TGC-2 GROUP
CONDENSED COMBINED AND CONSOLIDATED INTERIM FINANCIAL INFORMATION PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) FOR THE SIX MONTHS ENDED 30 JUNE 2007

(UNAUDITED)

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REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

To the Shareholders and the Board of Directors of Open Joint Stock Company "Territorial Generating Company # 2" (OJSC "TGC-2"):

Introduction

We have reviewed the accompanying condensed combined and consolidated interim balance sheet of OJSC "TGC-2" and its subsidiary (the "Group") as of 30 June 2007 and the related condensed combined and consolidated interim statements of income, changes in equity and cash flows for the six-month period then ended. Management is responsible for the preparation and presentation of this condensed combined and consolidated interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review. Management did not issue condensed combined and consolidated interim financial information in 2006 and hence we did not perform a review of interim financial information as of and for the six-month period ended 30 June 2006.

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 accompanying condensed combined and consolidated interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

Emphasis of Matters

Without qualifying our report, we draw your attention to Note 2 to the condensed combined and consolidated interim financial information. Management has withdrawn the previously issued condensed combined and consolidated interim financial information to reflect a revision identified by management to the allocation of the revalued property, plant and equipment in the Group's property plant and equipment register as at 01 January 2007. The condensed combined and consolidated interim financial information as previously reported by the Group has been revised to adjust for this matter. Consequently, our auditor's review report dated 21 January 2008 which we have issued on those condensed combined and consolidated interim financial information should no longer be relied upon.

Without qualifying our report, we also draw your attention to Notes 1 and 7 to the accompanying condensed combined and consolidated interim financial information. The Government of the Russian Federation had ultimate control of the Group and Governmental economic and social policies affect the Group's financial position, results of operations and cash flows.

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation

22 July 2008

TGC-2 Group
Condensed Combined and Consolidated Interim Balance Sheet (UNAUDITED) as at 30 June 2007

(in thousands of Russian Roubles)

	Note	30 June 2007	31 December 2006
Non-current assets			
Property, plant and equipment	8	23,612,208	16,695,862
Other non-current assets		263,437	289,436
Total non-current assets		**23,875,645**	**16,985,298**
Current Assets			
Cash and cash equivalents		73,235	121,323
Accounts receivable and prepayments		3,241,374	2,222,788
Income tax prepayment		162,148	102,980
Inventories		1,587,549	1,929,848
Other current assets		-	1,432
Total current assets		**5,064,306**	**4,378,371**
TOTAL ASSETS		**28,939,951**	**21,363,669**
EQUITY AND LIABILITIES			
Share capital	9	11,124,969	7,117,127
Merger reserve	9	(2,750,197)	(335,453)
Other reserves	8,9	7,355,775	-
Retained earnings/(loss)		2,529,279	2,923,874
Equity attributable to parent company		**18,259,826**	**9,705,548**
Minority interest		-	1,771,420
Total equity		**18,259,826**	**11,476,968**
Non-current Liabilities			
Deferred income tax liabilities	10	3,418,460	1,422,691
Non-current borrowings	12	670,000	-
Pension liabilities	11	345,369	198,268
Other non-current liabilities		8,293	9,665
Total non-current liabilities		**4,442,122**	**1,630,624**
Current liabilities			
Current borrowings and current portion of non-current borrowings	12	4,463,419	6,074,231
Accounts payable and accrued liabilities		1,463,224	1,779,768
Income tax payable		-	6,330
Other taxes payable		311,360	395,748
Total current liabilities		**6,238,003**	**8,256,077**
Total liabilities		**10,680,125**	**9,886,701**
TOTAL EQUITY AND LIABILITIES		**28,939,951**	**21,363,669**

General Director A.A. Vagner

Chief Accountant Y.V. Ivanova

21 July 2008

TGC-2 Group
Condensed Combined and Consolidated Interim Income Statement (UNAUDITED) for six months ended 30 June 2007
(in thousands of Russian Roubles)

	Notes	Six months ended 30 June 2007	Six months ended 30 June 2006
Revenues			
Sales of electricity		5,091,106	3,219,596
Sales of heating		5,768,481	4,745,468
Other sales		475,288	319,523
Total revenues		**11,334,875**	**8,284,587**
Operating expenses	13	(10,462,456)	(9,039,994)
Other operating income	14	71,511	20,397
Revaluation write down	8	(1,566,891)	-
Operating Loss		**(622,961)**	**(735,010)**
Finance costs		(276,466)	(152,023)
Loss before income tax		**(899,427)**	**(887,033)**
Income tax charge	10	(191)	(58,848)
Deferred income tax	10	327,108	192,716
Loss for six months		**(572,510)**	**(753,165)**
Profit/(loss) attributable to:			
Parent company shareholders		(394,188)	(370,407)
Minority interest		(178,322)	(382,758)
Weighted average earnings per ordinary and preference share – basic and diluted (in RR)		(0.001)	(0.002)

General Director A.A. Vagner

Chief Accountant Y.V. Ivanova

21 July 2008

TGC-2 Group
Condensed Combined and Consolidated Interim Cash Flow Statement (UNAUDITED) for six months ended 30 June 2007
(in thousands of Russian Roubles)

	Notes	Six month ended 30 June 2007	Six month ended 30 June 2006
CASH FLOW FROM OPERATING ACTIVITIES:			
Loss before income tax		**(899,427)**	**(887,034)**
Adjustments to reconcile profit before income tax and net cash from operating activities:			
Depreciation of property, plant and equipment	8.13	1,563,135	323,247
Provision for impairment of accounts receivable	13	(374,974)	44,113
Write off accounts receivable	13	21,921	3,088
Finance costs		261,827	144,759
Loss / (gain) on discounting of non-current accounts receivable	14	(41,469)	10,033
Loss on disposal of subsidiaries		5,330	-
Charge of post-employment benefits obligations	11	14,638	7,264
Loss on disposal of property, plant and equipment		3,114	8,718
Impairment of fixed assets	8	1,566,891	-
Other income		(22,005)	(397)
Operating cash flows before working capital changes		**2,098,981**	**(346,209)**
Working capital changes:			
(Increase)/decrease in accounts receivable		(647,476)	4,081
Decrease/(increase) in inventories		346,407	(164,594)
(Decrease)/increase in accounts payable and accrued liabilities		(319,556)	801,958
Decrease/(increase) in other non-current assets		67,468	(393,988)
Increase/(decrease) in other non-current liabilities		144,299	(18,653)
(Decrease) in taxes payable other than income tax		(84,388)	(255,102)
Income tax paid		(45,327)	(232,880)
Net cash generated by / (used for) operating activities		**1,560,408**	**(605,387)**
CASH FLOW FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(416,160)	(459,371)
Proceeds from sales of property, plant and equipment		181	7,240
Proceeds from disposals of subsidiaries		34,399	-
Interest received		332	1,580
Net cash used for investing activities		**(381,248)**	**(450,551)**
CASH FLOW FROM FINANCING ACTIVITIES:			
Proceeds from borrowings		5,147,833	4,891,722
Repayment of borrowings		(6,101,840)	(3,746,004)
Interest paid		(266,242)	(143,912)
Leasing payments		(6,999)	(15,201)
Dividends paid		-	(18,468)
Net cash (used for) / generated by financing activities		**(1,227,248)**	**968,137**
Decrease in cash and cash equivalents		**(48,088)**	**(87,801)**
Cash and cash equivalents at the beginning of six months		**121,323**	**126,882**
Cash and cash equivalents at the end of six months		**73,235**	**39,081**

General Director A.A. Vagner

ОТКРЫТОЕ АКЦИОНЕРНОЕ ТЕРРИТОРИАЛЬНАЯ ГЕНЕРИРУЮЩ... ТГК-2

Chief Accountant Y.V. Ivanova

21 July 2008

TGC-2 Group

Combined and Consolidated Statement Of Changes In Equity for the year ended 31 December 2007

(in thousands of Russian Roubles)

	Attributable to the parent's shareholders					Minority interest	Total Equity
	Share capital	Merger reserve	Retained earnings	Other reserve	Total		
At 1 January 2006	**10,000**	**4,286,220**	**(210,651)**	**-**	**4,085,569**	**4,413,355**	**8,498,924**
Loss for six months	-	-	(370,407)	-	(370,407)	(382,758)	(753,165)
Dividends (Note 9)	-	-	(176,249)	-	(176,249)	(182,127)	(358,376)
Issuance of shares (Note 9)	7,107,127	(4,540,712)	-	-	2,566,415	(2,566,415)	-
At 30 June 2006	**7,117,127**	**(254,492)**	**(757,307)**	**-**	**6,105,328**	**1,282,055**	**7,387,383**
At 1 January 2007	**7,117,127**	**(335,453)**	**2,923,874**	**-**	**9,705,548**	**1,771,420**	**11,476,968**
Revaluation of property, plan end equipment (Note 8)	-	-	-	6,540,866	6,540,866	814,909	7,355,775
Loss for six months	-	-	(394,188)	-	(394,188)	(178,322)	(572,510)
Dividends (Note 9)	-	-	(407)	-	(407)	-	(407)
Issuance of shares (Note 9)	4,007,842	(2,414,744)	-	814,909	2,408,007	(2,408,007)	-
At 30 June 2007	**11,124,969**	**(2,750,197)**	**2,529,279**	**7,355,775**	**18,259,826**	**-**	**18,259,826**

General Director A.A. Vagner

Chief Accountant Y.V. Ivanova

21 July 2008

(in thousands of Russian Roubles)

Note 1. The Group and its operations

Open Joint-Stock Company "Territorial Generating Company-2" ("TGC-2") was established on 19 April 2005 within the framework of Russian electricity sector restructuring in accordance with the Resolution of the Board of directors of RAO UES (minutes No. 188 of 25 February 2005) and Instruction of the Chairman of the Management Board of OJSC RAO UES of Russia (minutes No. 93 of 18 April 2005).The structure and principles of foundation of TGC-2 were adopted by the Board of Directors of RAO UES on 23 April 2004 (Resolution No. 168).

In accordance with the above Resolution:

- On 19 April 2005 TGC-2 was established;
- On 13 April 2006 the RAO UES Board of Directors approved the share conversion ratios estimated by independent valuators for the regional generating companies (hereinafter – RGC's) being merged into and with TGC-2;
- On 27, 28 February, 09, 13 and 27 March and 10 April 2006 TGC-2 and six of the RGC's held general shareholders' meetings at which the decisions were taken on reorganization of TGC-2 in the form of a merger with OJSC Arkhangelskaya Generating Company (Arkhangelskaya GC), OJSC Yaroslavskaya Energy Company (Yaroslavskaya EC), OJSC Tverskaya Generating Company (Tverskaya GC), OJSC Novgorodskaya Generating Company (Novgorodskaya GC), OJSC Kostromskaya Generating Company (Kostromskaya GC), OJSC Vologodskaya HePP (Vologodskaya HePP).
- For share conversion purposes, TGC-2 declared additional issuance and placement of 1,095,996,358,137 ordinary shares with the par value of 0.01 Russian Rouble and 16,500,533,681 preference shares with the par value of 0.01 Russian Rouble for total amount of RR 11,114,969 thousand. As a result of converting to a single share, the shareholders of RGC's became the shareholders of the united single company TGC-2, and the minority interest was removed at the TGC-2 level;
- On 1 July 2006 Yaroslavskaya GC, Tverskaya GC, Novgorodskaya GC, Kostromskaya GC and Vologodskaya HePP, on 3 May 2007 Arkhangelskaya GC ceased operating as legal entities and their assets merged into and with TGC-2;

During the merger OJSC Kostromaenergoremont, OJSC Novgorodenergoservice and OJSC HePP Belyi Ruchei being the subsidiaries of Kostromskaya GC, Novgorodskaya GC and Vologodskaya HePP, respectively, became the subsidiaries of TGC-2:

Name	% owned	Location	Activities
OJSC Kostromaenergoremont	100%	Kostroma	Repair and construction
OJSC Novgorodenergoservice	100%	Novgorod	Repair and construction
OJSC HePP Belyi Ruchei	87.14%	Vologda	Generation of electricity and heat

OJSC Kostromaenergoremont and OJSC Novgorodenergoservice were sold in November 2006 and April 2007 respectively.

As at 31 December 2006 the 1st stage of the process of the merger of RGC's into and with TGC-2 and forming of TGC-2 (hereinafter - the "Group") has been completed.

The merger of assets of Arkhangelskaya Generating Company into and with TGC-2 in course of the 2nd and the last stage was completed in May 2007.

The TGC-2 Group as at 30 June 2007 for the purpose of preparation of the combined and consolidated financial information includes TGC-2 and five regional generating companies - Yaroslavskaya EC, Tverskaya GC, Novgorodskaya GC, Kostromskaya GC and Vologodskaya HePP, whose assets were merged into and with TGC-2 as at 1 July 2006, and Arkhangelskaya GC whose assets were merged into and with TGC-2 as at 3 May 2007, and its' subsidiary, OJSC HePP Belyi Ruchei.

The Group principal activity is generation of electricity and heat in Central and North Russia.

The Group owns 16 electric power stations, 8 boiler plants and 4 heating distribution companies. Total installed electric power capacity of the Group is 2,576.5 MW; total heating capacity – 12,451 Gkal/h.

Note 1. The Group and its operations (continued)

The Group is registered with the Inspectorate of the Russian Federal Tax Service for the Leninsky District, the city of Yaroslavl.

The Group's registered office is located at 42, prospekt Octyabrya, Yaroslavl, Russian Federation.

Operating environment of the Group. Whilst there have been improvements in economic trends in the Russian Federation, the country continues to display some 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, currency control and relatively high inflation. The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and changes, which can occur frequently.

Relations with the state and current regulation. As at 30 June 2007 the Russian Open Joint Stock Company for Energy and Electrification Unified Energy System of Russia owns 49.36 % of voting ordinary shares of TGC-2. The Russian Government is the ultimate controlling party of the Group.

The Group customer base includes a large number of entities controlled by or related to the Government of the Russian Federation. Moreover, the state controls a number of the Group fuel and other suppliers (see Note 7).

The Government of the Russian Federation directly affects the Group operations through regulating by the Federal Service on Tariffs (FST), with respect to their wholesale energy sales, and through regulating by the regional services on tariffs (RST's), with respect to retail electricity and heating sales.

The operations of all generating facilities are coordinated by The System Operator – the Central Dispatch Unit of the Unified Electric System (SO-CDU) in order to meet system requirements (a subsidiary of RAO UES).

Tariffs which the Group may charge for sales of electricity are governed by regulations specific to the electricity industry and by regulations applicable to natural monopolies. Historically, such tariffs have been based on a "cost-plus" system, meaning cost of service plus a margin, where costs are determined under the Regulations on Accounting and Reporting of the Russian Federation ("RAR"), a basis of accounting which significantly differs from International Financial Reporting Standards ("IFRS"). In practice, tariff decisions were impacted significantly by social and political considerations, causing significant delays in tariff determinations and tariff increases that were lower than required to compensate for cost increases. The tariff structure in the Russian electric utilities industry is undergoing a liberalization process, which is expected to lead to a competitive market-based tariff structure.

Also, as described in Note 16, the Russian government's economic, social and other policies could have material effect on the operations of the Group.

Sector restructuring. The Russian electric utilities industry in general and the Group in particular are presently undergoing a reform process designed to introduce competition into the electricity sector and to create an environment in which energy companies can raise the capital required to maintain and expand current capacity.

- The regulatory framework governing the process of reforming the Russian Federation electric utilities industry and the functioning of the industry, both during the transition period and subsequent to the completion of reforms, is set forth in the following legislation: Federal Law No.35-FZ of 26 March 2003 "On Electric Utilities" and Federal Law No.36-FZ of 26 March 2003 "On the Specifics of the Functioning of Electric Utilities During the Transition Period" and the Introduction of Amendments to Certain Russian Federation Legislative Acts and the Invalidation of Certain Russian Federation Legislative Acts in Connection with the Adoption of the Law "On the Electric Utilities of the Russian Federation".
- As at 29 May 2003, the Board of Directors of RAO UES approved a "Concept of OJSC RAO UES strategy for the period from 2003 through 2008" (further – the "Concept of OJSC RAO UES Strategy").This document provides a detailed description of the major changes that are planned to take place in the RAO UES companies during the electric utilities reform program.

Note 1. The Group and its operations (continued)

- In October 2003, the Russian Federation Government issued Resolution No. 643 "On the Rules for the Wholesale Electricity (Power) Market during the Transition Period». According to the rules adopted, there were two sectors within the Federal Wholesale Electricity (Power) Market (FOREM): the regulated trading sector and free trading sector. Within the free trading sector, electricity suppliers were able to sell electricity generated with the use of facilities and equipment accounting for 15 percent of their working capacity. Since November 2003, the non-commercial partnership "Trade System Administrator of the Wholesale Electricity Market", in accordance with the rules for the wholesale electricity (power) market during the transition period, had been holding electricity bidding in the free trading sector. Starting from October 2005, a competitive balancing market was put in operation.
- A crucial step in developing a competitive wholesale electricity (capacity) market was the adoption of the new Wholesale Electric Power (capacity) Market (NOREM) Rules of the Transitional Period approved by Resolution of the Government of the Russian Federation No. 529 dated August 31, 2006 and which came into force on September 1, 2006. Under the new wholesale market framework, electricity and power purchase-and-sale transactions in the regulated market sector are to be governed by a regulated bilateral contract system. From 1 September 2006, regulated contracts covered all volumes of electricity and power produced and consumed. From 2007 the volumes of electricity (power) traded in the wholesale market at regulated prices will begin to be substantially reduced. The pace of reduction was set by the Russian Federation Government according to socio-economic development forecasts. In 2007 up to 95% of the forecasted production volumes will be traded at regulated prices. The period from 2006 to approximately 2013 is a transition period. After that, it is expected that a fully competitive wholesale market will develop.

The Group's operations in the competitive wholesale electricity (power) market has no significant impact on the combined and consolidated financial information for six months ended 30 June 2007.

Note 2. Basis of preparation

Statement of compliance. This combined and consolidated condensed interim financial information (hereinafter – the Financial Information) has been prepared in accordance with IAS 34 "Interim Financial Reporting" and other relevant International Financial Reporting Standards ("IFRS") and interpretations adopted by the International Accounting Standards Board ("IASB"). All information should be read in conjunction with the Group's annual combined and consolidated financial statements for the year ended 31 December 2006.

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. The accompanying Financial Information is based on the statutory records and adjusted and reclassified for the purpose of fair presentation in accordance with IFRS.
The Group had, as permitted by IFRS, applied the date of transition to IFRS as 1 January 2005. The Group did not previously prepare Russian GAAP financial statements as a separate reporting entity and accordingly no meaningful reconciliations from Russian GAAP to IFRS can be provided.

Re-issuance of financial information. Management has withdrawn the previously issued condensed combined and consolidated interim financial information which were issued on 21 January 2008 in order to reflect a revision identified by management to the allocation of the revalued property, plant and equipment in the Group's property plant and equipment register as at 01 January 2007.

As a result of this revision, the following line items within balance sheet and income statement were modified as follows:

(in thousands of Russian Roubles)

Note 2. Basis of preparation (continued)

Balance Sheet

	Originally issued at 30 June 2007	Change	Restated at 30 June 2007
Property plant and equipment	24,448,525	(836,317)	23,612,208
Merger reserve	(2,587,813)	(162,384)	(2,750,197)
Other reserves (revaluation)	6,757,629	598,146	7,355,775
Retained earnings	3,600,642	(1,071,363)	2,529,279
Equity attributable to parent company shareholders	18,895,427	(635,601)	18,259,826
Deferred income tax liabilities	3,619,175	(200,715)	3,418,460

Income statement

	Originally issued for six month ended 30 June 2007	Change	Restated for six month ended 30 June 2007
Operating expenses	(9,625,661)	(836,795)	(10,462,456)
Other operating income	71,034	477	71,511
Revaluation write down	(779,858)	(787,033)	(1,566,891)
Deferred income tax	(62,496)	389,604	327,108
Profit/(loss) for six months	661,237	(1,233,747)	(572,510)
Weighted average earnings per ordinary and preference share – basic and diluted	0.002	(0.003)	(0.001)

Corresponding changes have been made in the statements of equity and cash flows as at 30 June 2007.

Predecessor Accounting. In June 2006 RAO UES (hereinafter - the Parent)) transferred to the Group 49.18% of ordinary shares of the following companies: Yaroslavskaya EC, Tverskaya GC, Novgorodskaya GC, Kostromskaya GC and Vologodskaya HePP.

In May 2007 the Parent transferred to the Group 48.99% of ordinary shares of Arkhangelskaya GC.

Those companies were controlled by the Parent on the basis of a significant shareholding combined with other factors which allow the company to exercise control, namely: RAO UES has the majority in the Board of Directors, RAO UES is the dominant owner or RAO UES has major influence over the company operations through its ownership and operation of the Unified Energy System.

In this combined and consolidated financial information, the Group accounted for these business combination amongst entities under common control using the predecessor values method. Accordingly, assets and liabilities of the transferred entities were accounted for at their carrying value, as determined by the Parent in its IFRS consolidated financial statements. Information in respect of the comparative period has been restated as if the business combination took place at the beginning of the earliest period presented.

Thus, starting from 1 January 2006 : Yaroslavskaya EC, Tverskaya GC, Novgorodskaya GC, Kostromskaya GC, Vologodskaya HePP and Arkhangelskaya GC are combined into the Group financial information as branches of Group.

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

Before 31 December 2006, property, plant and equipment were divided into groups, according to their function, such as electricity and heat generation. This classification was considered appropriate when the Predecessor group was comprised of vertically integrated entities carrying out activities from generation to final consumer sales. However, considering the restructuring processes in the industry, dividing property, pant and equipment according to their functional area no longer provides useful information.

Management considers that classifying property, plant and equipment by their asset types rather than by their function provides more useful information and is more representative of the new structure of industry. Comparative information for 2006 and 2005 has been restated in line with the new classification.

(in thousands of Russian Roubles)

Note 2. Basis of preparation (continued)

PPE groups for IFRS purposes (in accordance with previously adopted classification)	As at 31 December 2006	As at 31 December 2005
Electricity and heat generation	10,803,874	5,029,964
Electricity distribution	595,895	270,777
Heating networks	2,395,240	1,245,493
Construction in progress	2,100,722	1,663,550
Other	800,131	452,178
Total	**16,695,862**	**8,661,962**

PPE groups for IFRS purposes (in accordance with newly adopted classification)	As at 31 December 2006	As at 31 December 2005
Production buildings	4,986,328	2,301,573
Hydrotechnical buildings	222,074	103,787
Equipment and assembling units	4,434,628	2,050,168
Substations & power equipment	1,718,186	822,594
Electricity grids and equipment	38,553	22,619
Heat grids	2,395,240	1,245,493
Construction in progress	2,100,722	1,663,549
Other	800,131	452,179
Total	**16,695,862**	**8,661,962**

Going concern. This financial information has been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities in the normal course of business. The accompanying financial information does not include any adjustments should the Group be unable to continue as a going concern.

Revaluation of property, plant and equipment.

Fair value of property, plant and equipment 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 affected by the estimates of replacement cost, depreciated replacement cost and remaining useful lives, and actual results could differ from these estimates (see Note 8).

Note 3. Summary of significant accounting policies

Accounting policies

The accounting policies are the same as those from the last financial statements for the year ended 31 December 2006 except for IFRS 7 "Financial instruments: Disclosures" and IAS 1 "Presentation of Financial Statements – Capital Disclosures" as described in Note 4.

Property, plant and equipment.

Starting from 1 January 2007 the Group changed its accounting policy to revalue property, plant and equipment on a regular basis. Prior to 1 January 2007 property, plant and equipment were stated at depreciated cost less impairment. As of the beginning of 2005 property, plant and equipment were stated at the carrying value determined in accordance with the IFRS at the date of their transfer to the Group by the Predecessor. Adjustments were 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 any such indication exists, management estimated 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 recognized as a decrease of revaluation reserve in the equity. An impairment loss recognized in prior years is reversed if there have been a change in the estimates used to determine an asset's recoverable amount. Reversal of impairment is credited to the equity statement under the heading of revaluation reserve. If an impairment loss on the revalued asset was previously recognized in the income statement, a reversal of that impairment loss is also recognized in the income statement.

(in thousands of Russian Roubles)

Note 3. Summary of significant accounting policies (continued)

Prior to 1 January 2007 a third party evaluation has been performed at predecessor entities to determine the depreciated replacement cost. The valuation was performed in order to determine a basis for cost, because the historical accounting records for property, plant and equipment were not readily available, in accordance with paragraph 16 of IAS 29.

Therefore, this third party valuation was not a recurring feature since it was intended to determine the initial cost basis of property, plant and equipment and Group had not adopted a policy of revaluation on subsequent measurement until after 1 January 2007. The change in carrying value arising from this valuation was recorded directly to retained earnings.

Property, plant and equipment are subject to revaluation on a regular basis. The frequency of revaluation depends on assessment of changes in fair value of assets subject to revaluation.

Increases in the carrying amount arising on revaluation of property, plant and equipment are credited to revaluation reserves in equity, unless the decrease of the reserve previously recognized in the income statements. 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 Company records deferred taxes in respect of revaluation of property, plant and equipment directly to equity.

Renewals and improvements are capitalized 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.

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

Type of assets	Acquired prior to 31 December 1997	Acquired subsequent to 31 December 1997
Electricity and heat generation	12-50	20-50
Electricity distribution	6-26	25-30
Heating grids	6-13	20-25
Other	8	10

The useful lives, in years, of assets by type of assets (after reclassification, see Note 2) were as follows:

Type of assets	Acquired prior to 31 December 1997	Acquired subsequent to 31 December 1997
Production buildings	30	50
Hydrotechnical buildings	39	50
Equipment and assembling units	19	20
Substations & power equipment	8-10	25-30
Electricity grids and equipment	18	25
Heat grids	9	20
Other	8	10

(in thousands of Russian Roubles)

Note 3. Summary of significant accounting policies (continued)

Beginning from 1 January 2007 the revised useful lives, in years, of revalued assets by asset type (after reclassification, see Note 2) are as follows:

Type of assets	Revised starting from 1 January 2007
Production buildings	2-59
Hydrotechnical buildings	2-92
Equipment and assembling units	1-40
Substations & power equipment	2-39
Electricity grids and equipment	2-30
Heat grids	2-29
Other	1-59

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

Seasonality. 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.

Note 4. Adoption of new or revised Standards and Interpretations

Certain new IFRSs became effective for the Group from 1 January 2007. Listed below are those new or amended standards or interpretations which are or in the future could be relevant to the Group operations and the nature of their impact on the Group accounting policies.

Effective 1 January 2007 the Group adopted IFRS 7 "Financial instruments: Disclosures" ("IFRS 7") and Amendment to IAS 1 "Presentation of Financial Statements – Capital Disclosures" ("IAS 1"). IFRS 7 introduces new disclosures to improve the information about financial instruments. The Amendment requires disclosures about the level of an entity's capital and how it manages capital. The Group will disclosure in its annual consolidated financial statements the complete information required by IFRS 7.

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 is 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;

Note 5. New accounting pronouncements

These new standards and interpretations are not yet in force and were not applied by the Group in this financial information:

- 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 capitalization is on or after 1 January 2009. The main change from the previous version is the removal of the option of immediately recognizing as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale;
- 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;
- 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 have a material effect on the Group's financial statement.

Note 6. Segment information

The Group operates in a single geographical area and industry – generation of electricity and heat in the territory of the Russian Federation. The generation of electricity and heat are related activities and are subject to similar risks; therefore they are reported as one business segment.

Note 7. Related parties

Parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties include shareholders, directors, subsidiaries and enterprises controlled by the state.

OJSC RAO UES is the main shareholder of TGC-2 and has a control over the Group's activity.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions in six months ended 30 June 2007 and 2006 or had significant balances outstanding at 30 June 2007 and at 31 December 2006 are detailed below.

(in thousands of Russian Roubles)

Note 7. Related parties (continued)

Parent company

Balances with OJSC RAO UES were as follows:

	30 June 2007	31 December 2006
Dividends payable	200	-
Borrowings	-	28,146

Transactions with OJSC RAO UES were as follows:

	30 June 2007	30 June 2006
Interest expense	17,874	44,609

Transactions with OJSC RAO UES subsidiaries and associates

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

	Six month ended 30 June 2007	Six month ended 30 June 2006
Sales of electricity and heat	3,581,060	3,347,266
Other income	37,197	59,200

	Six month ended 30 June 2007	Six month ended 30 June 2006
Amortisation of discounted non-current accounts receivable	16,177	-
Electricity purchases	70,835	92,215
Electricity dispatching services	61,366	25,819
Repairs and maintenance services	-	-
Rent expenses	3,063	4,573
Other expenses	259,681	-

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

	30 June 2007	31 December 2006
Accounts receivable	819,511	531,094
Accounts payable	(16,712)	(65,574)

State controlled entities

In the normal course of business the Group enters into transactions with other entities under Government control. The prices for natural gas, electricity and heat are based on tariffs established by FTS and RST. Bank loans are obtained under market rates. Taxes are charged and paid under the Russian tax legislation.

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

	Six month ended 30 June 2007	Six month ended 30 June 2006
Fuel purchases	(3,077,879)	(2,492,809)
Sales of electricity and heat	3,118,475	3,563,798
Interest expense	(151,456)	(26,235)

(in thousands of Russian Roubles)

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

	30 June 2007	31 December 2006
Cash	46,323	19,565
Current accounts receivable and prepayments	1,594,758	529,482
Borrowings	(3,619,224)	(3,263,512)
Accounts payable and accrued liabilities	(85,051)	(176,897)

Transactions with Board of Directors and key management personnel

Compensation is paid to the TGC-2 Management Board for performing their functions and comprised their contractual salaries and performance bonuses depending on results for the year according to Russian statutory financial statements. The compensation is approved by the Board of Directors. Discretionary bonuses are also payable to members of the Management Board, which are approved by the Chairman of the Management Board.

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

Total compensation paid in the form of salary and bonuses paid to the members of the Board of Directors, Management Board and key management personnel is RR 3,336 thousands for the six months 30 June 2007 and 5,765 as at 30 June 2006.

(in thousands of Russian Roubles)

Note 8. Property, plant and equipment

	Production buildings	Hydrotechnical buildings	Equipment and assembling units	Substations and power equipment	Electricity grids and equipment	Heat grids	Construction in progress	Other	Total
Cost									
Opening balance as at 1 January 2007	**7,825,422**	**286,925**	**7,090,161**	**3,071,826**	**48,329**	**7,011,921**	**2,100,722**	**4,939,227**	**32,374,533**
Elimination of accumulated depreciation	(3,169,332)	(221,092)	(2,716,670)	(1,401,509)	(25,397)	(4,721,134)	-	(3,423,537)	(15,678,671)
Asset revaluation	1,890,268	230,449	548,530	25,030	10,459	2,841,842	753,379	3,378,694	9,678,651
Revaluation write down	(5,312)	-	(318,784)	(862,256)	(3,544)	-	(237,796)	(139,199)	(1,566,891)
Additions	-	-	1,001	193	-	-	368,901	34,287	404,382
Transfers	12,997	31,001	637,360	281,085	4,992	13,258	(1,269,851)	289,158	-
Disposals	(14,585)	-	(2,186)	-	(562)	(621)	(53)	(18,914)	(36,921)
Closing balance as at 30 June 2007	**6,539,458**	**327,283**	**5,239,412**	**1,114,369**	**34,277**	**5,145,266**	**1,715,302**	**5,059,716**	**25,175,083**
Accumulated depreciation									
Opening balance as at 1 January 2007	**(3,169,332)**	**(221,092)**	**(2,716,670)**	**(1,401,509)**	**(25,397)**	**(4,721,134)**	**-**	**(3,423,537)**	**(15,678,671)**
Elimination of accumulated depreciation	3,169,332	221,092	2,716,670	1,401,509	25,397	4,721,134	-	3,423,537	15,678,671
Charge for the period	(349,034)	(2,898)	(255,907)	(75,492)	(4,294)	(450,592)	-	(424,918)	(1,563,135)
Disposals	-	-	-	-	-	86	-	172	258
Closing balance as at 30 June 2007	**(349,034)**	**(2,898)**	**(255,907)**	**(75,492)**	**(4,294)**	**(450,506)**	**-**	**(424,744)**	**(1,562,875)**
Net book value as at 1 January 2007	**4,656,090**	**65,833**	**4,373,491**	**1,670,317**	**22,932**	**2,290,787**	**2,100,722**	**1,515,690**	**16,695,862**
Net book value as at 30 June 2007	**6,190,424**	**324,385**	**4,983,505**	**1,038,877**	**29,983**	**4,694,760**	**1,715,302**	**4,634,972**	**23,612,208**

(in thousands of Russian Roubles)

Note 8. Property, plant and equipment (continued)

	Production buildings	Hydrotechnical buildings	Equipment and assembling units	Substations & power equipment	Electricity grids and equipment	Heat grids	Construction in progress	Other	Total
Cost									
Opening balance as at 1 January 2006	**7,673,038**	**334,548**	**6,837,255**	**3,894,963**	**87,529**	**7,336,326**	**1,663,549**	**3,405,220**	**31,232,428**
Additions	2,038	0	45	92	0	60	405,435	31,673	439,343
Transfers	12,514	0	1,706	44,884	267	5,665	(345,445)	280,410	0
Disposals	(4,828)	0	(31)	(374)	0	0	(3,963)	(3,364)	(12,560)
Closing balance as at 30 June 2006	**7,682,761**	**334,548**	**6,838,975**	**3,939,565**	**87,796**	**7,342,051**	**1,719,576**	**3,713,939**	**31,659,210**
Accumulated depreciation (including impairment)									
Opening balance as at 1 January 2006	**(5,371,465)**	**(230,761)**	**(4,787,087)**	**(3,072,369)**	**(64,910)**	**(6,090,834)**	**0**	**(2,953,041)**	**(22,570,467)**
Charge for the period	(52,678)	(1,951)	(74,872)	(63,193)	(1,459)	(56,899)	0	(72,195)	(323,247)
Disposals	(1,703)	0	28	471	0	0	0	2,177	972
Closing balance as at 30 June 2006	**(5,425,847)**	**(232,712)**	**(4,861,931)**	**(3,135,091)**	**(66,369)**	**(6,147,733)**	**0**	**(3,023,058)**	**(22,892,741)**
Net book value as at 1 January 2006	**2,301,573**	**103,787**	**2,050,168**	**822,594**	**22,619**	**1,245,493**	**1,663,549**	**452,179**	**8,661,961**
Net book value as at 30 June 2006	**2,256,915**	**101,835**	**1,977,044**	**804,473**	**21,426**	**1,194,318**	**1,719,576**	**690,881**	**8,766,469**

(in thousands of Russian Roubles)

Note 8. Property, plant and equipment (continued)

Construction in progress represents the carrying amount of property, plant and equipment that has not yet been put into operation.

Depreciation is charged once an asset is available for use.

Other property, plant and equipment include motor vehicles, computers, office furniture and other equipment.

Revaluation

Starting from 1 January 2007 the Group changed its accounting policy to revalue property, plant and equipment on a regular basis (see Note 2). Asset 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 has been 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 of heat-power station, current purchase contracts and price-list of producers and trading companies. Economic obsolescence was estimated based on profitability test results for each cash-generating unit – Yaroslavl branch, Tver branch, Vologoda branch, Novgorod branch, Kostroma branch, Arkhangelsk branch. The discount rate used in profitability test was 14.23 percent, except for Arkhangelsk branch, which was 15.96 percent. The forecast period is 19 years. The long-term rate of growth in sales volumes is approximately 3 percent.

As a result of the revaluation, the Group's equity increased by RR 7,355,775 thousand, comprising an increase in carrying value of property, plant and equipment of RR 9,678,651 thousand, net of a related deferred tax liability of RR 2,322,876 thousand. As a consequence of recognizing the results of the revaluation a revaluation write down of RR 1,566,891 thousand was recognized in the income statements. Revaluation write down has been recognized for those assets whose fair values are lower than their respective net book value as at 01 January 2007. The remaining effect of the revaluation, RR 7,355,775 thousand was recognized directly in equity as a other reserve.

For each revalued class of property, plant and equipment stated at revalued amount in this interim condensed financial information, the carrying amount that would have been recognized had the assets been carried under the cost model is as follows:

	Production buildings	Hydrotechnical buildings	Equipment and assembling units	Substations and power equipment	Electricity grids and equipment	Heat grids	Assets under construction	Other	Total
Net book value as at 30 June 2007	4,420,210	96,213	4,780,000	1,781,198	23,982	2,114,768	1,215,609	1,685,856	16,117,836
Net book value as at 31 December 2006	4,986,328	222,074	4,434,628	1,718,187	38,553	2,395,240	2,100,722	800,131	16,695,862

Operating lease. The Group leases a number of land areas and facilities owned by local governments under operating lease. Land lease payments are determined by lease agreements.

Operating lease rentals under non-cancellable leases are payable as follows:

	30 June 2007	31 December 2006
not later than one year	163,215	161,851
later than one year and not later than five years	313,032	340,495
later than five years	1,882,287	1,836,470
Total	**2,358,534**	**2,338,816**

The land areas leased by the Group are the territories on which the Group' electric power stations, heating stations and other assets are located. Some contracts for land lease are concluded for 49 years, other contracts are concluded for one year with prolongation. Lease payments are reviewed regularly to reflect market rentals.

Finance lease. As at 30 June 2007 assets under finance lease which are included in the "Other" category within property, plant and equipment were as follows:

	30 June 2007	31 December 2006
Cost of finance leased assets	164,735	164,735
Accumulated depreciation	(44,270)	(36,556)
Net book value	**120,465**	**128,179**

(in thousands of Russian Roubles)

Note 8. Property, plant and equipment (continued)

The maturity table and information about minimum lease payments of finance lease liability as follows:

	30 June 2007	31 December 2006
not later than one year	2,239	10,206
later than one year and not later than five years	4,489	6,005
later than five years	353	430
Lease payments	**7,081**	**16,641**

Note 9. 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 (see Note 2), the principal component of the net equity recognized 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. As the Group was formed as a result of share issue completed after 01 January 2005, 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 addition to equity is offset by a corresponding increase in the merger reserve and reduction in minority interest.

Share capital

	30 June 2007	31 December 2006
Number of ordinary and preference shares authorized, issued and fully paid	1,112,496,891,818	711,712,704,501
Par value (in RR)	0.01	0.01
Total share capital (in thousand RR)	**11,124,969**	**7,117,127**

As at 19 April 2005, the date that the Group was established, the number of issued ordinary shares amounted to 1,000,000,000 with a par value of RR 0.01 each.

Contributions to the Group's share capital in amount of RR 10,000 thousand were paid in cash in the year 2005.

As of 29 June 2006 the Group increased it's share capital by RR 7,107,127 thousand by conversion of ordinary and preference shares of OJSC Vologodskaya HePP, OJSC Kostromskaya GC, OJSC Novgorodskaya GC, OJSC Tverskaya GC and OJSC Yaroslavskaya EC into the ordinary shares of TGC-2.

As of 03 May 2007 the Group increased it's share capital by RR 4,007,841 thousand by the conversion of ordinary and preference shares of OJSC Arkhangelskaya GC into the ordinary shares of TGC-2.

As a result, OJSC RAO UES shareholdings (49.18% of OJSC Vologodskaya HePP, OJSC Kostromskaya GC, OJSC Novgorodskaya GC, OJSC Tverskaya GC and OJSC Yaroslavskaya EC, 48.99% of Arkhangelskaya GC) and minorities' shareholdings (50.82% and 51.01% for Arkhangelskaya GC) were exchanged for the shares of TGC-2.

As at 30 June 2007 number of issued ordinary shares amounted to 1,095,996,358,137 with a par value of RR 0.01 each and number of preference shares amounted to 16,500,533,681 a par value of RR 0.01 each.

Ordinary shares and preference shares. Preference shares have no right of conversion or redemption. In total the preference dividend may not be less than the ordinary dividend and is not cumulative. Preference shares carry no voting rights except when dividends on preference shares have not been declared fully at the Annual Shareholders' meeting. At liquidation, preference shareholders are first paid any declared unpaid dividends and then the nominal value of the shares ("liquidation value"). Following this, preference shareholders then participate equally in the distribution of remaining assets with ordinary shareholders.

(in thousands of Russian Roubles)

Note 9. Equity (continued)

Merger reserve. Merger reserve of RR (335,453) thousand as at the 1 January 2007 represents the difference between IFRS carrying value of the contributed net assets merged into the Group, totaling RR 11,476,967 thousand, and the minority interest of RR 1,771,420 thousand, subsequently adjusted by the share capital issued by TGC-2 to reflect the transfer of businesses owned by the entities under common control at 30 June 2007. Merger reserve at 30 June 2007 equal to RR (2,750,198) thousand.

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 the annual 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 dealing with the distribution rights are open to legal interpretation and, accordingly, management believes at present it would not be appropriate to disclose an amount for the distributable reserves in this financial information.

The following dividends were declared by the Group, recognized as a liability and deducted from equity for the reporting periods:

	Six months ended 30 June 2007		Six months ended 30 June 2006	
	Declared dividends, in thousand of RR	Dividends per share, RR	Declared dividends, in thousand of RR	Dividends per share, RR
OJSC Yaroslavskaya EC in respect of the year ended 31 December 2005	-	-	76,620	3.538605
OJSC Kostromskaya GC in respect of the year ended 31 December 2005	-	-	60,000	0.110025
OJSC Novgorodskaya GC in respect of the year ended 31 December 2005	-	-	16,222	0.076311
OJSC Tverskaya GC in respect of the year ended 31 December 2005	-	-	25,540	0.05534
OJSC Yaroslavskaya EC in respect of three months ended 31 March 2006	-	-	90,241	4.1680015
OJSC Kostromskaya GC in respect of three months ended 31 March 2006	-	-	23,241	0.042629
OJSC Novgorodskaya GC in respect of three months ended 31 March 2006	-	-	11,100	0.052216
OJSC Tverskaya GC in respect of three months ended 31 March 2006	-	-	33,703	0.073027
OJSC Vologodskaya HePP in respect of three months ended 31 March 2006	-	-	21,709	1.0675684
OJSC TGC-2 in respect of the year ended 31 December 2006	407	0.000000751		
Total dividends	**407**	-	**358,376**	-

Note 10. Income tax

Income tax charge

	Six month ended 30 June 2007	Six month ended 30 June 2006
Current income tax charge	(191)	(58,848)
Deferred income tax benefit	327,108	192,716
Income tax benefit	**326,917**	**133,868**

In six month ended 30 June 2007 and 2006 the Group companies were subject to a 24% income tax rate on taxable profits.

(in thousands of Russian Roubles)

Note 10. Income tax (continued)

Reconciliation between the expected and the actual tax charge is provided below:

	Six month ended 30 June 2007	Six month ended 30 June 2006
Loss before tax	**(899,427)**	**(887,033)**
Theoretical tax charge at the statutory tax rate of 24%	215,863	212,888
Tax effect of items which are not deductible or assessable for taxation purpose	111,054	(79,020)
Total income tax benefit	**326,917**	**133,868**

Deferred tax assets and liabilities

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 their tax bases. Deferred tax assets and liabilities are measured at the rate of 24% which is expected to be applied to the period when the assets are realized and liabilities are settled.

In the context of the Group's current structure, tax losses and current tax assets of different consolidated entities may not be offset against current tax liabilities and taxable profits of other consolidated entities and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity.

As at 30 June 2007, deferred tax assets and liabilities of all branches were offset within TGC-2 as a single entity, resulting in a net liability of RR 3,418,460 thousand.

	31 December 2006	Movement for the Six months recognized in Income Statement	Movement for the Six months recognized in Statement of Changes in Equity	30 June 2007
Tax losses	589,207	(267,767)	-	321,440
Trade accounts receivable and prepayments	292,990	(62,848)	-	230,142
Accounts payable and accrued liabilities	37,645	(22,241)	-	15,404
Pension liabilities	50,122	32,767	-	82,889
Other	4,288	-	-	4,288
Deferred tax assets	**974,252**	**(320,088)**	**-**	**654,163**
Property, plant and equipment	(2,384,129)	647,651	(2,322,876)	(4,059,354)
Other	(12,814)	(455)	-	(13,269)
Deferred tax liabilities	**(2,396,943)**	**647,196**	**(2,322,876)**	**(4,072,623)**
Net deferred tax liabilities	**(1,422,691)**	**327,108**	**(2,322,876)**	**(3,418,460)**

Property, plant and equipment movement includes a deferred tax amounts of RR 2,322,876 thousand in relation to the revaluation.

(in thousands of Russian Roubles)

Note 10. Income tax (continued)

	31 December 2005	Movement for the year recognized in Income Statement	Movement for the year recognized in Statement of Changes in Equity	30 June 2006
Tax losses	103,164	222,572	-	325,736
Trade receivables and prepayments	269,085	11,164	-	280,249
Accounts payable and accrued liabilities	21,613	(12,551)	-	9,062
Pension liabilities	43,675	1,799	-	45,474
Other	12,949	(11,294)	-	1,655
Deferred tax assets	**450,486**	**211,691**	**-**	**662,177**
Property, plant and equipment	(569,203)	(17,738)	-	(586,941)
Future period income	(11,480)	(1,237)	-	(12,717)
Deferred tax liabilities	**(580,683)**	**(18,975)**	**-**	**(599,658)**
Net deferred tax assets/(liabilities)	**(130,197)**	**192,716**	**-**	**62,519**

The Group has not recorded a deferred tax liability in respect of taxable temporary differences associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

Note 11. Pension liabilities

The Group operates defined benefit and defined contribution pension plans. In respect of some of these plans the Group has a contract with a pension fund "Non-state pension fund of electrical energy industry" ("NPFE"), which is a separate legal entity; the other plans are operated by the Group without engaging pension funds. Defined contribution plans are considered immaterial for disclosure.

The defined benefit pension plan through NPFE provides for monthly pension benefit paid upon retirement. Annual contributions are made by the Group to the solidarity account in the non-state pension fund. The amount of the contribution is defined by TGC-2 budget and is considered to be enough at least to finance current pension benefits. No part of this contribution is recognized as plan asset to the extent that TGC-2 can recall these contributions back and the plan is considered as unfunded there for. Pension benefits are paid from the solidarity account on 'pay-as-you-go' basis.

Additionally to the NPFE pension plan, the Group provides financial support, of a defined benefit nature, to its old-age pensioners, who have completed certain service for the Group, and other post-employment benefit such as lump-sum payments upon retirement, lump-sum material aid, etc.

The non-statutory pension plan providing monthly pensions had approximately 6,919 active participants as at 30 June 2007 and 2,280 pensioners receiving financial support from the employer.

The tables below provide information about the benefit obligations, plan assets and actuarial estimations used for the periods ended 30 June 2007 and 31 December 2006.

Amounts recognized in the balance sheet:

	30 June 2007	31 December 2006
Defined benefit obligations	554,153	288,821
Unrecognised net actuarial losses	(141,852)	(35,933)
Unrecognised past service cost	(66,932)	(54,620)
Net liability on balance sheet	**345,369**	**198,268**

(in thousands of Russian Roubles)

Note 11. Pension liabilities (continued)

Amounts recognized in the income statement:

	Six month ended 30 June 2007	Six month ended 30 June 2006
Current service cost	11,629	5,827
Interest cost	14,638	7,264
Net actuarial loss recognized in year	-	159
Amortisation of past service cost	2,988	-
Recognition of vested prior service cost	129,612	-
Total	**158,867**	**13,250**

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

	30 June 2007	30 June 2006
Benefit obligations		
Benefit obligations as at the beginning of the period	288,821	207,535
Current service cost	11,629	5,827
Interest cost	14,638	7,264
Past service cost	144,913	-
Benefits paid	(11,767)	(5,751)
Actuarial losses	105,919	19,033
Benefit obligations as at the end of the period	**554,153**	**233,907**

Principal actuarial estimations are as follows:

	30 June 2007	30 June 2006
Discount rate for benefits at accumulation phase	6.75%	6.75%
Future Salary increase	7.0%	7.0%
Future inflation rate	5.0%	5.0%

Note 12. Borrowings

Non-current borrowings

Creditor	Currency	Effective interest rate,%	30 June 2007	31 December 2006
OJSC Sberbank	RR	8,44-8,55	670,000	-
Total non-current borrowings			670,000	-

Current borrowings

Creditor	Currency	Effective interest rate,%	30 June 2007	31 December 2006
OJSC Vneshtorgbank	RR	8.60-9.20	1,145,000	2,216,381
OJSC Alfa-Bank	RR	9.50-10.80	96,000	898,685
OJSC TransCreditBank	RR	9.00-12.00	699,119	758,101
OJSC Sberbank *	RR	8.40-12.20	800,000	655,927
OJSC Vnesheconombank	RR	9.00	1,000,000	-
OJSC Nomosbank	RR	10.80-11.10	700,000	1,317,500
OJSC Rosbank	RR	11.25	-	199,507
RAO UES	RR	34.00	-	28,130
Other	RR		23,300	-
Total current borrowings			**4,463,419**	**6,074,231**

* - inventory pledged as collateral under loan agreements.

(in thousands of Russian Roubles)

Note 13. Operating expenses

	Six month ended 30 June 2007	Six month ended 30 June 2006
Fuel	5,768,658	6,103,791
Payroll	1,366,184	980,947
Other materials	202,198	251,814
Repair & maintenance costs	519,384	158,745
Depreciation	1,563,135	323,247
Purchased power	269,718	180,501
Provision for doubtful debts (Note 16)	(371,446)	44,070
Taxes other than income tax	121,329	139,457
Gas transportation expenses	203,410	130,890
Rent expenses	83,364	42,229
Transportation services	80,059	34,752
Costs of heat & electricity's transfer	32,328	38,118
Subscription fee RAO UES	61,366	52,039
Insurance expenses	30,569	28,549
Water usage expenses	136,125	95,420
Environment pollution charges	40,489	70,798
Consulting services	34,684	23,826
Security services	66,200	34,920
Write off accounts receivable	21,921	3,131
Communication services	10,574	8,582
Bank and agent services	13,017	6,262
Other expenses	209,190	287,906
Total operating expenses	10,462,456	9,039,994

Note 14. Other operating income

	30 June 2007	30 June 2006
Effect of discounting of account receivable	41,469	-
Other income	30,042	20,397
Total	**71,511**	**20,397**

Note 15. Earnings per share

	Year ended 30 June 2007	Year ended 30 June 2006
Weighted average number of ordinary shares issued (thousands)	415,504,749	415,504,749
Weighted average number of preference shares issued (thousands)	813,011	813,011
Weighted average number of ordinary and preference shares outstanding (thousands)	416,317,760	416,317,760
Loss attributable to the shareholders of TGC-2	(394,187)	(728,783)
Weighted average earnings per ordinary and preference share – basic and diluted (in RR)	(0.001)	(0.002)

(in thousands of Russian Roubles)

Note 16. Contingencies

Political environment. The operations and earnings of the 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 Russia.

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

Legal proceedings. The Group entities are 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 and not provided for which, upon final disposition, will have a material adverse effect on the financial position of the Group.

Provisions for impairment of inventories and accounts receivable. Movements in provision for impairment of accounts receivables, and inventories are as follows:

	Total obsolescence inventory provision	Provision for impairment of receivables (Notes 13)
Balance as at 1 January 2006	**20,084**	**1,049,803**
Accrued	-	57,214
Reversal of write-down of inventories to net realisable value	(13,187)	-
Balance as at 30 June 2006	**6,897**	**1,107,017**
Balance as at 31 December 2006	**17,867**	**1,353,410**
Accrued	-	281,911
Reversal of impairment of accounts receivable	-	(653,357)
Balance as at 30 June 2007	**17,867**	**981,964**

Tax contingency. Russian tax, currency and customs legislation is subject to varying interpretation, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities in particular the existing way of calculation of water tax. 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 restructuring, there might be respective legal and tax risks.

As at 30 June 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.

Environmental matters. The 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.

Note 17. Financial instruments and financial risk factors

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.

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

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

The cash has been deposited in the financial institutions with no more than minimal exposure to the default risk at the time of account opening.

Interest rate risk. The Group operating profits and cash flows from operating activity are largely not dependent on the changes in market interest rates. The majority of interest rates on current and non-current borrowings are fixed, these are disclosed in Note 12.

Fair values. Management believes that the fair values of its financial assets and liabilities approximates their carrying amount.

Note18. Subsequent events

Sale of TGC-2 shares by Parent . On 14 March 2008 RAO UES of Russia announced the results of the open auction held for the sale of its 33.42% shareholding in TGC-2 (percentage is given without taking into account additional share issue placed by the Group). LLC "Kores Invest" has been declared the winner of the auction.

Additional share issue. On 7 May 2008 the Group has announced results of additional share placement and submitted official notification to the Federal Service for Financial Markets. Shares have been placed through public offering. The Group has placed 360 000 000 000 ordinary shares with nominal value of RR 0.01 per share and total value RR 3 600 000 thousand. Shares have been placed by RR 0.025 per share, total amount of cash received is RR 9 000 000 thousand.

Lost of control by Parent. As a result of disposal of shares held in TGC-2 and additional the share issue held by the Group, on 9 June 2008 RAO UES of Russia lost control over TGC-2 and LLC "Kores Invest" acquired ownership of more than 43% of the Group.

Merger with TGC-2 Holding. On 1 July 2008 OJSC TGC-2 Holding has merged with the Group.