

**OJSC Territorial Generation Company №11**

**Condensed combined interim financial statements  
prepared in accordance with International Financial Reporting Standards (IFRS)  
for the nine months ended 30 September 2007**

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**ZAO KPMG**  
Naberezhnaya Tower Complex, Block C  
18 Krasnopresnenskaya Naberezhnaya  
Moscow 123317  
Russia

Telephone +7 (495) 937 4477  
Fax +7 (495) 937 4400/99  
Internet www.kpmg.ru

## **Independent Auditors' Report**

To the Board of Directors of Open Joint-Stock Company  
Territorial Generation Company №11

### **Report on Review of the Interim Financial Information**

We have reviewed the accompanying condensed combined interim balance sheet of Open Joint-Stock Company Territorial Generation Company №11, Open Joint-Stock Company Omsk Electricity Generation Company, Joint-Stock Company Tomskenergo and their subsidiaries (the "Group") as at 30 September 2007, and the related condensed combined interim statements of income, changes in equity and cash flows for the nine-month period ended 30 September 2007 (the combined interim financial information). Management is responsible for the preparation and presentation of this combined interim financial information in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on this combined interim financial information based on our review.

#### *Scope of Review*

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

#### *Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the combined interim financial information as at 30 September 2007 and for the nine-month period ended 30 September 2007 is not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

**ZAO KPMG**

ZAO KPMG

5 February 2008

**OJSC Territorial Generation Company №11**  
*Condensed combined interim Balance Sheet as at 30 September 2007*  
*(in '000 RUR)*

	30 September 2007 (unaudited)	31 December 2006
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	7                      12 613 118	12 683 144
Trade and other receivables	170 060	20 360
Prepayments	284 120	4 814
Other assets	1 928	16 641
<b>Total non-current assets</b>	<b>13 069 226</b>	<b>12 724 959</b>
<b>Current assets</b>		
Inventories	731 853	614 807
Trade and other receivables	927 744	951 541
Income tax receivable	242 946	29 222
Prepayments	110 807	74 117
Other assets	22 949	14 030
Cash and cash equivalents	19 775	7 644
<b>Total current assets</b>	<b>2 056 074</b>	<b>1 691 361</b>
<b>TOTAL ASSETS</b>	<b>15 125 300</b>	<b>14 416 320</b>

**OJSC Territorial Generation Company №11**  
*Condensed combined interim Balance Sheet as at 30 September 2007*  
*(in '000 RUR)*

	Note	30 September 2007 (unaudited)	31 December 2006
<b>EQUITY AND LIABILITIES</b>			
Share capital	8	5 128 277	5 128 277
Additional paid-in capital		125 590	-
Retained earnings		5 457 477	5 591 057
<b>Total equity</b>		<b>10 711 344</b>	<b>10 719 334</b>
<b>Non-current liabilities</b>			
Employee benefits		266 777	251 996
Provisions		287 324	250 714
Loans and borrowings	9	31 875	10 725
Deferred tax liabilities		939 560	1 110 745
<b>Total non-current liabilities</b>		<b>1 525 536</b>	<b>1 624 180</b>
<b>Current liabilities</b>			
Loans and borrowings	9	1 278 908	357 145
Provisions		106 001	137 487
Trade and other payables		1 180 480	1 335 242
Income tax payable		944	10 741
Advances from customers		322 087	232 191
<b>Total current liabilities</b>		<b>2 888 420</b>	<b>2 072 806</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>15 125 300</b>	<b>14 416 320</b>

General Director

Kozhemyako S.I.

Chief Accountant

Chizhenko I.V.



*(Handwritten signatures in blue ink)*

**OJSC Territorial Generation Company №11**  
*Condensed combined interim Income Statement for the nine months ended 30 September 2007*  
*(in '000 RUR)*

	<b>Note</b>	<b>Nine months ended 30 September 2007 (unaudited)</b>	<b>Nine months ended 30 September 2006 (unaudited)</b>
Revenue		8 770 646	8 683 388
Other operating income		81 644	93 908
Operating expenses		(9 016 848)	(8 701 693)
<b>(Loss)/ profit from operating activities</b>		<b>(164 558)</b>	<b>75 603</b>
Financial income		13 431	19 206
Financial expenses		(131 402)	(73 491)
<b>(Loss)/ profit before income tax</b>		<b>(282 529)</b>	<b>21 318</b>
Income tax		190 895	(25 911)
<b>Loss for the period</b>		<b>(91 634)</b>	<b>(4 593)</b>
<b>Loss per share</b>	<b>8</b>	<b>(0.00018) RUR</b>	<b>(0.00001) RUR</b>

**OJSC Territorial Generation Company №11**  
*Condensed combined interim Statement of Cash Flows for the nine months ended 30 September 2007*  
*(in '000 RUR)*

	<b>Nine months ended 30 September 2007 (unaudited)</b>	<b>Nine months ended 30 September 2006 (unaudited)</b>
<b>OPERATING ACTIVITIES</b>		
<b>(Loss)/ profit before income tax</b>	(282 529)	21 318
<i>Adjustments for:</i>		
Depreciation and impairment	655 403	562 444
Loss on disposal of property, plant and equipment	60 618	29 986
Provision for inventory obsolescence	-	22 464
Allowance for impairment of accounts receivable	(28 077)	174 406
Other provisions	(31 487)	26 614
Financial income	(13 431)	(19 206)
Financial expenses	131 402	73 491
Adjustments for other non-cash transactions	(78 199)	(94 785)
<b>Operating profit before changes in working capital, income taxes and interest paid</b>	<b>413 700</b>	<b>796 732</b>
<i>Changes in working capital:</i>		
(Increase)/ decrease in trade and other receivables	(136 533)	13 756
Increase in inventories	(117 046)	(166 466)
(Increase) /decrease in other current and non-current assets	(30 272)	313 591
Decrease in trade and other payables	(200 897)	(379 375)
Increase/ (decrease) in other current and non-current liabilities	89 896	(37 938)
<b>Cash flows from operating activities before income taxes and interest paid</b>	<b>18 848</b>	<b>540 300</b>
Interest paid	(37 760)	(35 765)
Income taxes paid	(259 906)	(273 192)
<b>Net cash flows from operating activities</b>	<b>(278 818)</b>	<b>231 343</b>

**OJSC Territorial Generation Company №11**  
*Condensed combined interim Statement of Cash Flows for the nine months ended 30 September 2007*  
*(in '000 RUR)*

	Note	Nine months ended 30 September 2007 (unaudited)	Nine months ended 30 September 2006 (unaudited)
<b>INVESTING ACTIVITIES</b>			
Acquisition of property, plant and equipment		(743 934)	(530 242)
Proceeds from sale of property, plant and equipment		35 144	29 521
Other		271	90
<b>Net cash flows used in investing activities</b>		<b>(708 519)</b>	<b>(500 631)</b>
<b>FINANCING ACTIVITIES</b>			
Proceeds from loans and borrowings		6 208 628	4 491 887
Repayment of loans and borrowings		(5 282 071)	(4 138 305)
Dividends paid		(52 116)	(52 751)
Proceeds from formation of the Group	8	125 590	-
Other		(563)	-
<b>Net cash flows from financing activities</b>		<b>999 468</b>	<b>300 831</b>
<b>Net increase in cash and cash equivalents</b>		<b>12 131</b>	<b>31 543</b>
Cash and cash equivalents at beginning of period		7 644	16 595
<b>Cash and cash equivalents at end of period</b>		<b>19 775</b>	<b>48 138</b>



**OJSC Territorial Generation Company №11**  
*Condensed combined interim Statement of Changes in Equity for the nine months ended 30 September 2007*  
*(in '000 RUR)*  
*(unaudited)*

	<u>Share capital</u>	<u>Additional paid-in capital</u>	<u>Retained earnings</u>	<u>Total equity</u>
<b>At 1 January 2006</b>	5 128 277	-	5 348 049	<b>10 476 326</b>
Loss for the period	-	-	(4 593)	<b>(4 593)</b>
Total recognised expense				<b>(4 593)</b>
Dividends to shareholders	-	-	(23 884)	<b>(23 884)</b>
<b>At 30 September 2006</b>	<b>5 128 277</b>	<b>-</b>	<b>5 319 572</b>	<b>10 447 849</b>
<b>At 1 January 2007</b>	5 128 277	-	5 591 057	<b>10 719 334</b>
Loss for the period	-	-	(91 634)	<b>(91 634)</b>
Total recognised expense				<b>(91 634)</b>
Results from formation of the Group (Note 8)	-	125 590	-	<b>125 590</b>
Dividends to shareholders	-	-	(41 946)	<b>(41 946)</b>
<b>At 30 September 2007</b>	<b>5 128 277</b>	<b>125 590</b>	<b>5 457 477</b>	<b>10 711 344</b>

The Condensed combined interim Statement of Changes in Equity is to be read in conjunction with the notes to and forming part of the condensed combined interim financial statements set out on pages 9 to 18.

## 1 Background

### (a) The Group and its operations

OJSC Territorial Generation Company No.11 (hereinafter “TGK-11”) was established on 26 August 2005 in the framework of the reform of the Russian power sector and accordance with the decision taken by the Management Board of OJSC RAO UES of Russia on 1 July 2005 (Minutes No. 199) and Directive No.195p of the Management Board Chairman of OJSC RAO UES of Russia of 22 August 2005.

The registered office of TGK-11 is located at 55 Krasny prospect, Novosibirsk, 630091, Russia.

As of 30 September 2007 the OJSC Territorial Generation Company No.11 Group (hereinafter the “Group”) comprises TGK-11, regional generation companies JSC Tomskenergo and OJSC Omsk Electricity Generation Company and their subsidiaries.

For the purposes of combined financial statements, as at 30 September 2007 and 31 December 2006 the following subsidiaries of the regional generation companies are included in the Group:

	Ownership, %
OJSC Production and Repairs Enterprise Omskenergoremont	100
OJSC Engineering and Construction Company	100
OJSC Energoservis	100

The Group’s main operating activity is electricity and heat generation.

### (b) Formation of the Group

TGK-11 was established as a 100% owned subsidiary of OJSC RAO UES of Russia.

OJSC Omsk Electricity Generation Company (hereinafter “OEGK”) was established on 3 August 2005 as a result of reorganisation of OJSC Omskenergo through a spin-off as a separate legal entity. The generation and heat network assets of OJSC Omskenergo were transferred to OEGK. At the date of registration OJSC RAO UES of Russia was the OEGK’s controlling shareholder with 60.39 % interest.

JSC Tomskenergo (hereinafter “Tomskenergo”) was established as a subsidiary of OJSC RAO UES of Russia on 17 March 1993. On 30 March 2005 Tomskenergo was reorganized through a spin-off of separate legal entities OJSC Tomskaya Electricity Distribution Company, OJSC Tomskaya Raspredelitelnaya Company, OJSC Tomskie Magistralnye Seti, OJSC Tomskaya Energoupravlyauschaya Company, OJSC Tomskenergoremont, OJSC Tomskelectroremont. As a result Tomskenergo has retained its generation and heat network assets. At the date of reorganisation OJSC RAO UES of Russia was the Tomskenergo’s controlling shareholder with 59.88% interest.

The reorganization was completed when the Group was formed on 1 November 2007 as result of the merger of OEGK and Tomskenergo with TGK-11 in accordance with the resolution of the Board of Directors of OJSC RAO UES of Russia dated 22 June 2007 (Minutes No. 254), resolution of the OEGK’s extraordinary shareholders meeting dated 24 August 2007 (Minutes No. 2 as of

29 August 2007) and resolution of the Tomskenergo's extraordinary shareholders meeting dated 24 August 2007 (Minutes No. 23 as of 29 August 2007).

The merger was effected through conversion of OEGK and Tomskenergo shares into the additionally issued shares of TKG-11. The structure of the share capital of TKG-11 after the conversion is as follows: OJSC RAO UES of Russia owns 50.46% shares, OJSC Sibirskaya Coal Power Company (hereinafter "SUEK") – 31.92% shares, and the remaining 17.62% shares are owned by other minority shareholders.

**(c) Russian business environment**

The Russian Federation has been experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks that typically do not exist in other markets. The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

## **2 Basis of preparation**

**(a) Statement of compliance**

These condensed combined interim financial statements for the nine months ended 30 September 2007 (hereinafter "Financial Statements") have been prepared in accordance with International Financial Reporting Standard 34 (IAS 34) *Interim Financial Reporting*.

These Financial Statements do not include all of the information required for full annual financial statements, and should be read in conjunction with the preliminary combined financial statements of the Group as at and for the year ended 31 December 2006.

**(b) Basis of measurement**

These Financial Statements are prepared on the historical cost basis except that property, plant and equipment was revalued to determine a deemed cost as part of the adoption of IFRSs.

**(c) First-time adoption of IFRS**

The Group companies' individual financial statements for all the preceding periods, including the year ended 31 December 2006 were prepared in accordance with Russian accounting rules. The Group will prepare its first complete set of IFRS consolidated financial statements as at and for the year ended 31 December 2007.

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

The Group elected to determine the fair value of the property, plant and equipment as at 1 January 2006 using an independent appraisal. This fair value was used as the deemed cost at the date of transition to IFRS.

**(d) Combined financial statements**

Since the formation of the Group was completed on 1 November 2007 (see Note 1 (b)), the Group prepared combined financial statements as at 30 September 2007 and 31 December 2006, which include the financial position and results of operations of OEGK, Tomskenergo and their subsidiaries as the companies under common control of OJSC RAO UES of Russia. These Financial Statements are prepared in accordance with the Group accounting policies in respect of business combinations involving entities under common control on the assumption that the formation of the Group was completed as at 1 January 2006.

**(e) Functional and presentation currency**

The national currency of the Russian Federation is the Russian rouble (RUR), which is the Group's functional currency and the currency in which these Financial Statements are presented.

All financial information in these Financial Statements presented in RUR has been rounded to the nearest thousand.

**(f) Use of estimates and judgments**

For the purposes of preparing these Financial Statements pursuant to IFRS, Group management made a number of estimates and judgments in respect of assets, liabilities, income, expenses and contingent assets and liabilities. Estimates and judgments are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The eventual actual amounts could differ from such estimates.

Judgments, estimates and assumptions made by the Group's management to prepare these Financial Statements correspond to the judgments, estimates and assumptions made in the preparation of the preliminary combined financial statements of the Group as at and for the year ended 31 December 2006.

### **3 Significant accounting policies**

The accounting principles used in preparing these Financial Statements correspond to the principles used in the preparation of the preliminary combined financial statements of the Group as at and for the year ended 31 December 2006.

### **4 Segment reporting**

The Group comprises the following business segments:

- *Generation* - is represented by heat and electricity activities of the TGK-11, OEGK and Tomskenergo;
- *Construction and repair* – is represented by the activities of the Group's subsidiaries OJSC Production and Repairs Enterprise Omskenergoremont, OJSC Engineering and Construction Company, OJSC Energoservis.

The Group's management considers that *Construction and repair* is not a reportable segment as it earns a majority of its revenue from sales to other segments of the Group and its revenue, profit and

assets do not exceed ten percent of the Group's revenue, profit and assets. For the nine months ended 30 September 2007 the total revenue of *Construction and repair* segment amounted to RUR 677 153 thousand (for the nine months ended 30 September 2006 – RUR 685 721 thousand), including revenue from sales to external customers - RUR 136 947 thousand (for the nine months ended 30 September 2006 – RUR 51 041 thousand).

The Group operates in Tomsk and Omsk regions of the Russian Federation. The Group does not have separate geographical segments since the sources and nature of risks are common across the regions of the Group's operating activities.

## **5 Seasonality of operations**

Demand for electricity and heat is influenced by both the season of the year and the relative severity of the weather. Revenues from heating are concentrated within the months of October to March. A similar, though less severe, concentration of electricity sales occurs within the same period. The seasonality of electricity and heat production has a corresponding impact on the usage of fuel and the purchase of power.

Furthermore, during the periods of lower production from April to September, there is an increase in the expenditures on repairs and maintenance. This seasonality does not impact the revenue or cost recognition policies of the Group.

## **6 Income tax**

Operations in the Russian Federation are subject to Federal income tax rate that totals 6,5% and a regional income tax rate that varies from 13,5% to 17,5% at the discretion of the individual regional administration. The combined statutory tax rate in the Russian Federation is 24%.

The effective income tax rate differs from 24% as result of the tax effect of items which are not deductible for taxation purposes and reversal of overaccrued income tax in the nine months ended 30 September 2007 for RUR 127 643 thousand (for the nine months ended 30 September 2006 – additional accrual of income tax for RUR 13 395 thousand).

## **7 Property, plant and equipment**

During the nine months ended 30 September 2007, the Group acquired assets with a cost of RUR 695 565 thousand (for the nine months ended 30 September 2006 - RUR 679 153 thousand).

Assets with a carrying amount of RUR 110 187 thousand were disposed of during the nine months ended 30 September 2007 (for the nine months ended 30 September 2006 - RUR 59 507 thousand), resulting in a loss on disposal of RUR 60 618 thousand (for the nine months ended 30 September 2006 - RUR 29 986 thousand). This loss is included in "operating expenses".

As at 30 September 2007 the Group has outstanding commitments under contracts for the purchase and construction of property, plant and equipment of RUR 387 563 thousand (as at 31 December 2006 – RUR 201 292 thousand).

## 8 Equity

### (a) Share capital

Formation of the Group was completed on 1 November 2007 (see Note 1(b)) through conversion of OEGK and Tomskenergo shares into an additionally issued 511 827 729 472 ordinary shares of TGK-11 as follows:

- 280/6745 of ordinary shares of Tomskenergo with par value of RUR 1.00 were converted into one additionally issued ordinary share of TGK-11 with par value of RUR 0.01;
- 280/6177 of preference shares of Tomskenergo with par value of RUR 1.00 were converted into one additionally issued ordinary share of TGK-11 with par value of RUR 0.01;
- 280/26708574 of ordinary shares of OEGK with par value of RUR 1 516.40 were converted into one additionally issued ordinary share of TGK-11 with par value of RUR 0.01;
- 280/24459712 of preference shares of OEGK with par value of RUR 1 516.40 were converted into one additionally issued ordinary share of TGK-11 with par value of RUR 0.01.

For the purpose of the preparation of these Financial Statements the Group's share capital is shown in the amount of TGK-11's share capital after the merger of OEGK and Tomskenergo: as at 30 September 2007 and 31 December 2006 it equals RUR 5 128 277 thousand (512 827 729 472 ordinary shares with par value of RUR 0.01).

### (b) Declared dividends

Distribution and other use of profit are based on the Group companies financial statements prepared in accordance with Russian accounting principles. Under the Russian legislation retained earnings is the basis of distribution. In the financial statements prepared in accordance with Russian accounting principles as at 30 September 2007 the Group companies reported net loss of RUR 371 607 thousand (as at 30 September 2006 – RUR 99 260 thousand) and accumulated losses of RUR 51 882 thousand (as at 31 December 2006 the Group companies reported retained earnings of – RUR 358 007 thousand).

During the nine months ended 30 September 2007 the Group declared dividends for 2006 financial year in the amount of RUR 6 946 thousand including, OEGK – RUR 6.135118 per preference share in the amount of RUR 5 017 thousand and Tomskenergo – RUR 0.0033449 per preference share in the amount of RUR 1 929 thousand.

During the nine months ended 30 September 2007 OEGK declared interim dividends for the first quarter of 2007 in the amount of RUR 35 000 thousand based on RUR 8.069853 per share.

During the nine months ended 30 September 2006 the Group companies declared and paid dividends for 2005 financial year in the amount of RUR 3.932 per ordinary share amounting to RUR 23 884 thousand.

### (c) Earnings per share

Earnings per share are calculated by dividing the net profit (loss) attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

	Nine months ended 30 September 2007 (unaudited)	Nine months ended 30 September 2006 (unaudited)
Weighted average number of ordinary shares outstanding	512 827 729 472	512 827 729 472
Loss for the period attributable to shareholders	(91 634)	(4 593)
Loss per share (RUR): basic	<b>(0.00018)</b>	<b>(0.00001)</b>

**(d) Results from formation of the Group**

During the nine months ended 30 September 2007 the Group received RUR 125 590 thousand as a result of disposal Tomskenergo and OEGK subsidiaries (OJSC Sotcsfera for RUR 118 928 thousand and OJSC Energoteplokontrol for RUR 6 662 thousand). These entities were not included in the Group for the purposes of the preparation of the combined financial statements, therefore the proceeds were recognized as an increase of additional paid-in capital in the Financial Statements.

**9 Loans and borrowings**

The table below provides summarized financial information about the Group's loans and borrowings.

	Currency	Effective interest rate (annual)	Maturity	30 September 2007	31 December 2006
<i>Non-current liabilities</i>					
Long-term bank loan	RUR	9,5%	2008	5 007	-
Finance lease	RUR	11,69%	2009	26 868	10 725
				<b>31 875</b>	<b>10 725</b>
<i>Current liabilities</i>					
Short-term bank loans	RUR	7% - 14%	2008	1 261 153	339 153
Finance lease	RUR	11,69%	2008	17 755	17 992
				<b>1 278 908</b>	<b>357 145</b>

All of these bank loans bear a fixed interest rate.

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

As at 30 September 2007 short-term bank loans are mainly represented by the following credit lines obtained for financing of operating activities:

- A credit line with OJSC BankUralSib with a credit limit of RUR 370 000 thousand available for a period from April 2007 to November 2008. As at 30 September 2007, the outstanding balance under this credit line is RUR 370 000 thousand which bears a fixed interest rate ranging

from 8.7% to 9.5% per annum. Borrowings under this credit line are collateralized by inventory.

- A credit line with CJSC Gasprombank with a credit limit of RUR 480 000 thousand available for a period from May 2007 to May 2008. As at 30 September 2007, the outstanding balance under this credit line is RUR 445 582 thousand which bears a fixed interest rate ranging from 7% to 9.2% per annum.
- A credit line with OJSC Vneshtorgbank with a credit limit of RUR 140 000 thousand available for a period from from September 2007 to October 2007. As at 30 September 2007, the outstanding balance under this credit line is RUR 140 000 thousand which bears a fixed interest rate of 14% per annum. Borrowings under this credit line are collateralized by inventory.
- A credit line with OJSC Sberbank of Russia with a credit limit of RUR 150 000 thousand available for a period from July 2007 to January 2008. As at 30 September 2007, the outstanding balance under this credit line is RUR 150 000 thousand which bears a fixed interest rate of 9% per annum. Borrowings under this credit line are collateralized by inventory.

As at 30 September 2007 long-term bank loan is represented by the outstanding balance under the loan agreement with OJSC Sberbank of Russia that matures in October 2008 and bears a fixed rate of 9.5% per annum. The loan is obtained for financing of operating activities and is collateralized by inventory.

As at 30 September 2007 bank loans are secured by the inventory with a collateral value of RUR 652 206 thousand (as at 31 December 2006 -RUR 527 943 thousand).

## **10 Financial instruments and financial risks**

The Group's activities expose it to a variety of financial risks, including credit risk, liquidity risk and market risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group does not hedge its exposure to such risks.

During the nine months ended 30 September 2007 there were no material changes in these risks and in the Group's financial risk management policies which are disclosed in the combined preliminary financial statements as at and for the year ended 31 December 2006.

## **11 Contingencies and commitments**

### **(a) Insurance**

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



**(b) 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 other current legal proceedings or other claims outstanding, which, upon final disposition, will have a material adverse effect on the financial position of the Group.

**(c) Taxation**

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

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

The companies spun off from OJSC Omskenergo after reorganization (OEGK, OJSC Omskaya energosbytovaya kompaniya and OJSC Omskaya magistralnaya setevaya kompaniya) have joint responsibility with OJSC Omskenergo for contingent liabilities that relate to periods prior to 3 August 2005, if any. OEGK's share in these liabilities is 79.21%.

As a result of tax reviews of OJSC Omskenergo for 2003 and 2004, it has been charged with additional taxes, penalties and interest in the amount of RUR 904 533 thousand of which the OEGK's share is RUR 716 481 thousand. These charges primarily relate to income tax and VAT and are currently disputed by OJSC Omskenergo with tax authorities in the court. Group management has created a provision in relation to additional accruals amounting to RUR 214 698 thousand expected to be settled in 2009. The carrying value of this provision as at 30 September 2007 is RUR 174 481 thousand (as at 31 December 2006 – RUR 156 481 thousand). Group management has not provided for the remaining exposure amounting to RUR 501 783 thousand, as it believes that it is possible but not probable, that an outflow of economic benefits will be required to settle these obligations.

Tax review of OJSC Omskenergo for 2005 has not been completed yet. Management has determined that it is impracticable to estimate the potential financial effect of additional contingent liability, if any.

**(d) Environmental liabilities**

Group companies have operated in energy industry of the Russian Federation for many years. Environmental regulations are currently under consideration in the Russian Federation and the related decisions of the regulatory authorities are frequently changing. The Group companies evaluate their environmental obligations on a regular basis.

The potential amount of liabilities relating to environmental obligations under proposed or any future legislation and dispute regulation cannot be reasonably estimated at present and could become material. Under existing legislation management believes that there are no significant unrecorded environmental liabilities.

## 12 Related-party disclosures

OJSC RAO UES of Russia is the parent company of TGK-11. The party with ultimate control over TGK-11 is the Russian Federation, which holds the majority of the voting rights in OJSC RAO UES of Russia. OJSC RAO UES of Russia produces consolidated financial statements that are publicly available.

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

The following tables provide the total amount of the Group's transactions with the related parties:

<b>Related parties</b>	<b>Sales/ purchases from related parties</b>	<b>Sales to related parties for the nine months ended 30 September 2007</b>	<b>Purchases from related parties for the nine months ended 30 September 2007</b>	<b>Sales to related parties for the nine months ended 30 September 2006</b>	<b>Purchases from related parties for the nine months ended 30 September 2006</b>
Subsidiaries of OJSC RAO UES of Russia	energy, sales of inventory, property, plant and equipment, services	3 062 950	383 825	3 310 529	497 160
Subsidiaries of OJSC "Rossiskie kommunalnye systemy"	energy, services, repair	365 845	15 749	859 312	10 129
OJSC SUEK	energy, services	1 676	44 928	505	87 801
OJSC SUEK	dividends	-	387	-	-
State controlled entities	energy, services, repair, construction	1 165 173	759 218	1 096 361	618 164

<b>Related parties</b>	<b>Amounts owed by related parties at 30 September 2007</b>	<b>Amounts owed by related parties at 31 December 2006</b>	<b>Amounts owed to related parties at 30 September 2007</b>	<b>Amounts owed to related parties at 31 December 2006</b>
Subsidiaries of OJSC RAO UES of Russia	114 082	35 960	5 217	128 066
Subsidiaries of OJSC “Rossiskie kommunalnye systemy”	379 834	526 075	161 791	1 101
OJSC SUEK	355	-	9 881	15 500
State controlled entities	120 463	360 814	95 446	143 350
Key management of the Group and OJSC RAO UES of Russia	6 929	9 038	-	2 636

***Terms and conditions of related-party transactions***

Related party sales of heat and electric power are based on prices determined by the government; other related party transactions are based on normal market prices. Outstanding balances at the end of reporting periods are unsecured, interest free and settlement occurs mainly in cash.

***Management remuneration***

	<b>Nine months ended 30 September 2007</b>	<b>Nine months ended 30 September 2006</b>
Salary and other short-term benefits	47 967	36 723

**13 Subsequent events**

At TGK-11’s extraordinary shareholders meeting on 10 December 2007 (Minutes No.1 dated 11 December 2007) the authorised share capital was increased by 181 000 000 000 ordinary shares with the par value of RUR 0.01 each.