financial liabilities as at 31 December 2007 and as at 31 December 2006 are carried at amortised cost.

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 24. Capital risk management

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

The following capital requirements have been established for joint stock companies by the legislation of the Russian Federation:

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

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

The Group'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.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings, as shown in the consolidated balance sheet, less cash. Total capital is calculated as equity, as shown in the consolidated balance sheet, plus net debt.

The Group's policy of capital risk management is based on the following financial ratios: net debt to EBITDA ratio, interest payments coverage by EBITDA, and net debt coverage by revenue.

The Group's strategy is to achieve net debt to EBITDA ratio not more than 4.0, interest payments coverage by EBITDA not more than 0.25, net debt coverage by revenue not more than 1.25.

The net debt to EBITDA ratios were 0.68 and 0.53 as at 31 December 2007 and 2006 respectively.

Interest payments coverage by EBITDA were 0.078 and 0.012 for year ended 31 December 2007 and 2006 respectively.

Net debt coverage by revenue were 0.26 and 0.52 as at 31 December 2007 and 2006 respectively.

Note 25. Commitments

Social commitments. Group entities contribute to the maintenance and upkeep of the local infrastructure and the welfare of its employees, including contributions toward the development and maintenance of housing, hospitals, transport services, recreation and other social needs in the geographical areas in which it operates.

Capital commitments. In May 2006 RAO UES, the Company and RUSAL Group concluded an agreement on the mutual financing, construction and exploitation of Boguchanskaya HPP and the Boguchansky Aluminium Plant (Note 2). The total investment to be contributed by the RusHydro and RUSAL Groups amounts to RR 132,123 million (USD 5,383 million). Both RusHydro Group and RUSAL Group has committed to finance the construction on a parity terms. The first line of Boguchanskaya HPP and Boguchansky Aluminium Plant is planned to be put into operation in the fourth quarter of 2009.

Other future capital expenditures in accordance with contractual obligations amounted to RR 7,572,807 thousand at 31 December 2007 (31 December 2006: RR 8,360,146 thousand).

Note 26. Contingencies

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

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

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

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

Due to the fact, that the tax and other legislation do not fully cover all the aspects of the Group reorganisation, there might be respective legal and tax risks.

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

Due to completion of the first stage of the Company's reorganisation in January 2008 in the form of the merger of 20 subsidiaries and associated companies, the Company is a legal successor for litigations of the subsidiaries and associated companies including those with tax authorities.

Environmental matters. Group entities and their predecessor entities have operated in the electric power industry in the Russian Federation for many years. The enforcement of environmental regulation in the Russian Federation is evolving 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.

Guarantees. The Company provided certain counterparties with guarantees in respect to the following amounts of borrowings taken by the Group's related parties:

| Name of counterparty | Debtor | Nature of relationship | 31 December 2007 | 31 December 2006 |
|----------------------------|----------------------------------|------------------------|------------------|------------------|
| BARCLAYS BANK PLC | CSJC Boguchansky Aluminium Plant | Joint venture | 6,712,212 | - |
| OJSC WGC-5* | OJSC Kaskad NCh HPPs | Subsidiary of RAO UES | 60,445 | 120,892 |
| OJSC WGC-2 | OJSC Kaskad NCh HPPs | Subsidiary of RAO UES | 58,334 | - |
| OJSC Novocherkasskaya GRES | OJSC Kaskad NCh HPPs | Subsidiary of RAO UES | 24,258 | 48,516 |
| Total: | | | 6,855,249 | 169,408 |

(*) in September 2007 OJSC WGC-5 was spun-off during the first stage of reorganisation of OJSC RAO UES of Russia. Therefore, it ceased to be a subsidiary of RAO UES of Russia.

In March 2007 the Company issued the guarantee for the loan of USD 520 million raised by OJSC Boguchansky Aluminium Plant to finance BEMA (Note 2). The loan period is 3 years, average interest rate is LIBOR + 0,825%. The managers and underwriters of the loan are ABN Amro, Barclays, Calyon and Sberbank of Russia. The raised borrowings are used for construction of Boguchansky Aluminium Plant and completion of Boguchanskaya HPP. The Company's guarantee provides for 50 percent of the borrower's liabilities under the loan agreement; the remaining 50 percent of liabilities are secured by the guarantee and surety provided by the RUSAL Group entities.

Note 27. Subsequent events

On 9 January 2008 the first stage of reorganisation was completed by merging of the Company with OJSC Volzhskaya HPP, OJSC Zhigulevskaya HPP, OJSC Votkinskaya HPP, OJSC Sayano-Shushenskaya HPP named after P.S. Neporozhny, OJSC Zeiskaya HPP, OJSC Sulakenergo, OJSC Zelenchukskie HPPs, OJSC KabbalkHPP, OJSC Dagestanskaya Regional Hydrogenerating Company, OJSC Stavropolskaya Generating Company, OJSC Zagorskaya HAEPP, OJSC Bureiskaya HPP, OJSC Severo-Osetinskaya Hydrogenerating Company, OJSC Cheboksarskaya HPP, OJSC Nizhegorodskaya HPP, OJSC Saratovskaya HPP, OJSC Kamskaya HPP, OJSC Kaskad VV HPPs, OJSC Kabardino-Balkarskaya Hydrogenerating Company, CJSC EOZ. During reorganisation the shares of the merged subsidiaries and associated companies were converted into the Company's shares. The shares of the subsidiaries and associated companies were converted into the Company's additional shares amounting to 38,996,122,959 shares at the date of making entries about the discontinuation of the above companies operations in the Unified State Register of Legal Entities as at 9 January 2008.

As a result of the additional share issue the Company's charter capital increased and as of 11 February 2008 amounted to 195,860,496,735 ordinary shares with nominal value of RR 1.

In February 2008 for the purposes of public circulation of ordinary shares at the Russian Stock Exchanges the Company's shares were subject to the stock exchange listing procedures with the major trade institutors at the Russian securities market: Moscow Interbank Currency Exchange (hereinafter referred to as "MICEX") and Russian Commodities and Raw Materials Exchange.

CJSC MICEX and Russian Commodities and Raw Materials Exchange started trading the Company's securities on 11 February 2008.

On 21 February 2008 the Company provided AREVA T&D S.A. with a guarantee under a contract for delivery of equipment and services for CJSC Boguchansky Aluminium Plant. The cost of the equipment and services under the contract amounts to Euro 78,161 thousand. The guarantee amounted to 50 percent of all current and future payment liabilities to AREVA T&D S.A.

On 14 April 2008 the Company and The Bank of New York signed the depositary agreement for the purpose of further placement of Global Depositary Receipts.

Kyoto Protocol

In May 2007 the Resolution on Practical Implementation of the Kyoto Protocol Mechanisms in Russia was signed by the Chairman of the Russian Federation Government. The Group entities will now be able to go ahead with about 96 Joint Implementation projects designed to improve the energy efficiency of its operations. Generated funds will be used to help modernize the existing generation capacity and build new generation capacity using the most advanced power equipment. As at 31 December 2007 only several preliminary contracts were signed by the Group companies. As of now there are no Joint Implementation agreements registered by authorised government body of the Russian Federation and the United Nations.

ОТЧЕТ НЕЗАВИСИМОГО АУДИТОРА

Акционерам и Совету директоров «Открытого акционерного общества
«Федеральная гидрогенерирующая компания ГидроОГК» (ОАО «РусГидро»):

Мы провели аудит прилагаемой комбинированной и консолидированной финансовой отчетности «Открытого акционерного общества «Федеральная гидрогенерирующая компания ГидроОГК» и его дочерних обществ (далее – «Группа»), которая включает бухгалтерский баланс по состоянию на 31 декабря 2007 года, отчет о прибылях и убытках, отчет о движении капитала и отчет о движении денежных средств за год, закончившийся на указанную дату, а также основные положения учетной политики и прочие примечания к финансовой отчетности.

Ответственность руководства за составление финансовой отчетности

Руководство Компании несет ответственность за составление и достоверное представление данной финансовой отчетности в соответствии с Международными стандартами финансовой отчетности. Эта ответственность включает: разработку, внедрение и поддержание системы внутреннего контроля, связанной с составлением и достоверным представлением финансовой отчетности, которая не содержит существенных искажений в результате ошибок или недобросовестных действий; выбор и применение надлежащей учетной политики; и использование обоснованных применительно к обстоятельствам бухгалтерских оценок.

Ответственность аудитора

Наша обязанность заключается в том, чтобы выразить мнение о представленной финансовой отчетности на основе проведенного нами аудита. Мы проводили аудит в соответствии с Международными стандартами аудита. Согласно этим стандартам мы должны следовать этическим нормам и планировать и проводить аудит таким образом, чтобы получить достаточную уверенность в том, что финансовая отчетность не содержит существенных искажений.

Аудит предусматривает проведение процедур, целью которых является получение аудиторских доказательств в отношении числовых данных и информации, содержащихся в финансовой отчетности. Выбор процедур основывается на профессиональном суждении аудитора, включая оценку рисков существенного искажения финансовой отчетности вследствие недобросовестных действий или ошибок. В процессе оценки вышеупомянутых рисков аудитор рассматривает систему внутреннего контроля, связанную с составлением и достоверным представлением финансовой отчетности компании с тем, чтобы разработать аудиторские процедуры,

необходимые в данных обстоятельствах, но не с целью выражения мнения об эффективности системы внутреннего контроля компании. Кроме того, аудит включает оценку уместности используемой учетной политики и обоснованности бухгалтерских оценок, сделанных руководством, а также оценку представления финансовой отчетности в целом.

Мы полагаем, что полученные нами аудиторские доказательства являются достаточными и надлежащими и дают нам основания для выражения мнения аудитора.

Мнение аудитора

По нашему мнению, прилагаемая финансовая отчетность во всех существенных аспектах достоверно отражает финансовое положение Группы по состоянию на 31 декабря 2007 года, а также ее финансовые результаты и движение денежных средств за год, закончившийся на указанную дату, в соответствии с Международными стандартами финансовой отчетности.

ЗАО "ПрайсвотерхаусКуперс Аудит"

Москва, Российская Федерация
26 июня 2008 года