RAO UES Group
IFRS Consolidated Interim Financial Statements
For the six months ended 30 June 2007

PRICEWATERHOUSECOOPERS

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REPORT ON REVIEW OF INTERIM FINANCIAL STATEMENTS

To the Shareholders and Board of Directors of the Russian Open Joint Stock Company for Energy and Electrification Unified System of Russia ("RAO UES"):

Introduction
We have reviewed the accompanying interim consolidated financial statements of RAO UES and its subsidiaries (the "Group") which comprise the interim consolidated balance sheet as at 30 June 2007 and the interim consolidated statement of operations, interim consolidated statement of changes in equity and interim consolidated statement of cash flows for the six months then ended and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of these interim consolidated financial statements in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on these interim and consolidated financial statements 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 accompanying interim consolidated financial statements do not present fairly, in all material respects, the financial position of the Group as at 30 June 2007, and its financial performance and its cash flows for the six months period then ended in accordance with International Accounting Standard 34 "Interim Financial Reporting".

Emphasis of Matters
Without qualifying our opinion:

- we draw your attention to Notes 4 and 8 to the accompanying interim consolidated financial statements. Starting from 1 January 2007 the Group changed its accounting policy for property, plant and equipment which are now stated at revalued cost. Prior to 1 January 2007 property, plant and equipment were stated at depreciated cost less impairment. As a result of the revalution, property, plant and equipment of the Group increased by RR 535,426 million; and

- we draw your attention to Notes 1, 3 and 7 to the accompanying interim consolidated financial statements. The Government of the Russian Federation has a controlling interest in the Group and Governmental economic and social policies affect the Group's financial position, results of operations and cash flows.

  Based on the decisions made by the Government of the Russian Federation, the Russian electric utilities industry in general and the Group in particular are presently undergoing a reform process. As a result of the reorganisation, the RAO UES assets will be distributed to the shareholders in proportion to their stakes in the RAO UES share capital; all the businesses and assets of the Group will continue to be operated until they are either sold or distributed to the shareholders. RAO UES is expected to be liquidated by 30 June 2008.

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation

21 December 2007

RAO UES Group

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

	Notes	30 June 2007	31 December 2006
ASSETS			
Non-current assets			
Property, plant and equipment	8	1,813,861	1,217,526
Investments in associates and jointly controlled entities	9	104,870	3,338
Deferred profit tax assets	16	457	3,988
Other non-current assets	10	35,457	34,165
Total non-current assets		**1,954,645**	**1,259,017**
Current assets			
Cash and cash equivalents	11	124,246	54,101
Accounts receivable and prepayments	12	169,481	134,282
Inventories	13	54,687	60,973
Other current assets	14	37,480	30,180
Total current assets		**385,894**	**279,536**
Non-current assets classified as held for sale	29	-	**4,883**
TOTAL ASSETS		2,340,539	1,543,436
EQUITY AND LIABILITIES			
Equity	15		
Share capital			
Ordinary shares (nominal value RR 20,521 million)		147,439	147,439
Preference shares (nominal value RR 1,038 million)		7,667	7,667
Treasury shares		(3,264)	(3,707)
Retained earnings and other reserves		986,079	566,132
Total equity attributable to the shareholders of RAO UES		**1,137,921**	**717,531**
Minority interest		464,986	309,219
Total equity		**1,602,907**	**1,026,750**
Non-current liabilities			
Deferred profit tax liabilities	16	320,563	136,496
Non-current debt	17	120,548	107,777
Other non-current liabilities	18	12,915	15,755
Total non-current liabilities		**454,026**	**260,028**
Current liabilities			
Current debt and current portion of non-current debt	19	101,426	101,935
Accounts payable and accrued charges	20	136,239	112,128
Taxes payable	21	45,941	41,965
Total current liabilities		**283,606**	**256,028**
Liabilities directly associated with non-current assets classified as held for sale	29	-	**630**
Total liabilities		**737,632**	**516,686**
TOTAL EQUITY AND LIABILITIES		2,340,539	1,543,436

Chairman of the Management Board — Chubais A.B.

Financial Director — Dubinin S.K.

21 December 2007

The accompanying notes are an integral part of these consolidated financial statements.

RAO UES Group

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

	Notes	Six months ended 30 June 2007	Six months ended 30 June 2006
Continuing operations			
Revenues	23	503,427	446,152
Disposal of subsidiaries	5	49,578	-
Reversal of impairment	8	827	-
Operating expenses	24	(449,985)	(393,408)
Operating profit		103,847	52,744
Finance costs	25	(10,475)	(6,460)
Share of profit of associates and jointly controlled entities	9	155	267
Profit before profit tax		93,527	46,551
Profit tax charge	16	(75,730)	(19,950)
Profit for the period from continuing operations		17,797	26,601
Discontinued operations			
Profit for the period from discontinued operations	27	914	554
Profit for the period		**18,711**	**27,155**
Attributable to:			
Shareholders of RAO UES		12,689	20,045
Minority interest		6,022	7,110
Earnings per ordinary share for profit from continuing operations attributable to the shareholders of RAO UES – basic and diluted (in Russian Roubles)	26	**0.27**	**0.46**
Earnings per ordinary share for profit from discontinued operations attributable to the shareholders of RAO UES – basic and diluted (in Russian Roubles)	26	**0.02**	**0.01**
Earnings per preference share for profit from continuing operations attributable to the shareholders of RAO UES – basic and diluted (in Russian Roubles)	26	**0.27**	**0.60**
Earnings per preference share for profit from discontinued operations attributable to the shareholders of RAO UES – basic and diluted (in Russian Roubles)	26	**0.02**	**0.01**

Chairman of the Management Board ✓ Chubais A.B.

Financial Director Dubinin S.K.

21 December 2007

RAO UES Group

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

	Notes	Six months ended 30 June 2007	Six months ended 30 June 2006
CASH FLOW FROM OPERATING ACTIVITIES:			
Profit before profit tax		**94,487**	**47,153**
Profit before profit tax from discontinued operations	27	(960)	(602)
Adjustments to reconcile profit before profit tax to net cash provided by operations:			
Depreciation of property, plant and equipment	24	42,591	30,766
Impairment reversal	8	(827)	-
Doubtful debtors expense	24	5,205	5,652
Finance costs	25	10,475	6,460
Share of profit of associates and jointly controlled entities	9	(155)	(267)
Loss on disposal of property, plant and equipment	24	1,754	2,683
Disposal of subsidiaries	5	(49,578)	-
Adjustment for other non-cash investing activities		(5,591)	(6,181)
Operating cash flows before working capital changes and profit tax paid		**97,401**	**85,664**
Working capital changes:			
Increase in accounts receivable and prepayments		(56,623)	(23,181)
Increase in other current assets		(5,748)	(2,756)
Increase in inventories		(825)	(5,079)
Decrease in other non-current assets		1,351	4,088
Increase in accounts payable and accrued charges		40,700	6,938
Increase/(decrease) in taxes payable, other than profits tax		19	(7,764)
(Decrease)/increase in other non-current liabilities		(2,819)	1,928
Profit tax paid		(26,289)	(26,236)
Net cash generated by operating activities - continuing operations		**47,167**	**33,602**
Net cash generated by operating activities - discontinued operations		**(998)**	**(1,063)**
CASH FLOW FROM INVESTING ACTIVITIES:			
Additions to property, plant and equipment		(99,285)	(49,626)
Proceeds from sale of property, plant and equipment		1,314	915
Purchase of investments		(238)	(248)
Proceeds from sales of subsidiaries, net of cash disposed	5	16,810	-
Proceeds from the sales of shares in subsidiaries	5	39,189	-
Cash disposed by associate companies	5	(7,319)	-
Net cash used for investing activities - continuing operation		**(49,529)**	**(48,959)**
Net cash used for investing activities - discontinued operation		**1**	**(12)**
CASH FLOW FROM FINANCING ACTIVITIES:			
Proceeds from issuance of current debt		222,729	168,015
Proceeds from issuance of non-current debt		66,694	37,825
Repayment of debt		(241,472)	(185,653)
Interest paid		(8,311)	(4,757)
Dividends paid to RAO UES shareholders		(12)	(8)
Dividends paid by the Group to minority interest shareholders		(921)	(1,704)
Proceeds from share issuance by subsidiaries	15	33,661	-
Proceeds from treasury shares, net	15	443	-
Net cash generated by financing activities - continuing operation		**72,811**	**13,718**
Net cash generated by financing activities - discontinued operation		**693**	**683**
Increase/(decrease) in cash and cash equivalents		**70,145**	**(2,031)**
Cash and cash equivalents at the beginning of the period	11	**54,101**	**37,125**
Cash and cash equivalents at the end of the period	11	**124,246**	**35,094**

Chairman of the Management Board — Chubais A.B.

Financial Director — Dubinin S.K.

21 December 2007

The accompanying notes are an integral part of these consolidated financial statements.

RAO UES Group

Consolidated Interim Statement of Changes in Equity for the six months ended 30 June 2007

(in millions of Russian Roubles)

	Attributable to the shareholders of RAO UES							
	Ordinary shares	**Preference shares**	**Treasury shares**	**Retained earnings**	**Other reserves**	**Total**	**Minority interest**	**Total equity**
As at 1 January 2006	**147,439**	**7,667**	**(3,707)**	**468,454**	**290**	**620,143**	**240,044**	**860,187**
Change in fair value of available-for-sale investments	-	-	-	-	178	178	-	178
Translation differences (Note 15)	-	-	-	581	-	581	-	581
Net income recognised directly in equity	-	-	-	581	178	759		759
Profit for the period	-	-	-	20,045	-	20,045	7,110	27,155
Total recognised income for the period	-	-	-	20,626	178	20,804	7,110	27,914
Dividends (Note 15)	-	-	-	(2,758)	-	(2,758)	(3,080)	(5,838)
Stock option plan (Note 7)	-	-	-	65	-	65	-	65
Changes in Group structure (Note 5)	-	-	-	(1,361)	-	(1,361)	2,436	1,075
As at 30 June 2006	**147,439**	**7,667**	**(3,707)**	**485,026**	**468**	**636,893**	**246,510**	**883,403**
As at 1 January 2007	**147,439**	**7,667**	**(3,707)**	**560,511**	**5,621**	**717,531**	**309,219**	**1,026,750**
Revaluation of property, plan and equipment (Note 8)	-	-	-	-	362,079	362,079	173,347	535,426
Change in fair value of available-for-sale investments (Note 10)	-	-	-	-	3,629	3,629	-	3,629
Translation differences (Note 15)	-	-	-	(30)	-	(30)	-	(30)
Change in equity of associates (Note 9,15)	-	-	-	3,078	-	3,078	-	3,078
Net income recognised directly in equity	-	-	-	3,048	365,708	368,756	173,347	542,103
Profit for the period	-	-	-	12,689	-	12,689	6,022	18,711
Total recognised income for the period	-	-	-	15,737	365,708	381,445	179,369	560,814
Decrease of treasury shares (Note 15)	-	-	443	-	-	443	-	443
Stock option plan (Note 7)	-	-	-	286	-	286	-	286
Dividends (Note 15)	-	-	-	-	-	-	(3,010)	(3,010)
Changes in Group structure (Note 15)	-	-	-	69,401	(31,185)	38,216	(20,592)	17,624
As at 30 June 2007	**147,439**	**7,667**	**(3,264)**	**645,935**	**340,144**	**1,137,921**	**464,986**	**1,602,907**

Chairman of the Management Board — Chubais A.B.

Financial Director — Dubinin S.K.

21 December 2007

Note 1: The Group and its operations

The Russian Open Joint Stock Company for Energy and Electrification Unified Energy System of Russia ("RAO UES") was created on 31 December 1992 following the privatisation of certain electricity power generation, transmission and distribution assets formerly under the control of the Ministry of Energy of the Russian Federation. Nuclear generation stations were not transferred to RAO UES.

The RAO UES Group (the "Group") consists of RAO UES and its related subsidiaries, associates and jointly controlled entities. The Group principal subsidiaries as at 30 June 2007 are presented in Note 5. The Group associates and jointly controlled entities are presented in Note 9.

The Group performs the following major activities:

- ***Generation*** – electricity and heat generation;
- ***Transmission*** – high voltage transmission of electricity;
- ***Distribution*** – delivery of electricity through distribution grids;
- ***Retailing*** – sales of electricity.

RAO UES's registered office is located at bld. 3, 101 Vernadskogo prospect, 119526, Moscow, Russia.

Operating environment of the Group. Whilst there have been improvements in economic trends in the Russian Federation, the country continues to display certain characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the Russian Federation and relatively high inflation. 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 Government of the Russian Federation owned 52.7 percent of RAO UES, which represents 55.0 percent of the ordinary shares issued. As discussed in Note 15, only ordinary shares have voting rights. The Group's customer base includes a large number of entities controlled by, or related to, the state. Furthermore, the state controls a number of the Group's fuel and other suppliers (see Note 7).

The Government of the Russian Federation affects the Group's operations through:

- participation of its representatives in the Board of Directors of RAO UES;
- its tariff regulation within wholesale and retail electricity and heat markets;
- its control over and approval for the Group companies' investment programs;
- its antimonopoly regulation.

The Federal Service on Tariffs ("FST") regulates electricity and heat tariffs by setting maximum electricity and heat tariff levels for final consumers, wholesale market and infrastructural entities (electricity transmission through the high voltage grids), and the regional services on tariffs ("RSTs") set tariffs for electricity and heat for final consumers and tariffs for electricity distribution through the low voltage grids on regional retail markets. Although there is now some free trading of limited volumes of electricity, currently for the great majority of sales the tariffs which Group entities may charge for sales of electricity and heat are governed both by regulations specific to the electricity and heat industry and by regulations applicable to natural monopolies. As a condition to privatisation in 1992, the Government of the Russian Federation imposed an obligation on Group entities to provide connection for the supply of electricity and heating to customers in the Russian Federation.

Investment programs of the Group's companies are subject to approval by state regulation bodies. Approval of the investment programs of RAO UES, Federal grid company and System operator CDU UES is within the competence of the Ministry of Industry and Electricity, the Ministry of Economic Development and Trade of the Russian Federation and FST. The RSTs approve the investment programs of regional distribution and energy sales companies.

As described in Notes 2, 28 and 30, the Government's economic, social and other policies could have material effects on the operations of the Group.

Regulatory issues and 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 the Group and its successor 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" ("Federal Law No.36-FZ").

- 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 the free trading sector. Since November 2003, the non-commercial partnership "Trade System Administrator of the Wholesale Electricity Market", had been holding electricity bidding in the free trading sector. Starting from October 2005, a balancing market was put in operation.

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

- As at 29 May 2003, the Board of Directors of RAO UES approved a "Concept of RAO UES strategy for the period from 2003 through 2008" (further – the "Concept of RAO UES Strategy"). In February 2006 the Board of Directors approved Appendixes to the Concept of RAO UES Strategy: "Territorial generating companies ("TGCs") being created on the basis of assets of the Holding Company RAO UES" and "Generating companies of the Wholesale Electricity Market ("WGCs")". These documents provide a detailed description of the major changes that were planned to take place in the Group during the electric utilities reform program.

- In October 2005 the Board of Directors of RAO UES cancelled the moratorium on the disposal of core assets of the Group and determined rules on spending of proceeds from the sale of property, plant and equipment and long-term investments.

- In December 2006 the Board of Directors of RAO UES approved the 'Disposition of shares of retailing subsidiaries' strategy, which provides that public auctions will be held to sell the shares of the retailing subsidiaries, with the minimum auction price being not less than the market price estimated by an independent appraiser. As at 30 June 2007 several auctions had been held to sell shares of seven retailing companies (see Note 27).

- As at 2 March 2007, the Board of Directors of RAO UES, and as at 26 October 2007 the Extraordinary shareholder meeting, approved the basic structure for the second (final) phase of the Company's reorganisation which assumes that in 2007-2008 the Company will complete the restructuring of RAO UES assets and spin off all companies which will comprise the ultimate sector structure, following which RAO UES will cease its activity. The Board of Directors of RAO UES considered and approved a plan that envisages that the Group or successor entities raise funds for future capital expenditures by selling existing shares in the share capital of all the WGCs and TGCs, except for Federal Hydro Generating Company HydroWGC, WGC-5 and TGC-5, in the amount not exceeding the effective share of the Russian Federation in RAO UES.

- In accordance with the program of reorganization, the Federal Hydro Generating Company HydroWGC will be an operating company which controls the hydroelectric power stations of the Group. In compliance with the Federal Law No.36-FZ the ownership interest of Russian Federation in HydroWGC will remain at the level not less than 50 percent +1 share.

- In 1st quarter 2007, in order to attract investments, WGC-3 issued additional shares by public offering and Mosenergo (TGC-3) issued additional shares by private offering in favour of the Gazprom group. As a result of these operations the Group lost control over WGC-3 and Mosenergo and they became associates (see Note 5).

- As at 25 May 2007, the Board of Directors considered and approved a detailed restructuring budget for 2007-2008, which includes amounts set aside to cover expenses related to the second (final) phase of the Company's reorganization. Those expenses include certain mandatory payments to employees, the anticipated costs of financial and legal consulting services, costs in relation to necessary valuation exercises for assets and other costs. The total amount of the budget approved in respect of costs and other expenditure on restructuring might vary from RR 5,579 million to up to RR 15,463 million. The exact amount will depend on events which will occur in the future.

- In August 2007 the Board of Directors of RAO UES decided to sell 33.93 percent and 35.81 percent blocks of shares in TGC-9 and SGC TGC-8, respectively, which should be transferred to the balance sheets of State Holding and State Holding Hydro WGK upon the completion of the reorganization of RAO UES.

- As at 4 September 2007 the first stage of reorganization of the Parent company – RAO UES has been completed which resulted in the spin-off of two generating companies – WGC-5 and TGC-5. As at the date of spinning-off, the Group ownership interest in WGC-5 and TGC-5 was 50.99 and 47.45 percent. For each ordinary share of RAO UES shareholders received 0.41 (rounded) ordinary share of WGC-5 and 13.59 (rounded) ordinary shares of TGC-5. For each preference share of RAO UES, the shareholders will get 0.37 (rounded) ordinary share of WGC-5 and 12.45 (rounded) ordinary shares of TGC-5. As at 30 June 2007 the net assets according to IFRS amounted to RR 50,071 million for WGC-5 and RR 27,725 million for TGC-5.

- In May 2007 the Resolution on Practical Implementation of the Kyoto Protocol Mechanisms in Russia was signed by the Chairman of the Russian Federation Government. The Group will now be able to go ahead with about 40 projects designed to improve energy efficiency and cut CO2 emissions. According to experts, these projects may generate over EUR 700 million in funds for the Russian electricity industry, which will be used to help modernize the existing generation capacity and build new generation capacity using the most advanced power equipment. Now that the Government Resolution has been adopted, Russia will be able to complete its first Kyoto Protocol project launched in 2005. Two years ago two subsidiaries of RAO UES — OJSC Orenburgenergo and OJSC Khabarovskenergo—signed an agreement with the Danish Environmental Protection Agency (DEPA) on the sale of emissions reductions units (ERUs) generated by the modernization projects at two power plants. As at 1 July 2007 three more contracts were signed by Group companies and sixteen more contracts are in the process of coordination.

Note 2: Financial condition

As discussed above, the Group is affected by Government policy through control of tariffs and other factors. The RSTs do not always permit tariff increases in line with increases in the Group's costs and thus some tariffs are insufficient to cover all the costs of generation and distribution. Moreover, these tariffs consider costs only on a Russian statutory basis and, accordingly, exclude additional costs recognised under an International Financial Reporting Standards ("IFRS") basis of accounting. As a result, regulated tariffs do not consistently allow for an adequate return on investment and currently do not provide sufficient funds for the full replacement of property, plant and equipment. Furthermore, the Group also experiences difficulties raising finance for necessary investment in generation, transmission and distribution assets.

Although management in recent years has improved the absolute level of settlements for current sales the Group continues to experience problems in obtaining settlement of old accounts receivable. Currently substantially all settlements of accounts receivable are made in cash. Despite this success, there still remains a significant amount of uncollected accounts receivable from earlier periods. Management has continued its collection and restructuring efforts to reduce the outstanding balances. There is legislation enabling the Group to cut off non-payers, but this is only possible to a certain extent due to strategic and political factors. Federal, municipal and other Governmental organisations make up a significant portion of the debtor balance as at 30 June 2007. The Group has provided against doubtful accounts receivable, as further described in Notes 10 and 12.

Group management has been taking the following actions in order to address the issues noted above and improve the Group's financial position:

- introduction of improved financial budgeting procedures; a strong focus on timely cash collection of current and old debtor balances; restructuring of liabilities for repayment over a longer period;
- discussions with strategic investors, and identification and assessment of projects requiring investment funds;
- negotiations with federal and regional Governments and regulators for real increases in tariffs to support adequate long term investment into the Group's generation, transmission and distribution assets; and
- active participation in the restructuring of the Russian electricity utility industry (see Note 1).

Management believes that ultimately a stable regulatory regime and a competitive power market will be put in place such that the Group and its successors will be able to raise needed capital to sustain the business. However, there can be no assurance in this regard.

Note 3: Basis of preparation

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

Each enterprise of the Group individually maintains its own books of accounts and prepares its statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation ("RAR") with the exception of foreign companies which prepare their statutory financial statements in accordance with their statutory accounting requirements. The accompanying Financial Statements are based on the statutory records and adjusted and reclassified for the purpose of fair presentation in accordance with IFRS.

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

Before 31 December 2006, property, plant and equipment were divided into groups, according to their function, such as electricity and heat generation. This classification was considered appropriate when the group was comprised of vertically integrated entities carrying out activities from generation to final consumer sales. Companies, related to different segments, such as generation, transmission and distribution of electric power, and also heating networks, were separated from AO Energo during the reorganization. Property, plant and equipment transferred to newly formed companies from AO Energo during the reorganization generally relate to one function, from which the entity generates income. Dividing of property, pant and equipment according to their functional area no longer provides useful information. Management considers that classifiying property, plant and equipment by their nature rather than by their function provides more useful information and is more representative of the new structure of RAO UES Group. Comparative information for 2006 and 2005 has been restated in line with the new classification.

(in millions of Russian Roubles)

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	462,780	318,759
Electricity transmission	140,045	111,967
Electricity distribution	250,577	225,847
Heating networks	54,581	40,373
Construction in progress	221,276	182,697
Other	88,267	75,489
Total	**1,217,526**	**955,132**

PPE groups for IFRS purposes (in accordance with newly adopted classification)	As at 31 December 2006	As at 31 December 2005
Production buildings	211,304	151,967
Hydrotechnical buildings	67,681	50,201
Equipment and assembling units	144,237	94,869
Substations & power equipment	173,920	132,340
Electricity grids and equipment	245,682	217,856
Heat grids	55,979	41,774
Construction in progress	223,317	184,645
Other	95,406	81,480
Total	**1,217,526**	**955,132**

In prior periods the Group accounted for advances to construction companies and suppliers of property, plant and equipment as part of other non-current assets. Starting with consolidated interim financial statements for the 9 months ended 30 September 2006 the management considered that such advances should be disclosed as part of property, plant and equipment. Comparative information for the six month ended 30 June 2006 has been reclassified.

	Six months ended 30 June 2006	Six months ended 30 June 2006 (adjusted)
Additions to property plant and equipment	(42,446)	(49,626)
Increase in other non-current assets	(3,033)	4,088
Additions to property, plant and equipment (Note 8)	46,673	53,867

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

Accounting of effect of hyperinflation. Prior to 1 January 2003 the adjustments and reclassifications made to the statutory records for the purpose of IFRS presentation included the restatement of balances and transactions for the changes in the general purchasing power of the RR in accordance with International Accounting Standards 29 ("IAS") ("Financial Reporting in Hyperinflationary Economies"). IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy should be stated in terms of the measuring unit current at the balance sheet date. As the characteristics of the economic environment of the Russian Federation indicated that hyperinflation ceased, effective from 1 January 2003 the Group no longer applied the provisions of IAS 29. Accordingly, the amounts expressed in the measuring unit current as at 31 December 2002 are treated as the basis for the carrying amounts in these Financial Statements.

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

These new or amended standards and interpretations that are in force for the year beginning on 1 January 2007 and their impact on the current period or any prior period 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;
- IFRIC 11, "IFRS 2 - Group and Treasury share transactions ", effective for annual periods beginning on or after 1 March 2007. This amendment did not have a material effect on the Group's financial statements;
- IFRS 7, "Financial instruments: Disclosures", effective for annual periods beginning on or after 1 January 2007. IAS 1, "Amendments to capital disclosures", effective for annual periods beginning on or after 1 January 2007. The Group has adopted IFRS 7 and the amendment to IAS 1 starting from 1 January 2007.

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

- IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). The Standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments and specifies how an entity should report such information;
- Amendment to IAS 23 "Borrowing Cost" effective for borrowing costs relating to qualifying assets for which the commencement date for 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 significantly affect the Group's financial statements.

Going concern. As discussed in Note 1 the Board of Directors has agreed the final phase of the Group's reorganisation. When the reorganisation is completed, which is envisaged on the 1 July 2008, the RAO UES will cease its activity. The directors consider that it is not appropriate to prepare the financial statements on a going concern basis. During the final reorganization the RAO UES assets will be distributed to the shareholders in proportion to their stakes in the RAO UES authorized capital. All businesses and assets of the Group will continue to be operated until they are sold or distributed to shareholders and are expected to be realised at amounts at least equal to their carrying amount accordingly no adjustments to the carrying value of assets and liabilities have been made to reflect the proposed reorganisation.

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

Revaluation of property, plant and equipment

Fair value of property, plant and equipment and the remaining useful life of property, plant and equipment of the Group companies have been determined by independent appraisers as at 1 January 2007. The carrying value and depreciation of property, plant and equipment are effected by the estimates of replacement cost, depreciated replacement cost and remaining useful lives. Changes in these assumptions could have a material impact to the fair value of property, plant and equipment (see Note 8).

Impairment provision for accounts receivable

The impairment provision for accounts receivable is based on the Group's assessment of the collectibility of specific customer accounts. If there is deterioration in a major customer's creditworthiness or actual defaults are higher than the estimates, the actual accounts receivable could differ from these estimates (see Note 12).

If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed accounts receivable, whether significant or not, it includes the account receivable in a group of accounts receivable with similar credit risk characteristics and collectively assesses them for impairment.

For the purposes of a collective evaluation of impairment accounts receivable are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of accounts receivable that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

Impairment of other assets and accounting for provisions

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

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

Provisions for pension obligations are periodically adjusted based on updated actuarial assumptions (see Note 22).

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

Fair value of acquired assets and liabilities

IFRS 3 requires that, at the date of acquisitions, all identifiable assets, liabilities and contingent liabilities of an acquired entity should be recorded at their respective fair values. The estimation of fair values requires management's judgment. Changes in any of the estimates subsequent to the finalization of acquisition accounting may result in losses or profits in future periods.

Tax contingencies

Russian tax legislation is subject to varying interpretations and changes, which can occur frequently. Where the Group management believes it is probable that their interpretation of the relevant legislation and the Group's tax positions cannot be sustained, an appropriate amount is accrued for in the IFRS financial information (see Note 30).

Useful lives of property, plant and equipment

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

Deferred tax

Before 31 December 2006 the Group did not recognize a deferred tax liability in respect of temporary differences associated with investments in almost all of its subsidiaries. Before that date reversal of the temporary differences was within the control of the Group and it was not probable that they would reverse, because the Group had made no decision on the manner of the restructuring that could trigger a taxable event (see Note 16).

On 2 March 2007 the RAO UES Board of Directors approved a plan to sell certain of the existing shares in the share capital of all the WGCs and TGCs, except for Federal Hydro Generating Company HydroWGC, WGC-5 and TGC-5. The amount the Board agreed to sell is in the amount not exceeding the effective share of the Russian Federation in RAO UES. Management considered this decision as a triggering event for the recognition of an element of the previously unrecognised deferred tax liability (see Note 16). Consequently as at 31 December 2006 an additional deferred tax liability of RR 36,712 million was recognized in respect of such taxable events.

During the six month ended 30 June 2007, due to changes in the Group structure, net assets of subsidiaries and investments tax base, the Group recognised an additional RR 18,623 million of deferred tax liability, increasing the deferred tax liability to RR 55,335 million as at 30 June 2007.

Tariff imbalance

As at 31 December 2006 the Group has de-recognised the tariff imbalance (see Note 20). Due to the inherent uncertainties in the operation of the previous wholesale electricity market and the fact that the change in legislation for the new market was prospective, judgement was involved in deciding that a liability no longer exists. Management has concluded, based on all the available evidence that a liability for the tariff imbalance no longer exists. Management has also concluded that there is still a possible obligation that could become a liability if the Government of the Russian Federation were to change its regulatory policy and seek to recover past tariff imbalances from the Group (see Note 30).

Note 4: Summary of significant accounting policies

Principles of consolidation. The Financial Statements comprise the financial statements of RAO UES and the financial statements of those entities whose operations are controlled by RAO UES. Control is presumed to exist when RAO UES controls, directly or indirectly through subsidiaries, more than 50 percent of voting rights. The Group consolidates a number of companies in which the Group owns less than 50 percent of the voting shares. In these circumstances, control exists on the basis of a significant shareholding combined with other factors which allow the Group to exercise control, namely: 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.

The majority of the principal subsidiary companies described in Note 5 were transferred to the Group by the state on and after the incorporation of RAO UES as a joint stock company, or were created as a result of the Group restructuring of such companies. These transfers represent a reorganisation of assets under common control and, accordingly, were accounted for in a manner similar to the uniting of interests method of accounting from the date of privatisation of each Group entity, or from the date of the related restructuring.

All inter-company balances and transactions have been eliminated. The minority interest has been disclosed as part of equity.

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

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

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

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

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

Business combinations. All business combinations are accounted for by applying the purchase method of accounting. Where the Group obtains control of an entity or a business, it measures the cost of the business combination as the aggregate of:

(a) the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group, in exchange for control of the acquiree and

(b) any costs directly attributable to the business combination.

The acquisition date is the date when the Group effectively obtains control of the acquiree.

Goodwill. Goodwill is recognised on acquisitions of subsidiaries, associates and jointly controlled entities. Goodwill arising on the acquisitions represents any excess of the purchase consideration over the acquirer's interest in the net fair value of identifiable assets, liabilities and contingent liabilities. Goodwill is recognised at cost less impairment losses. The carrying amount of goodwill is assessed for impairment on an annual basis. In respect of associates and jointly controlled entities, the carrying amount of goodwill is included in the carrying amount of the investment.

Any excess of the fair value of the net identifiable assets acquired over the cost of acquisition is recognised immediately in the statement of operations.

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

Available-for-sale investments include non-marketable securities, which are not publicly traded or listed on the Russian stock exchange. For these investments, fair value is estimated by reference to a variety of methods including those based on their earnings and those using the discounted value of estimated future cash flows. In assessing the fair value, management makes assumptions that are based on market conditions existing at each balance sheet date. Investments in equity securities that are not quoted on a stock exchange and where fair value cannot be estimated on a reasonable basis by other means, are stated at cost less impairment losses.

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

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of available-for-sale investments. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through current period's profit or loss.

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

Foreign currency. Monetary assets and liabilities, which are held by the Group entities and denominated in foreign currencies at the balance sheet date, are translated into RR at the exchange rates prevailing at that date. Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of operations.

The balance sheets of foreign subsidiaries are translated into RR at the exchange rate prevailing at the reporting date. Statements of operations of foreign entities are translated at the average exchange rate for the year. Exchange differences arising on the translation of the net assets of foreign subsidiaries are recognised as translation differences and included in the translation reserve in equity.

As at 30 June 2007, the official rate of exchange, as determined by the Central Bank of the Russian Federation, between the RR and the US Dollar ("USD") was RR 25.59: USD 1.00 (31 December 2006: RR 26.33: USD 1.00), between the RR and EURO RR 34.93: EURO 1.00 (31 December 2006: RR 34.70: EURO 1.00).

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

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

(in millions of Russian Roubles)

The amounts determined by the third party valuation before 1 January 2007 represented an estimate of depreciated replacement cost. The third party 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 the 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 upon the movements in the fair values of the assets being revalued.

Increases in the carrying amount arising on revaluation of property, plant and equipment are credited to revaluation reserves in equity, unless the decrease of the reserve previously recognized in the statement of operations. Decreases that offset previous increases of the same asset are charged against revaluation reserves directly in equity; all other decreases are charged to the income statement. Any accumulated depreciation at the date of revaluation is eliminated against the gross amount of the asset, and the net amount is restated to the revalued amount of the asset.

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

Renewals and improvements are capitalised and the assets replaced are retired. The cost of repair and maintenance are expensed as incurred. Gains and losses arising from the retirement of property, plant and equipment are included in the statement of operations 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 as at 31 December 1997, 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 facility	Acquired prior to 31 December 1997	Acquired subsequent to 31 December 1997
Electricity and heat generation	3 – 50	20 – 50
Electricity transmission	14 – 19	25
Electricity distribution	3 – 40	25
Heating network	3 – 43	20
Other	8 – 24	7 – 10

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

Type of facility	Acquired prior to 31 December 1997	Acquired subsequent to 31 December 1997
Production buildings	6-80	50
Hydrotechnical buildings	1-125	50
Equipment and assembling units	3-65	20
Substations & power equipment	3-50	30
Electricity grids and equipment	4-68	25
Heat grids	3-43	20
Other	5-40	7

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

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.

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

Type of facility	Revised starting from 1 January 2007
Production buildings	11-91
Hydrotechnical buildings	7-99
Equipment and assembling units	5-45
Substations & power equipment	5-49
Electricity grids and equipment	6-40
Heat grids	6-56
Other	5-67

Assets that have an indefinite useful life, for example land, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

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

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

Cash and cash equivalents. Cash comprises cash in hand and cash deposited on demand at banks. Cash equivalents comprise certificates of deposit and short-term high liquid investments that are readily convertible into cash and have an original maturity of three months or less and are subject to insignificant changes in value.

Accounts receivable and prepayments. Accounts receivable are recorded inclusive of value added taxes. Trade and other receivables are adjusted for an allowance made for impairment of these receivables. Such an allowance for doubtful debtors is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the allowance is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the original effective rate of interest.

Uncertain tax position. The Group's uncertain tax positions are reassessed by Management at every balance sheet date. Liabilities are recorded for income tax positions that are determined by Management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the balance sheet date and any known Court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on Management's best estimate of the expenditure required to settle the obligations at the balance sheet date.

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

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

Income taxes. Income taxes have been provided for in the consolidated financial statements in accordance with Russian legislation enacted or substantively enacted by the balance sheet date. The income tax charge comprises current tax and deferred tax and is recognised in the consolidated income statement unless it relates to transactions that are recognised, in the same or a different period, directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes, other than on income, are recorded within operating expenses.

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

Deferred income tax is provided on post acquisition retained earnings of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

Deferred profit tax is provided for the undistributed earnings of associated enterprises.

Accounts payable and accrued charges. Accounts payable are stated inclusive of value added tax. If accounts payable are restructured and the discounted present value of the cash flows under the restructured terms discounted using the original effective interest rate differs by more than ten percent from the discounted present value of the remaining cash flows of the original financial liability, the original liability is derecognised and the restructured liability is recognised at its fair value. The fair value of the restructured payable is measured as the discounted present value of the cash flows under the restructured terms using market interest rates prevailing at the time of restructuring. The gain on derecognition of the original liability is credited to the statement of operations as a gain on restructuring. Non-current portion of the restructured payable, if any, is reclassified to other non-current liabilities. The difference, if any, between the fair value of the restructured payable on its initial recognition and the maturity amount is amortised over the period until maturity as an interest expense.

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

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

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

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

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

Non-current assets classified as held for sale. Non-current assets and disposal groups (which may include both non-current and current assets) are classified in the balance sheet as 'Non-current assets held for sale' if their carrying amount will be recovered principally through a sale transaction within twelve months after the balance sheet date. Assets are reclassified when all of the following conditions are met at the balance sheet date: (a) the assets are available for immediate sale in their present condition; (b) the Group's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for a sale at a reasonable price; (d) the sale is expected to occur within one year and (d) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn.

Discontinued operations. A discontinued operation is a component of the Group that either has been disposed of, or that is classified as held for sale, and: (a) represents a separate major line of business or geographical area of operations; (b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or (c) is a subsidiary acquired exclusively with a view to resale. Earnings and cash flows of discontinued operations, if any, are disclosed separately from continuing operations with comparatives being re-presented.

Operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

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

Share-based payment transactions. The share option programme allows Group employees to acquire shares of the RAO UES. The fair value of the options is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options is measured based on the Black-Scholes formula, taking into account the terms and conditions upon which the instruments were granted.

Embedded derivatives. Within the ordinary course of business the Group routinely enters into sale and purchase transactions for commodities. These transactions take the form of contracts that were entered into and continue to be held for the purpose of receipt or delivery of the commodity in accordance with the Group's expected sale, purchase or usage requirements. Such contracts are not within the scope of IAS 39. All other net-settled commodity contracts are measured at fair value with gains and losses taken to the income statement.

An embedded derivative is one or more implicit or explicit terms in a contract affect the cash flows of the contract in a manner similar to a stand-alone derivative instrument. Any embedded derivative that meets the separation criterion is separated from its host contracts and measured as if it were a stand-alone derivative if its economic characteristics are not closely related to those of the host contract.

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

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

Earnings per share. Preference shares are considered to be participating shares, as their dividend may not be less than that given with respect to ordinary shares. The earnings per share is determined by dividing the profit attributable to ordinary and preference shareholders by the weighted average number of ordinary and preference shares outstanding during the reporting period, excluding the average number of treasury shares held by the Group. Preference shares participate in losses.

Treasury shares. Treasury shares are presented as a deduction from equity at weighted average cost. Any gains or losses arising on the disposal of treasury shares are recorded directly in equity attributable to the shareholders of RAO UES.

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.

Segment reporting. A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segments with a majority of revenue earned from sales to external customers and whose revenue, result or assets are ten percent or more of all the segments are reported separately.

In 2006 the Group had reconsidered the accounting approach regarding segment information presentation. The management has assessed that the Group operates in one geographical segment – Russian Federation. In the previous reporting periods the segment information was based on the distinguishing of seven geographical segments within Russian Federation following the principle that the Group's assets generate revenues primarily within the geographical region where they were located. This reconsideration was the result of the new liberalized model of operation of the wholesale and retail electricity (power) markets implementation as well as the Group restructuring, in particular the setting up of TGCs and WGCs and their subsequent mergers with generation companies. Following mentioned above the management believes that the geographical segment information is no longer meaningful and is not the subject of the disclosures in the financial statements.

Note 5: Principal subsidiaries

All subsidiaries with the exception of foreign companies are incorporated and operate in the Russian Federation. As described in Note 6, within the work of the restructuring of the Group it is organized into six main business segments. The principal subsidiaries are presented below according to their allocation to the business segments as at 30 June 2007.

Energo subsidiaries

Prior to 2006 RAO UES had ownership interests in more than 70 regional vertically integrated power companies ("Energo") responsible for the generation, distribution and sales of heat and electricity. These ownership interests ranged from 47 percent to 100 percent. During the sector restructuring the Energo companies are being mainly split into generation, distribution, transmission and retailing companies.

As at 30 September 2007, the Board of Directors of RAO UES had approved plans for the reorganization of 71 Energo companies, and the reorganization of 66 Energo companies was completed. As a result of this reorganization 265 new companies have been established.

(in millions of Russian Roubles)

As at 30 June 2007 the significant Energo subsidiaries were:

Name	Ownership %	Voting %	Name	Ownership %	Voting %
Kolymaenergo	70.32	70.32	Altayenergo	54.66	54.66

Generating subsidiaries

The wholesale generating companies (WGCs) have been established as subsidiaries of RAO UES with payment for their authorized share capitals of subsidiaries of RAO UES and RAO UES-owned property of power plants. WGCs comprise power plants (generating companies) separated from the Energo companies in the process of their restructuring. It was planned that the initially separate power plants would merge with and into the corresponding WGCs, which would become their parent companies. As at 30 June 2007 the mergers of the power plants with the WGCs, except for those belonging to Federal Hydro Generating Company HydroWGC, have already been completed.

In April 2007 the Board of Directors of RAO UES approved a plan of Hydro WGC restructuring into a single operating company, involving:

- Additional share issue;
- Reorganization of HydroWGC by mergers with subsidiaries. In the course of this reorganization the ownership interest of Russian Federation in HydroWGC will remain at the level not less than 50%+1 share;
- Additional share issue of HydroWGC in 2008-2010 to the benefit of Russian Federation for the purpose of financing the realization of its investment program.

The territorial generating companies (TGCs) were initially established as wholly owned subsidiaries of RAO UES. As a result of the restructuring process the regional generation companies (RGCs), which were originaly spun-off from the Energos (see Note 6), will be mergered with the TGCs.

As at 30 June 2007 the formation of 10 TGC have been completed: TGC-1, TGC-2, TGC-3 (Mosenergo), TGC-4, TGC-5, TGC-6, Volzhskaya TGC (TGC-7), YUGC TGC-8, TGC-9 and TGC-14, which were established as a result of the merger of regional generating companies into the TGC's structure. TGC-12 has been established on the basis of the generating assets of Kuzbassenergo.

A detailed description of the major changes that were planned to take place in the wholesale generating companies (WGCs) and the territorial generating companies (TGCs) during the restructuring process was set out in the Appendixes to the Concept of RAO UES Strategy "Generating companies of the Wholesale Electricity Market" and "Territorial generating companies being created on the basis of assets of Holding Company RAO UES" approved by the Board of Directors of RAO UES in February 2007.

As at 30 June 2007 the significant generating subsidiaries were:

Name	Ownership %	Voting %	Name	Ownership %	Voting %
Wholesale generating company-1	91.7	91.7	Kaliningradskaya TETS	91.5	91.5
Wholesale generating company-2	80.9	80.9	Territorial generating company-9	50.1	50.1
Wholesale generating company-4	89.7	89.8	Territorial generating company-1	55.7	55.7
Wholesale generating company-5	51.0	51.0	Volzhskaya territorial generating company	54.7	54.9
Wholesale generating company-6	93.5	93.5	Eniseiskaya territorial generating company-13	57.4	57.7
Federal hydro generating company	87.6	87.6	Territorial generating company-5	47.5	47.5
Territorial generating company-10	81.6	81.6	Territorial generating company-6	50.2	50.2
North-West Station	83.2	94.5	Territorial generating company-8	52.9	53.1
Kuzbassenergo	49.0	49.0			

(in millions of Russian Roubles)

Transmission subsidiaries

Federal Grid Company of Unified Energy System ("FGC") was established in June 2002 as a wholly-owned subsidiary of RAO UES to manage the transmission of electricity through the use of transmission assets received or earmarked for receipt from RAO UES and its subsidiaries.

In 2006 the formation of the Transmission companies (TCs), which were formed using the transmission businesses of the Energo companies during reorganization, have been completed.

In the 1st quarter of 2008 it is planned that TCs will merge with FGC for the purpose of full consolidation of transmission segment as a part of the restructuring process.

System Operator-Central Dispatch Unit of Unified Energy System ("SO-CDU") was established in September 2002 to perform electricity dispatch functions within the Unified Electricity System of the Russian Federation through the use of assets received or earmarked for receipt from RAO UES and its subsidiaries.

As at 30 June 2007 the significant transmission grid subsidiaries were:

Name	Ownership %	Voting %	Name	Ownership %	Voting %
Magistral grid company	44.6	50.9	Tumenskaya magistral grid company	87.6	100.0
FGC	87.6	87.6	SO CDU UES	100.0	100.0

Distribution subsidiaries

As at 30 June 2007 4 Interregional Distribution Grid Companies ("IDGCs") have been established. On 27 April 2007 the Board of Directors has approved the creation of 7 more Interregional Distribution Grid Companies. It is planned that the shares of the distribution companies separated from the Energo companies as a result of the restructuring process will be exchanged for shares of the IDGCs and the distribution companies will become subsidiaries and then merged with the IDGCs. The merger of distribution companies with IDGCs has not begun at 30 June 2007.

As at 30 June 2007 the significant distribution subsidiaries were:

Name	Ownership %	Voting %	Name	Ownership %	Voting %
Orenburgenergo	100.0	100.0	Moskovskaya heat grid company	50.9	50.9
Moskovskaya city power grid company	50.9	50.9	Lenenergo	56.0	63.6
Moskovskaya obyedinennaya power grid company	50.9	50.9	Krasnoyarskenergo	52.2	66.7
Permenergo	49.0	64.4	Rostovenergo	48.4	62.8
Sverdlovenergo	49.0	65.3	Stavropolenergo	55.1	71.9
Vologdaenergo	49.0	49.0	Volzhskaya interregional distribution company	49.6	49.7
Kubanenergo	49.0	49.0	Kolenergo	49.3	65.5
Tyumenenergo	100.0	100.0			

(in millions of Russian Roubles)

Retailing subsidiaries

As at 30 June 2007 the significant retailing subsidiaries were:

Name	Ownership %	Voting %	Name	Ownership %	Voting %
Krasnoyarskenergosbyt	52.2	66.8	Permskaya energy retail company	49.0	64.4
Mosenergosbyt	50.9	50.9	Chelyabenergosbyt	49.0	58.1
Peterburgskaya retail company	56.0	67.1	Tyumenskaya energy retail company	100.0	100.0
Ulyanovskenergo	49.0	49.0	Energy retail company Rostovenergo	48.4	62.8
Saratovenergo	48.4	48.4	Chuvashskaya energy retail company	100.0	100.0
Samaraenergo	55.5	55.8	Volgogradenergosbyt	49.3	61.8

During the six months ended 30 June 2007 sales of the following retailing companies took place: Kuban Energy Retail Company, Sverdlovenergosbyt, Nizhegorodskaya retail company, Kuzbass Energy Retail Company, Belgorod Retail Company, Vologda Retail Company and Orenburgenergosbyt. All these companies are presented as discontinued operations (see Note 27).

Unallocated

Others

Name	Ownership %	Voting %
OAO COR UES	100.0	100.0
Energy Centre	75.0	75.0
Engineering Centre UES	100.0	100.0
Inter RAO UES	60.0	60.0

Foreign subsidiaries

Name	Ownership %	Voting %	Country
RAO Nordic Oy	60.0	100.0	Finland
Interenergo B. V.	40.2	67.0	Netherlands
MEK	54.0	90.0	Armenia
Silk Road Holdings B.V.	60.0	100.0	Netherlands
Gardabani Holdings B.V.	60.0	100.0	Netherlands
ES Georgia Holdings B.V.	60.0	100.0	Netherlands
Telasi	45.0	75.0	Georgia
Mtkvari	60.0	100.0	Georgia
Moldavskaya GRES	30.6	51.0	Republic of Moldova
Saint Guidon Invest N.V	60.0	100.0	Belgium
Electricheskie Seti Armenii	40.2	100.0	Republic of Armenia

The Group also controls the Centre for Assistance in Restructuring the Electricity Sector, a non-commercial partnership.

Differences between the ownership interest and voting interest held in subsidiaries normally represent the effect of preference shares. Typically RAO UES does not hold any preference shares of its subsidiaries. Unless dividends have not been declared fully at the Annual shareholders' meeting, such preference shares do not have any voting rights.

Acquisitions and sales

2006

In July 2006 the Group conducted tenders for the sale of 100.0 percent of the shares of Taimyrenergo, an Energo, and 47.4 percent of the shares of Yaroslavskaya retail company. The gains on the sale of Taimyrenergo (RR 6,146 million) and Yaroslavskaya retail company (RR 446 million) were included in the Group's statement of operations for the year ended 31 December 2006.

In October 2006 auctions were held to sell 12.5 percent of the shares of Petersburg Generation Company (PGC), a Group company. The total bid price for the transaction reached RR 4,083 million. The effective interest of the Group in PGC was decreased from 56.0 to 49.0 percent (see Note 15). As a result of the transaction the Group retained control over PGC. In November 2006 PGC was merged with TGC-1.

During 2004 management re-assessed the level of control that the Group had over Kurganenergo and determined that control no longer exists, and that the Group exercises significant influence over Kurganenergo. As at 31 December 2005 the investment in Kurganenergo was accounted for as an investment in an associate. However in February 2006, due to changes in the entity's management, management of the Group obtained control over Kurganenergo.

The carrying value of assets and liabilities arising from obtaining control over Kurganenergo was RR 2,165 million.

Further, as the result of the merger of Heat and Power company with TGC-4 in September 2006, control was obtained over that company, which had previously been recognized as an associate.

The carrying value of the assets and liabilities arising from obtaining control over the Heat and Power company was RR 1,750 million.

2007

On 21-23 May 2007 several auctions were held to sell 49.0 percent of the shares in Kuban Energy Retail Company, Sverdlovenergosbyt, Nizhegorodskaya retail company, Kuzbass Energy Retail Company, Belgorod Retail Company and Vologda Retail Company and 100.0 percent of the shares in Orenburgenergosbyt. All these companies operate in the Retailing segment. The sale of retailing companies is conducted in accordance with the plan approved by the Board of Directors of RAO UES in February 2007 (see Note 27). The bid price for the transactions reached RR 7,470 million. The gain on the sale in the amount of RR 7,031 million was included in the line "Disposal of subsidiaries" in the Group's statement of operations for the period ended 30 June 2007.

On 29 March 2007 an auction was held to sell 93.4 percent of the shares of Yuzhno-Kuzbasskaya GRES, 47.5 percent of which belonged to the Group. As at 31 December 2006 this company was classified as an asset held for sale (see Note 29). The bid price for the transaction reached RR 5,394 million. The gains on the sale in the amount of RR 4,088 million was included in the line "Disposal of subsidiaries" in the Group's statement of operations for the period ended 30 June 2007.

On 15 March 2007 an auction was held to sell 93.4 percent of the shares of Zapadno-Sibirskaya TETS, 47.5 percent of which belonged to the Group. As at 31 December 2006 this company was classified as an asset held for sale (see Note 29). The bid price for the transaction reached RR 4,651 million. The gains on the sale in the amount of RR 3,766 million were included in the line "Disposal of subsidiaries" in the Group's statement of operations for the period ended 30 June 2007.

(in millions of Russian Roubles)

The carrying value of assets and liabilities de-recognised as a result of the transfer of the subsidiaries to associates were as follows:

	Retailing companies	Yuzhno-Kuzbasskaya GRES	Zapadno-Sibirskaya TETS	Other	Total
Property, plant and equipment	475	-	-	611	1,086
Deferred tax assets	178	-	-	-	178
Other non-current assets	266	-	-	105	371
Trade and other receivables	9,014	-	-	107	9,121
Other current assets	131	-	-	-	131
Inventories	18	-	-	5	23
Cash and cash equivalents	972	-	-	11	983
Non-current assets classified as held for sale	-	3,177	1,955	-	5,132
Long term debt due after one year	-	-	-	(60)	(60)
Other long-term liabilities	-	-	-	(98)	(98)
Deferred income tax liability	(38)	-	-	(12)	(50)
Short-term debt	(3,646)	-	-	-	(3,646)
Accounts payable and accrued charges	(6,563)	-	-	(60)	(6,623)
Taxes payable	(288)	-	-	(49)	(337)
Liabilities directly associated with non-current assets classified as held for sale	-	(516)	(214)	-	(730)
Net identifiable assets and liabilities	**519**	**2,661**	**1,741**	**560**	**5,481**
Less: Minority interest	80	1,355	856	341	2,632
Net assets of entity	**439**	**1,306**	**885**	**219**	**2,849**
Gain on sale	7,031	4,088	3,766	59	14,944
Total consideration received	**7,470**	**5,394**	**4,651**	**278**	**17,793**
Cash disposed of	(972)	-	-	(11)	(983)
Net cash inflow on the disposal	**6,498**	**5,394**	**4,651**	**267**	**16,810**

Disposal of subsidiaries to associates

In March 2007 WGC-3 issued 18 billion ordinary shares, with a par value of RR 1.00 each, by way of a public offering. The Group "MMC "Norilsk Nikel" acquired 17.8 billion ordinary shares and paid RR 4.54 for each ordinary share. The effective interest of the Group in WGC-3 was reduced from 59.7 percent to 37.1 percent which resulted into WGC-3 being transferred to an associate company.

In June 2007 Mosenergo issued 11.5 billion ordinary shares, with the par value of RR 1.00 each, by way of a private offering in favour of Gazprom group. The offering share price was approved by the Board of Directors in the amount of RR 5.28 per share. The effective interest of the Group in Mosenergo was reduced from 50.9 percent to 36.2 percent which resulted into Mosenergo being transferred to an associate company.

The carrying value of assets and liabilities arising from the disposal to associates were as follows:

	WGC-3	Mosenergo
Property, plant and equipment	29,331	107,605
Other non-current assets	597	270
Accounts receivable and prepayments	2,570	10,433
Other current assets	505	1,007
Inventories	2,166	4,368
Cash and cash equivalents	1,491	4,883
Long-term debt	(315)	(26,502)
Deferred profit tax liability	(4,508)	(17,339)
Current debt	(3,601)	(421)
Accounts payable and accrued charges	(4,201)	(8,697)
Carrying value of net assets	**24,035**	**75,607**

The gain arising on the WGC-3 and Mosenergo disposals from subsidiaries to associates amounted to RR 24,495 million and RR 11,199 million respectively.

(in millions of Russian Roubles)

Disposal to a jointly controlled entity

In May 2006 RAO UES, HydroWGC and RUSAL signed an agreement on mutual financing, construction and exploitation of Boguchanskaya power plant and Boguchansky Aluminium Smelter. Pursuant to the terms of the agreement and for the purposes of providing financing and controlling construction and exploitation of Boguchanskaya power plant and Boguchansky Aluminium Smelter, HydroWGC and RUSAL have established two limited liability companies in Cyprus with an authorized share capital of ten thousand Cypriot Pounds each which are jointly controlled by HydroWGC and RUSAL. In June 2007 HydroWGC transferred its 64.2 percent interest in OJSC Boguchanskaya GES, which currently operates construction of Boguchanskaya power plant, to one of the entities registered in Cyprus.

According to the agreement HydroWGC and RUSAL will jointly control Boguchanskaya power plant and Boguchansky Aluminium Smelter. Anticipated total investments to be contributed by HydroWGC and RUSAL jointly amounts to RR 100,619 million (USD 3,821.3 million). The first line of Boguchanskaya power plant and Boguchansky Aluminium Smelter is planned to be put into operation in the fourth quarter of 2009

Management assessed the level of control that the Group has over Boguchanskaya power plant and Boguchansky Aluminium Smelter and determined that control did not exist. The ownerships of Boguchanskaya power plant and Boguchansky Aluminium Smelter represent jointly controlled entities and the Group applies the equity accounting method to recognize its investments.

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

	Carrying value
Property, plant and equipment	27,908
Other non-current assets	288
Accounts receivable and prepayments	3,229
Inventories	553
Cash and cash equivalents	945
Deferred profit tax liability	(3,185)
Current debt	(12,918)
Accounts payable and accrued charges	(473)
Carrying value of net assets	**16,347**

In March 2007 HydroWGC provided a guarantee with respect to a bridge loan of USD 520 million raised by Boguchansky Aluminium Smelter. The loan bears interest at LIBOR plus 0.825 percent per annum and is scheduled for repayment in December 2010. HydroWGC issued a guarantee to secure 50 percent of the Boguchansky Aluminium Smelter's obligations while the other 50 percent are secured by a guarantee and surety provided by RUSAL.

Note 6: Segment information

Primary reporting segments. The Group is organised into six main business segments:

- ***"Generation segment"*** consists of companies responsible for electricity and heat generation. Heat is sold within the regions in which the companies operate at tariffs set by RSTs. The great majority of electricity is sold within the regions and through the Wholesale electricity market based on tariffs set by RSTs and FST. The majority of electricity sales are within the Group;
- ***"Transmission segment"*** this segment principally comprises RAO UES, FGC and SO-CDU, which maintain and operate the high voltage electricity transmission grid and perform electricity dispatch functions. Transmission fees are set by the FST;
- ***"Distribution segment"*** consists of companies, which are responsible for the delivery of electricity through the low voltage distribution grids at tariffs set by RSTs. The majority of the distribution fees is charged by the distribution segment to the retail segment;
- ***"Retailing segment"*** consists of companies, which are responsible for sale of electricity to final customers the great majority based on tariffs set by RSTs. The cost of sales of the retailing segment includes power purchased from the generation segment, the transmission fees charged by the transmission segment (where applicable) and the distribution fees charged by the distribution segment;
- ***"Energos segment"*** consists of companies, which have not begun or are in the process of restructuring and are responsible for the generation, distribution and sale of heat and electricity. As a result of restructuring, the size of

this segment has been greatly reduced in favour of other segments. Energos which have completed their restructuring process and performed only one type of activity during the six months ended 30 June 2007, have been included in the respective segments;

- ***"Unallocated"*** consists of numerous insignificant segments including construction, repair, export sales and foreign companies of the Group.

(in millions of Russian Roubles)

Six months ended 30 June 2007

	Generation	Transmission	Distribution	Retailing	Energos	Unallocated	Consolidation adjustments	Total
Continuing operations								
Third parties	136,532	5,206	34,380	293,935	17,795	15,579	-	**503,427**
Inter-segment	161,702	40,772	125,465	41,414	331	9,327	(379,011)	-
Total revenues	**298,234**	**45,978**	**159,845**	**335,349**	**18,126**	**24,906**	**(379,011)**	**503,427**
Disposal of subsidiaries	4,322	-	-	-	-	45,256	-	49,578
Impairment release	45,124	23,377	49,863	-	-	-	-	118,364
Impairment loss	(59,834)	(18,259)	(38,586)	-	-	(858)	-	(117,537)
Segment operating profit/(loss)	**6,284**	**22,721**	**31,663**	**(5,421)**	**764**	**47,836**	**-**	**103,847**
Finance costs	-	-	-	-	-	-	-	**(10,475)**
Share of profit of associates and jointly controlled entities	-	-	-	-	-	-	-	**155**
Profit before profit tax	-	-	-	-	-	-	-	**93,527**
Profit tax charge	-	-	-	-	-	-	-	**(75,730)**
Profit for the period from continuing operations	-	-	-	-	-	-	-	**17,797**
Discontinued operations								
Profit for the period from discontinued operations	-	-	-	-	-	-	-	**914**
Capital expenditures	40,030	23,009	38,001	1,317	2,076	1,706	-	**106,139**
Depreciation of property, plant and equipment	25,303	6,010	10,462	231	417	168	-	**42,591**
Doubtful debtors expense/ (reversal)	3,773	26	(624)	1,220	447	363	-	**5,205**

(in millions of Russian Roubles)

Six months ended 30 June 2006

	Generation	Transmission	Distribution	Retailing	Energos	Unallocated	Consolidation adjustments	Total
Continuing operations								
Third parties	102,970	4,017	12,626	237,062	71,369	18,108	-	**446,152**
Inter-segment	115,468	40,761	102,925	30,267	1,647	8,493	(299,561)	-
Total revenues	**218,438**	**44,778**	**115,551**	**267,329**	**73,016**	**26,601**	**(299,561)**	**446,152**
Segment operating profit	**7,377**	**15,810**	**20,276**	**152**	**6,955**	**2,174**	-	**52,744**
Finance costs	-	-	-	-	-	-	-	**(6,460)**
Share of profit of associates and jointly controlled entities	-	-	-	-	-	-	-	**267**
Profit before profit tax	-	-	-	-	-	-	-	**46,551**
Profit tax charge	-	-	-	-	-	-	-	**(19,950)**
Profit for the period from continuing operations	-	-	-	-	-	-	-	**26,601**
Discontinued operations								
Profit for the period from discontinued operations	-	-	-	-	-	-	-	**554**
Capital expenditures	20,088	10,419	17,563	321	4,842	634	-	**53,867**
Depreciation of property, plant and equipment	12,380	6,343	7,860	176	2,946	980	-	**30,685**
Doubtful debtors expense/ (reversal)	3,517	2	(23)	637	1,654	(135)	-	**5,652**

(in millions of Russian Roubles)

As at 30 June 2007

	Generation	Transmission	Distribution	Retailing	Energos	Unallocated companies	Total
Segment assets	1,214,313	366,315	460,358	100,754	42,954	463,125	**2,647,819**
Inter-segment balances	(24,404)	(6,931)	(12,140)	(51,046)	(1,314)	(331,115)	**(426,950)**
Total segment assets	**1,189,909**	**359,384**	**448,218**	**49,708**	**41,640**	**132,010**	**2,220,869**
Investments in associates	9,518	-	-	-	-	95,352	**104,870**
Current and deferred profit tax assets	-	-	-	-	-	-	**14,800**
Total assets	-	-	-	-	-	-	**2,340,539**
Segment liabilities	85,550	9,554	75,184	52,062	16,348	25,797	**264,495**
Inter-segment balances	(37,156)	(853)	(10,960)	(23,612)	(3,116)	(9,078)	**(84,775)**
Total segment liabilities	**48,394**	**8,701**	**64,224**	**28,450**	**13,232**	**16,719**	**179,720**
Current and deferred profit tax liabilities	-	-	-	-	-	-	335,938
Non-current and current debt	-	-	-	-	-	-	221,974
Total liabilities	-	-	-	-	-	-	**737,632**

As at 31 December 2006

	Generation	Transmission	Distribution	Retailing	Energos	Unallocated companies	Total
Segment assets	760,484	266,830	311,173	47,237	113,207	404,716	**1,903,647**
Inter-segment balances	(15,681)	(4,571)	(11,302)	(3,104)	(4,962)	(338,254)	**(377,874)**
Total segment assets	**744,803**	**262,259**	**299,871**	**44,133**	**108,245**	**66,462**	**1,525,773**
Investments in associates	534	-	-	-	-	2,804	**3,338**
Current and deferred profit tax assets	-	-	-	-	-	-	**14,325**
Total assets	-	-	-	-	-	-	**1,543,436**
Segment liabilities	86,381	7,149	50,222	36,193	33,567	23,220	**236,732**
Inter-segment balances	(34,195)	(933)	(6,060)	(12,707)	(7,626)	(10,759)	**(72,280)**
Total segment liabilities	**52,186**	**6,216**	**44,162**	**23,486**	**25,941**	**12,461**	**164,452**
Current and deferred profit tax liabilities	-	-	-	-	-	-	142,522
Non-current and current debt	-	-	-	-	-	-	209,712
Total liabilities	-	-	-	-	-	-	**516,686**

(in millions of Russian Roubles)

Secondary reporting segments - geographical segments. Up to 1 September 2006 the Group distinguished seven geographical segments within the Russian Federation based on the principle that the Group's assets generated revenues primarily within the geographical region where they were located. Entity's assets were considered to belong only to one geographical segment. Due to the factors described below, management believes that it is no longer practical and appropriate to continue to make such disclosures starting from 1 September 2006:

- During the nine months ended 30 September 2006 the mergers of power plants, situated in different regions of the Russian Federation, with all WGC were completed, as well as those of several TGCs with regional generation companies. Since the date of merger of these businesses, the management of each TGCs and WGCs is centralized, the decisions of assets' usage are adopted according to integral entity needs and splitting these assets on a geographical basis is, consequently, no longer meaningful;
- As at 1 September 2006 a new liberalized model of operation of the wholesale and retail electricity (power) markets has been launched. Under the new wholesale market model, every generation company is pegged to several customers in different regions of the Russian Federation. These counteragents were selected by the Trading System Operator so as to average entities' risk of nonpayment due to geographical zones of solvency and optimize productivity-consumption correlation;
- Export sales comprise less than 10 percent of external revenues.

Based on the above facts, with effect from 1 September 2006 management has decided that the Group operates substantially in one geographical segment – the Russian Federation.

Note 7: Related parties

Associates

Electricity and heating sales to associates were carried out during the reporting period, the majority of which were based on tariffs set by FST and RST, in the amount of RR 1,134 million (for the six months ended 30 June 2006 – RR 2,609 million). During the six months ended 30 June 2007 the Group purchased power for the amount of RR 4,411 million from its associates (for the six months ended June 2006 – RR 616 million).

For outstanding balances with associates see Note 12 and Note 20.

During the six months ended 30 June 2007 the Group purchased equipment from its associate, Power Machines, in the amount of RR 2,981 million (for the six months ended June 2006 – RR 170 million) and prepaid future equipment procurements in the amount of RR 4,546 million (for the six months ended June 2006 – none).

State-controlled entities. In the normal course of business the Group enters into transactions with other entities under Government control, including Gazprom, Russian railways, state-controlled banks and various governmental bodies. Prices for natural gas, electricity and heat are based on tariffs set by FST and RST. Bank loans are provided on the basis of market rates. Taxes are accrued and settled in accordance with Russian tax legislation.

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

	Six months ended 30 June 2007	Six months ended 30 June 2006
Electricity and heating revenues	152,880	149,627
Electricity and heating distribution expenses	10,681	6,735
Fuel expenses	81,179	69,697
Purchased power expenses	37,570	36,511
Interest expense	1,561	2,117

	30 June 2007	31 December 2006
Accounts receivable and prepayments	75,631	72,703
Non-current and current debt	40,561	45,157
Accounts payable and accrued charges	17,329	15,939

Tax balances are disclosed in Notes 10, 12, 20 and 21. Tax transactions are disclosed in the statement of operations (see Notes 16 and 24).

(in millions of Russian Roubles)

During the six months ended 30 June 2007 the Federal Government of the Russian Federation and regional governments gave financial assistance to RAO UES Group entities equal to RR 2,111 million (the six months ended 30 June 2006: RR 1,876 million). The assistance in respect of these periods has been recorded as electricity revenue in the statement of operations (see Note 23).

Directors' compensation. Compensation is paid to members of the Management Board of RAO UES for their services in full time management positions. The compensation is made up of a contractual salary, non-cash benefits, and a performance bonus depending on results for the period according to Russian statutory financial statements. 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 Managing Board according to his perception of the value of their contribution.

Fees, compensation or allowances to the members of the Board of Directors for their services in that capacity and for attending Board meetings are paid depending on results for the year. Under the Russian legislation, fees, compensation or allowances to the members of the Board of Directors, being government employees, are paid to the state.

Members of the Board of Directors and the Management Board of RAO UES received the following remuneration:

	Six months ended 30 June 2007	Six months ended 30 June 2006
Salaries and bonuses	99	80
Severance benefits	-	-
Other	27	21
Total	**126**	**101**

Employee share option plan. In June 2004, the Board of Directors approved a Share Option Plan for the employees of RAO UES (hereinafter the Plan).

The Plan provides for the granting of share options to the members of the Management Board and other key employees of RAO UES (hereinafter the Plan participants).

The Plan participants will be rewarded under the plan for their work in RAO UES over the period of 3 years, starting from 25 June 2004.

In February 2005, the Board of Directors of RAO UES approved a number of changes relating to the list of Plan participants and to the number of shares allocated under the Plan. Key employees from certain Group entities were included into the list.

A total of up to 418,657,600 ordinary shares (or about one percent of the issued ordinary shares of RAO UES) may be allocated under the Plan. 213,671,372 shares are allocated for granting share options to the members of the Management Board, the remainder to the other key employees of RAO UES.

Ordinary shares ultimately allocated under the Plan were allocated from treasury shares purchased by the Group for that purpose on the open market by a special-purpose entity, which is controlled by the Group. The treasury shares held for the purpose of the Plan are not allowed for voting.

The Plan participant can exercise the share option at any time over the period from 25 June 2007 to 25 January 2008.

In the event that the restructuring of RAO UES is completed prior to the exercise date of the share options, the Plan participants will be entitled to purchase shares in successor entities or other securities, distributed among the RAO UES shareholders.

The exercise price of the share option is USD 0.2934 per share, which was the weighted average price of the shares of RAO UES on RTS over the period of 25 June 2003 through 24 June 2004. For Plan participants who joined Group entities after 25 June 2004, the exercise price of the share option is the weighted average price of the shares of RAO UES on RTS one year before the date of the labour agreement. In addition to the exercise price, the Plan participants, who exercise their options, must reimburse part of the interest expenses paid on borrowings, which can be attracted for the purpose of purchases of the shares.

(in millions of Russian Roubles)

One of the vesting terms of the share options is prepayment by the members of the Management Board (in the amount of 10.0 percent of the share option agreement) and by other key employees (in the amount of 0.2 percent of the share option agreement). In the event that realization of the share option lapses, the prepayment will be returned to the Plan participant in full.

In 2004, the Group issued to the members of the Management Board non-interest bearing loans, which should be used by individuals to make prepayments under the share option agreements. The loans are issued for a period of 5 years. As at 30 June 2007 the amount of loans issued to employees amounted to RR 155 million.

In the course of the Plan implementation the Group had purchased 418,657,600 treasury shares. Their purchase cost was RR 3,571 million.

As at 31 December 2006, the number of outstanding share options was 381,436,585. During the reporting period 41 Plan participants exercised their rights to buy RAO UES shares. The total amount of ordinary shares acquired during the reporting period – 52,050,204. Consequently at 30 June 2007 329,386,381 shares had not acquired by Plan participants. The Plan participant can exercise the share option till 25 January 2008. For share options exercised during the period, the weighted average share price varied from 1.3214 to 1.349 US Dollars.

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

Share price	0.2770 USD
Exercise price	0.2934 USD
Expected volatility	31%
Option life	1,095 days
Risk-free interest rate	3.16%
Fair value at measurement date	**0.0690 USD**

The measure of volatility used in option pricing model is the annualised standard deviation of the continuously compounded rates of return on the share over a period of time. Volatility has been determined on the basis of the historical volatility of the share price over the most recent period (one year before grant date). For share options outstanding as at 30 June 2007 the weighted average remaining contractual life is 209 days.

Beginning from 2006 Group subsidiaries approved their own Share Option Plans for the employees. In particular, in December 2006 Share Option Plan was adopted by WGC-5, and in April 2007 – Share Option Plan TGC-6. Main conditions of these Plans are similar to Share Option Plan approved by the Board of Directors RAO UES.

For the estimate of the fair value of the services received in return for share options granted to employees used also the Black-Scholes model.

During the reporting period the Group recognised an expense of RR 286 million related to the fair value of the options (for the six months ended 30 June 2006 – RR 65 million), among them RAO UES expenses are RR 73 million; WGC-5 – RR 181 million; TGC-6 – RR 32 million. In the amount of expenses related to the RAO UES shares an adjustment on fair value of the options is included. This adjustment was made according to the reconsideration employee turnover index.

In May 2007, the Management Board members decided not to sell the RAO UES shares acquired under the stock option agreement until the reorganization is completed, except for a limited number of shares, the proceeds from which will be used only to pay tax, repay loans and other liabilities under the stock option agreements. The Management Board members resolved to convert the remaining shares into the shares of the companies that would spin-off from the Company on the same terms as were set for all minority shareholders. The Board members will be able to decide on further disposal of the acquired shares only after 1 July 2008.

(in millions of Russian Roubles)

Note 8: Property, plant and equipment

Cost

	Production buildings	Hydrote-chnical buildings	Equipment and assembling units	Substations & power equipment	Electricity grids and equipment	Heat grids	Assets under construc-tion	Other	Total
Opening balance as at 31 December 2006	387,763	123,237	270,759	355,861	666,180	153,219	253,941	364,226	2,575,186
Elimination of accumulated depreciation and impairment	(170,445)	(66,398)	(118,631)	(245,287)	(381,547)	(96,033)	(55,760)	(222,732)	(1,356,833)
Revaluation reserve	196,303	88,946	106,660	47,748	62,469	41,483	64,146	96,996	704,751
Additions	726	2,516	3,501	5,054	1,282	92	87,737	5,231	106,139
Transfers	6,764	8,594	6,706	8,390	5,335	616	(42,442)	6,037	-
Disposals	(879)	(8)	(212)	(232)	(464)	(79)	(4,650)	(488)	(7,012)
Disposals of subsidiaries (Note 5)	(508)	-	(26)	(6)	(102)	-	(64)	(389)	(1,095)
Disposals to associates (Note 5)	(45,547)	(2,077)	(37,135)	(7,072)	(563)	(12,686)	(45,344)	(17,352)	(167,776)
Closing balance as at 30 June 2007	374,177	154,810	231,622	164,456	352,590	86,612	257,564	231,529	1,853,360
Accumulated depreciation (including impairment)									
Opening balance as at 31 December 2006	(182,101)	(60,212)	(113,788)	(233,323)	(422,238)	(99,287)	(35,127)	(211,584)	(1,357,660)
Impairment reversal	20,069	8,609	8,010	19,458	49,263	7,347	439	5,169	118,364
Impairment charge	(8,413)	(14,795)	(12,853)	(31,422)	(8,573)	(4,094)	(21,072)	(16,315)	(117,537)
Elimination of accumulated depreciation and impairment	170,445	66,398	118,631	245,287	381,547	96,033	55,760	222,732	1,356,833
Charge for the period	(6,481)	(1,833)	(8,456)	(5,303)	(8,694)	(3,880)	-	(7,944)	(42,591)
Disposals	56	1	14	16	32	5	-	27	151
Sales of subsidiaries	4	-	-	-	-	-	-	5	9
Disposals to associates (Note 5)	774	2	897	149	8	457	-	645	2,932
Closing balance as at 30 June 2007	(5,647)	(1,830)	(7,545)	(5,138)	(8,655)	(3,419)	-	(7,265)	(39,499)
Net book value as at 30 June 2007	368,530	152,980	224,077	159,318	343,935	83,193	257,564	224,264	1,813,861
Net book value as at 31 December 2006	205,662	63,025	156,971	122,538	243,942	53,932	218,814	152,642	1,217,526

(in millions of Russian Roubles)

Cost

	Production buildings	Hydrotechnical buildings	Equipment and assembling units	Substations & power equipment	Electricity grids and equipment	Heat grids	Assets under construction	Other	Total
Opening balance as at 31 December 2005	392,232	129,637	244,987	381,808	648,960	145,765	221,645	287,723	2,452,757
Transfer to subsidiary (Note 5)	2,059	188	1,105	3,370	3,487	356	251	953	11,769
Additions	260	24	139	666	752	172	49,169	2,685	53,867
Transfers	2,654	242	1,424	3,903	3,924	1,970	(17,059)	2,942	-
Disposals	(944)	(43)	(122)	(740)	(478)	(390)	(8,747)	(1,567)	(13,031)
Disposals to Assets held for sale	(6,863)	(336)	(952)	(3,789)	(1,040)	(15)	(289)	(1,716)	(15,000)
Closing balance as at 30 June 2006	389,398	129,712	246,581	385,218	655,605	147,858	244,970	291,020	2,490,362
Accumulated depreciation (including impairment)									
Opening balance as at 31 December 2005	(240,265)	(79,436)	(150,118)	(249,468)	(431,104)	(103,992)	(37,000)	(206,242)	(1,497,625)
Transfer to subsidiary (Note 5)	(1,088)	(573)	(622)	(2,648)	(3,472)	(336)	-	(846)	(9,585)
Charge for the period	(3,521)	(1,856)	(2,013)	(6,609)	(6,985)	(2,470)	(459)	(6,772)	(30,685)
Transfers	(496)	(262)	(284)	(843)	(792)	(104)	3,211	(430)	-
Disposals	269	89	164	322	610	266	1,561	1,463	4,744
Disposals to Assets held for sale	5,092	1,689	3,103	1,763	1,217	15	-	1,680	14,559
Closing balance as at 30 June 2006	(240,009)	(80,349)	(149,770)	(257,483)	(440,526)	(106,621)	(32,687)	(211,147)	(1,518,592)
Net book value as at 30 June 2006	149,389	49,363	96,811	127,735	215,079	41,237	212,283	79,873	971,770
Net book value as at 31 December 2005	151,967	50,201	94,869	132,340	217,856	41,773	184,645	81,481	955,132

Construction in progress represents the carrying amount of property, plant and equipment that has not yet been put into operation, including generating stations under construction, and advances to construction companies and suppliers of property, plant and equipment. As at 30 June 2007 such advances amounted to RR 50,697 million (as at 31 December 2006 - RR 23,006 million).

Depreciation is charged once an asset is available for service.

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

The assets transferred to the Group upon privatisation did not include the land on which the Group's buildings and facilities are situated. The Group has the option to purchase this land upon application to the state registrator body or to formalise the right for rent. According to Russian legislation the expiry date of this option is 1 January 2008. As at 30 June 2007, the majority of the Group's companies have not filed any application to exercise the purchase option.

Revaluation

Starting from 1 January 2007 the Group has adopted the revaluation model for property, plant and equipment (see Note 4). Fair values were determined by independent appraisers primarily based on the depreciated replacement cost method. The replacement cost of buildings, constructions, machinery and equipment and transfer devices 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. The economic obsolescence was estimated based on profitability test results for each cash-generating unit. The discount rate used in profitability test varies from 10.5 to 19.1 percent. The forecast period is 19 - 20 years for all Group companies, except for distribution companies for which forecast period equals to 10 years. The long-term rate of growth in sales volumes is approximately 3 percent for all Group companies.

(in millions of Russian Roubles)

As a result of the revaluation, the Group's equity increased by RR 535,426 million, comprising an increase in carrying value of property, plant and equipment of RR 704,751 million, net of a related deferred tax liability of RR 169,325 million. As a consequence of recognizing the results of the revaluation, RR 118,364 million of previously recognized impairment charge was reversed, and a revaluation loss of RR 117,537 million was recognised, in the statements of operations. The remaining effect of the revaluation, RR 704,751 million, was recognized directly in equity as a revaluation reserve.

For each revalued class of property, plant and equipment stated at revalued amount in these interim financial statements, 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 & power equipment	Electricity grids and equipment	Heat grids	Assets under construction	Other	Total
Net book value as at 30 June 2007	193,814	57,976	113,614	122,915	233,579	50,721	224,954	184,647	1,182,220

Property, plant and equipment were revalued as of 1 January 2007. The revaluation was performed by independent appraisers who hold a recognised and relevant professional qualification and who have recent experience in valuation of assets of similar location and category.

Leased property, plant and equipment

The Group leased certain equipment under a number of finance lease agreements. At the end of each of the leases the Group has the option to purchase the equipment at a beneficial price. At 30 June 2007 the net book value of leased property, plant and equipment was RR 17,294 million (as at 31 December 2006 – RR 8,493 million). The leased equipment is pledged as security for the lease obligations.

Operating leases

The Group leases a number of land areas owned by local governments under operating lease. Land lease payments are determined by lease agreements and rates set by authorized government bodies on an annual basis. Therefore operating lease rentals were calculated on the base of actual rates.

Operating lease rentals are payable as follows:

	30 June 2007	31 December 2006
Less than one year	3,232	3,540
Between one year and five years	9,627	10,008
After five years	47,069	55,306
Total	**59,928**	**68,854**

Although lease contracts are mainly long-term, some entities may conclude short-term (1 year) contracts as, due to the restructuring process, new legal entities are established on the base of old ones. Legal successors of these entities will conclude new lease contracts after reorganisation.

(in millions of Russian Roubles)

Note 9: Investments in associates and jointly controlled entities

The Group has investments in a number of associated enterprises and jointly controlled entity, which are incorporated and operate in the Russian Federation. The Group also has an investment in the jointly controlled entity which operates Kazakhstan.

	Carrying value as at 31 December 2006	Transfer from subsidiaries/ (Disposal of an associate)	Share of change directly recognised in equity	Share of profit/(loss) of associates and jointly controlled entities	Carrying value as at 30 June 2007
Power Machines	2,502	-	1,197	(219)	3,480
Norilsko-Taymyrskaya Power Company	94	(94)	-	-	-
Rossiyskie Kommunalnye Sistemy	208	750	-	178	1,136
Stantsiya Ekibastuzskaya GRES-2	534	-	2,168	102	2,804
Mosenergo	-	49,293	-	-	49,293
BoGES Ltd.	-	9,146	-	-	9,146
Wholesale Generating Company-3	-	38,917	-	94	39,011
Total	**3,338**	**98,012**	**3,365**	**155**	**104,870**

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

	Ownership, %	Voting, %	Assets	Liabilities
At 31 December 2006				
Power Machines	23.80	25.00	24,983	(14,981)
Norilsko-Taymyrskaya Power Company	49.00	49.00	2,384	(2,575)
Rossiyskie Kommunalnye Sistemy	25.00	25.00	12,450	(11,618)
Stantsiya Ekibastuzskaya GRES-2	30.00	50.00	1,545	(475)
At 30 June 2007				
Power Machines	23.80	25.00	35,442	(21,521)
Rossiyskie Kommunalnye Sistemy	25.00	25.00	15,054	(10,510)
Stantsiya Ekibastuzskaya GRES-2	30.00	50.00	7,467	(1,863)
Mosenergo	36.17	36.17	182,700	(46,418)
BoGES Ltd.	50.00	50.00	33,052	(13,725)
Wholesale Generating Company-3	37.08	37.08	116,213	(11,004)

	Revenues	Expenses	Profit / (Loss)
Six months ended 30 June 2006			
Power Machines	8,238	(8,869)	(631)
Heat and Power Company	1,690	(1,799)	(109)
Norilsko-Taymyrskaya Power Company	5,362	(5,085)	277
Rossiyskie Kommunalnye Sistemy	10,692	(9,886)	806
Stantsiya Ekibastuzskaya GRES-2	961	(746)	215
Six months ended 30 June 2007			
Power Machines	9,479	(9,893)	(414)
Rossiyskie Kommunalnye Sistemy	11,973	(11,299)	674
Mosenergo	41,324	(43,526)	(2,202)
BoGES Ltd.	-	(181)	(181)
Wholesale Generating Company-3	15,099	(13,347)	1,752
Stantsiya Ekibastuzskaya GRES-2	1,225	(1,022)	203

(in millions of Russian Roubles)

In February 2006, persuant to a share sales purchase agreement, the Group signed a pledge agreement with the EBRD for 550,820,431 shares or 7.6 percent of the share capital of Power Machines, as a security for a credit line facility issued to Power Machines on 1 March 2004. The pledge does not effect the Group's significant influence over the Power Machines.

This jointly controlled entities are accounted for using the equity method.

Mosenergo and WGC-3 previously consolidated as subsidiaries were reclassified to associates (see Note 5).

BoGES Ltd. previously consolidated as subsidiary was reclassified to a jointly controlled entity (see Note 5).

During six month ended 30 June 2007 RAO UES sold its 49.0 percent interest in Norilsko-Taymyrskaya Power Company. Loss on disposal amounted RR 68 million. As a result the Group discontinued recognition of Norilsko-Taymyrskaya Power Company as an associate.

Note 10: Other non-current assets

	30 June 2007	31 December 2006
Available-for-sale investments (carried at cost)	7,035	6,633
Available-for-sale investments (carried at fair value)	12,735	8,669
Restructured trade receivables (Net of allowance for doubtful debtors of RR 1,962 million as at 30 June 2007 and RR 1,922 million as at 31 December 2006)	1,107	1,426
Non-current portion of value added tax recoverable	2,103	3,293
Other (Net of allowance of RR 425 million as at 30 June 2007 and 220 million as at 31 December 2006)	12,477	14,144
Total	**35,457**	**34,165**

The carrying value of restructured trade receivables approximates to their fair value.

Other non-current assets include bank promissory notes with maturity of more than 1 year:

	30 June 2007	31 December 2006
Bank promissory notes		
JSCB Agropromcredit	1,667	-
LLC Trojka-audit	761	761
Other	1,164	1,607
Total bank promissory notes	**3,592**	**2,368**

(in millions of Russian Roubles)

Note 11: Cash and cash equivalents

	30 June 2007	31 December 2006
Cash at bank and in hand	79,068	40,361
Cash equivalents	44,706	13,057
Foreign currency accounts	472	683
Total	**124,246**	**54,101**

Cash equivalents comprise short-term investments in bank promissory notes and certificates of deposit. Cash collected by subsidiaries from the initial public offerings (see Note 15) and from the sale of subsidiaries was mainly deposited with banks and included in cash equivalents.

Bank deposits	Rating	Rating agency	30 June 2007	31 December 2006
JSB Sberbank	Baa2	Moody's	25,273	-
JSCB International Bank for Reconstruction and Development	B+	Fitch Ratings	3,576	230
JSB Gazprombank	Baa2	Moody's	3,000	56
JSB Evrofinance Mosnarbank	Ba3	Moody's	2,416	-
CJSC Promsvyazbank	Ba3	Moody's	1,594	1,500
OJSC Bank VTB North-West	BBB+	Standard & Poor's	1,414	-
OJSC VTB Bank	BBB+	Standard & Poor's	1,036	60
JSCB Cit Finance Investment Bank	CCC+	Standard & Poor's	1,000	-
JSCB Moscow business world	BB	Standard & Poor's	500	-
OJSC Bank Petrocommerce	Ba3	Moody's	392	1,700
JCSB International Moscow Bank	BBB-	Standard & Poor's	-	1,752
JCB TransCreditBank	Ba3	Moody's	-	1,220
JSCB International Industrial Bank	B1	Moody's	-	1,100
JSB Russian Agricultural Bank	Baa2	Moody's	-	1,000
JSCB Svyaz-Bank	B2	Moody's	-	800
OJSC Alfa-Bank	Ba1	Moody's	-	474
JSB Absolut bank	Baa3	Moody's	-	300
Other	-	-	4,505	2,865
Total bank deposits			**44,706**	**13,057**

Cash at banks	Rating	Rating agency	30 June 2007	31 December 2006
JSB Sberbank	Baa2	Moody's	41,933	10,576
JSCB Agroimpuls	-	-	9,090	4,293
OJSC Bank Petrocommerce	Ba3	Moody's	5,082	3,001
JSCB Agropromcredit	-	-	2,898	1,053
JSB Gazprombank	Baa2	Moody's	1,943	1,932
JSB Evrofinance Mosnarbank	Ba3	Moody's	1,649	824
JSCB Bank of Moscow	Baa2	Moody's	1,269	1,551
OJSC Bank Saint Petersburg	Ba3	Moody's	1,148	1,016
OJSC VTB Bank	BBB+	Standard & Poor's	1,101	895
ABN AMRO Bank N.V.	Aa3	Moody's	1,061	-
OJSC Alfa-Bank	Ba1	Moody's	923	1,204
NB CO RTS Settlement Chamber	-	-	455	1,636
JSCB Transinvestbank	-	-	32	1,168
Other	-	-	10,435	11,153
Total cash at banks			**79,019**	**40,302**

(in millions of Russian Roubles)

Note 12: Accounts receivable and prepayments

	30 June 2007	31 December 2006
Trade receivables		
(Net of allowance for doubtful debtors of RR 47,139 as at		
30 June 2007 and RR 49,561 million as at 31 December 2006)	58,480	46,164
Value added tax recoverable	18,902	18,254
Advances to suppliers and prepayments	30,957	22,049
Receivables from associates	9,730	2,165
Other receivables		
(Net of allowance for doubtful debtors of RR 5,115 million as at		
30 June 2007 and RR 6,119 million as at 31 December 2006)	51,412	45,650
Total	**169,481**	**134,282**

Almost all of these balances are denominated in the RR.

As at 30 June 2007 and 31 December 2006, the above other receivables balance included RR 27,133 million and RR 23,578 million of tax prepayments, respectively, which are to be settled against future tax liabilities.

Management has determined the allowance for doubtful debtors based on specific customer identification, customer payment trends, subsequent receipts and settlements and the analysis of expected future cash flows. Based on the expected collection rate, discount rates of 11.0-19.0 percent have been used to estimate of present value of future cash flows. The management of the Group believes that Group entities will be able to realise the net receivable amount through direct collections and other non-cash settlements, and that therefore, the recorded value approximates their fair value. Movement of the provision during the six months ended 30 June 2007 and 30 June 2006 is presented in Note 31.

Certain trade receivables have been restructured and as a result are due to be realised more than one year from the balance sheet date (see Note 10). The loss on restructuring of these receivables is included in doubtful debtors expense.

Note 13: Inventories

	30 June 2007	31 December 2006
Materials and supplies	31,450	29,424
Fuel production stocks	21,174	29,457
Other inventories	2,063	2,092
Total	**54,687**	**60,973**

The above inventory balances are recorded net of an obsolescence provision of RR 1,607 million and RR 1,498 million as at 30 June 2007 and 31 December 2006, respectively.

As at 30 June 2007 and 31 December 2006, the inventory balance included RR 6,563 million and RR 10,432 million, respectively, of inventory pledged as collateral under loan agreements.

(in millions of Russian Roubles)

Note 14: Other current assets

Other current assets comprise bank promissory notes and bank deposits with maturity of more than 3 months.

	Rating	Rating agency	30 June 2007	31 December 2006
Bank deposits				
JSB Sberbank	Baa2	Moody's	5,000	-
OJSC Nomos bank	B+	Fitch Ratings	3,500	-
JSB Gazprombank	Aa3	Moody's	2,500	3,000
JSCB Cit Finance Investment Bank	CCC+	Standard & Poor's	2,100	3,000
JSCB Agroimpuls	-	-	350	350
Other	-	-	491	1,031
Total bank deposits			**13,941**	**7,381**
Bank promissory notes				
Otkritie Financial Corporation (OFC)	CCC	Standard & Poor's	6,852	5,258
UK Alemar DU ZPIF Shares Reforma	A	Expert RA	3,864	3,934
JSCB Cit Finance Investment Bank	CCC+	Standard & Poor's	1,000	1,000
OJSC Nomos bank	Aa3	Moody's	300	234
Other	-	-	2,770	3,834
Total bank promissory notes			**14,786**	**14,260**
Other promissory notes				
JSC Foreign Economic Association Technopromexport	-	-	1,537	-
Total other promissory notes			**1,537**	**-**
Other	-	-	7,216	8,539
Total other current assets			**37,480**	**30,180**

Note 15: Equity

Share Capital

	Number of shares issued and fully paid	30 June 2007	31 December 2006
Ordinary shares	41,041,753,984	147,439	147,439
Preference shares	2,075,149,384	7,667	7,667
Total	**43,116,903,368**	**155,106**	**155,106**

The authorised number of ordinary and preference shares are 47,509,289,488 and 2,075,149,384 respectively, both with a nominal value per share of RR 0.5. The carrying amount of share capital has been adjusted to take into account the effects of hyperinflation that existed in Russian Federation until the end of 2002.

Ordinary shares and preference shares. Preference shares have no right of conversion or redemption, but are entitled to a minimum annual dividend of 10.0 percent of net statutory profit. The dividend is declared entirely at the discretion of the shareholders. 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, in which case the preference shares acquire voting rights. In liquidation preference shareholders are first paid any declared unpaid dividends and then the nominal value of the shares ("liquidation value"). Following this, preference shareholders participate equally in the distribution of remaining assets with ordinary shareholders.

Change in equity of associates and jointly controlled entity. The effect of the revaluation of property, plant and equipment of jointly controlled entity Stantsiya Ekibastuzskaya GRES-2 and associated enterprise Power Machines was recognised in equity in the amount of RR 2,168 million and RR 1,197 million respectively (see Note 9). Differed tax on this revaluation reserve amounted RR 287 million (see Note 16).

(in millions of Russian Roubles)

Disposal of reserves. During the six months ended 30 June 2007 the Group lost control over Mosenergo and WGC-3, which became associates (see Note 5). Consequently, the Group's share in the revaluation reserve of property, plant and equipment in amount of RR 20,887 million and RR 2,876 million for Mosenergo and WGC-3 respectively was transferred to retained earnings. During the six months ended 30 June 2007 the Group lost control over BoGES Ltd., which became a jointly controlled entity (see Note 5). Consequently, the Group's share in the revaluation reserve of property, plant and equipment in amount of RR 6,516 million for BoGES Ltd. was transferred to retained earnings. During the six months ended 30 June 2007 the Group sold 7 retailing companys, Yuzhno-Kuzbasskaya GRES and Zapadno-Sibirskaya TETS (see Note 5). As the result the Group's share in the revaluation reserve of property, plant and equipment in amount of RR 906 million was transferred to retained earnings.

Change of minority interest. In June 2007 RAO UES sold a 25.0 percent stake in WGC-5. The Group's effective interest in WGC-5 was reduced from 75.0 to 50.0 percent and minority interest increased by RR 8,854 million. The result from sale of share in WGC-5 is recognised in equity in the amount of RR 35,072 million in line «Change in Group structure».

During the reporting period the Group sold 7 of energy retailing subsidiaries (see Note 27). As a result of these disposals minority interest was reduced by RR 2,632 million.

In 2007 Federal Grid Company (FGC) and TGC-5 issued 73 billion and 330 billion shares respectively. The Group's interest in FGC was diluted from 100.0 to 87.6 percent and in TGC-5 from 64.8 to 47.5 percent. FGC and TGC-5 remained subsidiaries. The increase in minority interest as a result of the offering amounted to RR 22,478 and RR 7,441 million respectively and was reflected in the statement of changes in equity as a change in Group structure.

During the reporting period Mosenergo, WGC-3 and BoGES Ltd., which were previously consolidated as subsidiaries were reclassified to associates and are accounted using the equity method (see Note 5). As a result minority interest amounting to RR 37,531 million, RR 10,105 million and RR 6,223 million respectively were derecognised.

Dividends. The annual statutory accounts of the parent company, RAO UES, form the basis for the annual profit distribution and other appropriations. The specific Russian legislation identifies the basis of distribution as the net profit. For 2006, the statutory profit for the parent company, RAO UES, as reported in the published statutory reporting forms, was RR 745,088 million (including the result of revaluation of investments in subsidiaries at the amount of RR 717,656 million recognised in the Russian statutory accounts). However this legislation and other statutory laws and regulations dealing with the distribution rights are opened to legal interpretation and, accordingly, management believes at present it would not be appropriate to disclose an amount for the distributable reserves in these Financial Statements. On annual general meeting of the parent company held on 26 June 2007 it was decided not to pay dividends for the year 2006 for all categories of shares.

Treasury shares. Treasury shares as at 30 June 2007 represent 398,018,733 (31 December 2006: 450,068,937) ordinary shares and 6,696,727 (31 December 2006: 6,696,727) preference shares. During the reporting period the decrease in treasury shares amounted to 52,068,204.

	Cost as at 31 December 2006	Purchases and disposals, net	Cost as at 30 June 2007
Ordinary shares	3,689	(443)	3,246
Preference shares	18	-	18
Total	**3,707**	**(443)**	**3,264**

Translation reserve. The translation reserve, relating to the exchange differences arising on translation of the net assets of foreign subsidiaries, as at 30 June 2007 was a credit of RR 30 million (31 December 2006: a debit of RR 519 million) and is included in retained earnings and other reserves.

Note 16: Profit tax

Profit tax charge

	Six months ended 30 June 2007	Six months ended 30 June 2006
Current profit tax charge	(32,118)	(19 747)
Deferred profit tax charge	(43,612)	(203)
Total profit tax charge	**(75,730)**	**(19,950)**

(in millions of Russian Roubles)

During the six months ended 30 June 2007 most members of the Group were subject to profit tax rates of 24.0 percent on taxable profit.

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

	Six months ended 30 June 2007	Six months ended 30 June 2006
Profit before profit tax	93,527	46,551
Theoretical profit tax charge at an average statutory tax rate of 24 percent	(22,446)	(11,172)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Tax interest and penalties release	(134)	(114)
Other non-deductible and non-taxable items, net	(10,414)	(5,326)
Effect of statutory revaluation on tax base	(123)	155
Losses carried forward	(688)	272
Non-recognised deferred tax assets movements	(280)	(353)
Additional liability recognized in respect of investments in subsidiaries	(18,623)	-
Additional liability recognized in respect of investments in associates	(22,618)	(60)
Other	(404)	(3,352)
Total profit tax charge	**(75,730)**	**(19,950)**

Deferred profit tax. Differences between IFRS and Russian statutory taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. Deferred profit tax assets and liabilities are measured at either 24.0 percent or 9.0 percent, the rates expected to be applicable when the assets or liabilities will reverse.

Deferred profit tax liabilities

	31 December 2006	Movement for the period recognised in the statement of operations	Deferred profit tax on Revaluation reserve	Disposal of subsidiaries	Other movements	30 June 2007
Accounts receivable	(2,844)	(398)	-	308	-	(2,934)
Property, plant and equipment	103,916	403	169,325	(25,393)	(1,088)	247,163
Losses carried forward	(638)	(676)	-	-	-	(1,314)
Investments in subsidiaries	36,712	18,623	-	-	-	55,335
Investments in associates	300	22,618	287	-	-	23,205
Other	(950)	(311)	-	3	366	(892)
Total	**136,496**	**40,259**	**169,612**	**(25,082)**	**(722)**	**320,563**

Other movement relates mostly to differences in foreign currency exchange rates, which are included in translation reserve in equity.

Before 31 December 2006 the RAO UES Group did not recognize a deferred tax liability in respect of the temporary differences associated with investments in almost all of its subsidiaries. Before this date the reversal of the temporary differences was within the control of the Group and it was considered not probable that they would reverse, because the Group had made no decision on the manner of the restructuring that could trigger a taxable event.

At a meeting of the RAO UES Board of Directors held on 2 March 2007, the Board of Directors considered and approved a plan that envisages that the Group or successor entities raise funds for future capital expenditures by selling existing shares in the share capital of all the WGCs and TGCs, except for Federal Hydro Generating Company HydroWGC, WGC-5 and TGC-5, in the amount not exceeding the effective share of the Russian Federation in RAO UES. Management considered this decision as a triggering event for the recognition as an adjusting post balance sheet of an element of the previously unrecognised deferred tax liability and RR 36,712 million was recognised in respect of such taxable event as at 31 December 2006. Calculation of deferred tax was performed on the base of the effective ownership percentage of the Russian Federation in RAO UES as at the reporting date.

(in millions of Russian Roubles)

During the six months ended 30 June 2007 additional deferred tax liability in the amount of RR 18,623 million (for the six months ended 30 June 2006 – none) was recognised in the statement of operations in respect of investments in subsidiaries mainly due to the revaluation of property, plant and equipment which resulted in the increase of subsidiaries' net assets. The increase in the net assets of the Group's entities associated with the results of revaluation, was recognised directly in equity (see Note 8).

As at 30 June 2007 the total amount of unrecognised deferred tax liability in respect of such temporary differences is between zero and approximately RR 180 billion depending on how the difference would reverse (as at 31 December 2006 – zero to RR 101 billion).

RR 22,618 million of deferred tax liability accrued on investments in associates substantially related to WGC-3 and Mosenergo which were disposed from subsidiaries to associated during the six months ended 30 June 2007 (see Note 9). According to the Board of Directors meeting on 2 March 2007, the Group or successor entities intended to sell existing shares in the share capital of these companies. Therefore the deferred tax liability are measured at 24.0 percent of investment cost.

Deferred profit tax assets

	31 December 2006	Movement for the period recognised in the statement of operations	Disposal of subsidiaries	30 June 2007
Accounts receivable	7,341	(2,043)	(86)	5,212
Property, plant and equipment	8,516	(247)	(2)	8,267
Losses carried forward	2,225	(316)	-	1,909
Other	1,426	(467)	(90)	869
Deferred profit tax assets	19,508	(3,073)	(178)	16,257
Less: non-recognized deferred tax assets	(15,520)	(280)	-	(15,800)
Total	**3,988**	**(3,353)**	**(178)**	**457**

Temporary differences on property, plant and equipment relate to differences in depreciation rates, adoption of IAS 29, IAS 36 and statutory revaluation (to the extent accepted by relevant tax authorities for tax purposes).

Note 17: Non-current debt

	Currency	Effective interest rate	Due	30 June 2007	31 December 2006
Bonds issued by subsidiaries:					
Federal Grid company	RUR	7.20% - 8.80%	2007-2011	30,000	30,000
Mosenergo	RUR	7.65%	2016	-	10,000
MOESK	RUR	8.00%	2011	6,000	6,000
WGC-5	RUR	8.00%	2010	5,000	5,000
HydroWGC	RUR	8.10%	2011	5,000	5,000
Lenenergo	RUR	10.00%	2007	6,000	3,000
WGC-3	RUR	7.00%	2010	-	3,000
Sverdlovenergo	RUR	10.50% - 11.50%	2007	-	500
WGC-6	RUR	7.55%	2012	5,000	-
TGC-4	RUR	7.60%	2012	5,000	-
TGC-1	RUR	7.75%	2014	4,000	-
TGC-8	RUR	8.00%	2012	3,500	-
TGC-10	RUR	7.60%	2010	3,000	-
Tumenenergo	RUR	7.70%	2012	2,700	-
TGC-6 INVEST	RUR	7.40%	2012	2,000	-
Yakutskenergo	RUR	8.59%	2012	1,200	-
Permenegro	RUR	8.15%	2012	1,000	-
Ekaterinburgskaya Grid company	RUR	8.74%	2012	1,000	-

(in millions of Russian Roubles)

	Currency	Effective interest rate	Due	30 June 2007	31 December 2006
Chelyabenegro	RUR	8.40%	2010	600	-
				81,000	**62,500**
Long-term debts payable to:					
EBRD	RUR	MosPrime + 2.15%		5,000	5,000
EBRD	RUR	8.42% - 9.32%	2020	6,300	6,300
EBRD	EUR	Euribor + 4.25%	2006-2010	556	972
EBRD	EUR	7.03% - 7.53%	2012-2015	276	276
EBRD	USD	MosPrime + 2.75%	2012	-	1,050
EBRD	USD	MosPrime + 4.00%	2018	-	750
EBRD	USD	MosPrime + 3.15%	2018	-	1,250
EBRD	USD	MosPrime + 2.00%	2012	-	1,750
EBRD	USD	MosPrime + 2.50%	2018	-	900
EBRD	USD	MosPrime + 3.50%	2012	-	1,500
EBRD	USD	LIBOR + 3.50%	2007	-	432
EBRD	USD	LIBOR + 4.00%	2009	-	267
Alfa-Bank	RUR	Mosibor + 3.70%	2008	-	-
Alfa-Bank	RUR	8.00% - 11.00%	2008-2012	2,140	6,863
Gazprombank	RUR	8.00% - 10.00%	2008-2011	4,688	1,555
Sberbank	RUR	8.25% - 14.50%	2007-2011	2,332	6,085
Clovery PLC	USD	7.75%	2008	-	3,950
Municipal authority of Kamchatka region	USD	LIBOR + 3.00%	2034	1,165	2,236
Nomos-Bank	RUR	10.00% - 11.00%	2008	1,097	1,197
VTB	RUR	9.50% - 10.50%	2008-2012	1,460	3,478
Bank Credit Suisse First Boston	USD	RF30 + 2.70%	2010	430	731
Natexis bank	USD	LIBOR + 2.50%	2008	194	395
Nordic Investment Bank	EUR	Euribor + 3.00%	2012	961	1,041
Other Russian banks	RUR	10.00% - 15.00%	2006-2011	2,846	6,230
Morgan Stanley	RUR	9.00%	2013	3,000	-
Morgan Stanley	RUR	MosPrime + 1.5%	2014	1,500	3,000
Evrofinance Mosnarbank	RUR	10.00% - 12.00%	2007-2008	-	215
Evrofinance Mosnarbank	RUR	11.00%	2008-2010	392	417
Evrofinance Mosnarbank	RUR	10.00% - 10.50%	2008	1,487	-
Evrofinance Mosnarbank	RUR	9.00%	2008-2010	111	-
TransCreditBank	RUR	10.50% - 13.00%	2008-2012	1,373	1,573
TransCreditBank	RUR	11.00%	2008	-	610
TransCreditBank	RUR	11.00%	2008-2009	240	-
TransCreditBank	RUR	10.60% - 11.00%	2008	50	270
TransCreditBank	RUR	8.45% - 9.70%	2008-2012	795	-
Commerzbank	RUR	MosPrime + 1.80%	2012	378	-
Other long-term debts				4,975	7,074
				43,746	**67,367**
Finance lease liability				7,265	2,997
Total non-current debt				**132,011**	**132,864**
Less: current portion of non-current debt				(11,463)	(25,087)
Total				**120,548**	**107,777**

Except as otherwise noted, the majority of the above bank debt is obtained at fixed interest rates.

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

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

In addition, the Group had undrawn committed financing facilities of RR 16,492 million (31 December 2006: RR 29,094 million) which may be used for the general purposes of the Group.

(in millions of Russian Roubles)

As at 30 June 2007, the estimated fair value of total non-current debts (including the current portion) was RR 131,751 million (31 December 2006: RR 132,424 million), which is estimated by discounting the future contractual cash flows at the estimated current market interest rates available to the Group for similar financial instruments.

Leasing. Lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

Finance lease liabilities – minimum lease payments	30 June 2007	31 December 2006
Due for repayment		
Less than one year	4,238	2,072
Between one year and five years	8,338	3,636
After five years	156	35
	12,732	**5,743**
Future finance charges on finance lease	(1,979)	(1,134)
Present value of lease liabilities	**10,753**	**4,609**

Note 18: Other non-current liabilities

	30 June 2007	31 December 2006
Taxes	687	1,134
Pension liability	11,165	11,084
Other non-current liabilities	2,427	4,031
Total other non-current liabilities	14,279	16,249
Less: current portion of restructured liabilities	(1,364)	(494)
Total	**12,915**	**15,755**

Information about the pension liability is disclosed in Note 22.

In accordance with Government Resolution No. 1002 dated 3 September 1999, the majority of Group entities have restructured taxes including fines and interest to be repaid over a period of up to 10 years. Non-adherence to certain payment schedules could result in the gross amount of taxes payable including fines and interest becoming due on demand. Additionally, a number of Group entities have restructured trade payables to be repaid over a period of up to five years. Based on the contractual dates of repayment, discount rate of 8.0-24.0 percent has been used in the estimate of the fair value of these liabilities at the date of restructuring.

The maturity profile is as follows:

Maturity table	30 June 2007	31 December 2006
Due for repayment		
Between one and two years	1,227	3,421
Between two and five years	389	760
After five years	11,299	11,574
Total	**12,915**	**15,755**

Note 19: Current debt and current portion of non-current debt

	Effective interest rate	30 June 2007	31 December 2006
Current debt	5.0% - 20.0%	86,475	75,237
Current portion of non-current debt		11,463	25,087
Current portion of finance lease liability		3,488	1,611
Total		**101,426**	**101,935**

(in millions of Russian Roubles)

Note 20: Accounts payable and accrued charges

	30 June 2007	31 December 2006
Trade payables	54,999	57,945
Accrued liabilities and other creditors	71,799	52,020
Bills of exchange payable	720	573
Dividends payable	4,169	1,300
Current portion of trade payables and other creditors restructured to long-term	1,050	180
Payable to associates	3,502	110
Total	**136,239**	**112,128**

Almost all of these balances are denominated in RR.

Restructured trade payables which are payable more than one year from the balance sheet date are reflected within other non-current liabilities as described in Note 18. The effect of restructuring the trade payables is included in Note 25.

The Federal wholesale electricity market (for the period prior to 1 September 2006) had different tariffs for contractors selling, when compared to those purchasing. An imbalance was generated between the participants since 1997. Considerable uncertainty surrounded the operation of the market and the Group considered it probable that an outflow of economic benefits would be required for the tariff imbalance. As a result the Group recorded a liability for the imbalanced settlements.

As at 1 September 2006 a new liberalized model of the wholesale and retail electricity (power) markets (NOREM) has been launched (see Note 3). Management has re-assessed the likelihood that the Group might be held responsible to make payments to contractors for the imbalance coming from FOREM. Management has concluded that in the light of the operation of the new market, the Group no longer has an obligation to pay the previously possible but unasserted claims. Consequently, the previously recognised liability in the amount of RR 11,708 million as at 1 September 2006 was de-recognised as a liability as at 31 December 2006.

Note 21: Taxes payable

	30 June 2007	31 December 2006
Profit tax	15,375	6,026
Fines and interest	10,118	10,082
Value added tax	9,474	14,257
Property tax	2,912	3,198
Employee taxes	2,688	2,394
Other taxes	5,060	5,694
Current portion of taxes restructured to long-term	314	314
Total	**45,941**	**41,965**

VAT payable is recorded inclusive of deferred VAT in the amount of RR 6,677 million, which had been incurred prior to 31 December 2005 due to the time difference between revenue recognition and cash receipt from customers. Starting from 1 January 2006 VAT is payable to the tax authorities on an accruals basis (see Note 4), while VAT originated prior to 1 January 2006 is payable to the tax authorities based on cash receipts from customers or appropriate accounts receivable write-off, but not later than 1 January 2008.

The principal tax liabilities past due, excluding the amounts which have been restructured, accrue interest each day at one three hundredth of the current refinance rate of the Central Bank of the Russian Federation. As at 30 June 2007 and 31 December 2006 the refinance rate was 10.0 and 11.0 percent respectively. Interest does not accrue on tax fines and interest.

Restructured taxes, including fines and interest, which are payable more than one year from the balance sheet date are reflected within other non-current liabilities as described in Note 18.

(in millions of Russian Roubles)

Note 22: Pension benefits

The tables below provide information about the benefit obligations, plan assets and actuarial assumptions used for six months ended 30 June 2007 and 2006. Amounts recognised in the Consolidated Interim Balance Sheet:

	30 June 2007	31 December 2006
Present value of funded defined benefit obligations	35,886	34,185
Less: Fair value of plan assets	(5,790)	(4,632)
Deficit in plan	30,096	29,553
Net actuarial loss not recognised in the balance sheet	(18,374)	(17,838)
Unrecognised past service costs	(557)	(631)
Net liability in the balance sheet	**11,165**	**11,084**

Amounts recognised in the Consolidated Interim Statement of Operations:

	Six months ended 30 June 2007	Six months ended 30 June 2006
Current service cost	1,185	2,496
Interest cost	1,084	576
Expected return on plan assets	(232)	(145)
Recognised actuarial loss	476	124
Recognised past service cost	74	-
Curtailment and settlement gain	(264)	-
Total	**2,323**	**3,051**

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

	Six months ended 30 June 2007	Six months ended 30 June 2006
Benefit obligations		
Benefit obligations as at 1 January	34,185	16,807
Current service cost	1,185	2,496
Interest cost	1,084	576
Actuarial loss/(gain)	514	(1,145)
Benefits paid	(637)	(390)
Settlement and curtailment gain	(445)	-
Benefit obligations as at 30 June	**35,886**	**18,344**
Plan assets		
Fair value of plan assets as at 1 January	4,632	2,898
Expected return on plan assets	232	145
Actuarial losses	(498)	(1,144)
Employer contributions	2,242	1,411
Benefits paid	(637)	(390)
Settlements	(181)	-
Fair value of plan assets as at 30 June	**5,790**	**2,920**

The Group expects to contribute RR 4,125 million to the defined benefit plans during the year beginning 1 July 2007.

(in millions of Russian Roubles)

Principal actuarial assumptions are as follows:

	30 June 2007, %	31 December 2006, %
Discount rate	6.6	6.8
Expected return on plan assets	10.0	10.0
Salary increase	7.0	7.0
Inflation	5.0	5.0
Pension increase	5.0	5.0
Average future working life (years)	12.0	12.0
Estimated total service (years)	18.0	18.0

Life expectancies (at standard age of retirement) are as follows:

	30 June 2007	31 December 2006
Male aged 60	14	14
Female aged 55	23	23

The plan assets allocation of the investment portfolio maintained by non-state pension funds was as follows:

Type of assets	30 June 2007, %	31 December 2006, %
Equity securities of Russian issuers	26.7	23.7
Promissory notes of Russian issuers	10.0	14.5
Bank deposits	2.7	3.6
Russian Government and municipal bonds	25.2	26.6
Russian corporate bonds	21.7	18.4
Other	13.7	13.2
Total	**100.0**	**100.0**

Note 23: Revenues

	Six months ended 30 June 2007	Six months ended 30 June 2006
Electricity	350,128	320,710
Heating	94,865	89,982
Transmission	25,740	10,684
Other	32,694	24,776
Total	**503,427**	**446,152**

(in millions of Russian Roubles)

Note 24: Operating expenses

	Six months ended 30 June 2007	Six months ended 30 June 2006
Raw materials and consumables used, including	157,700	152,616
Fuel expenses	*145,416*	*141,543*
Other materials	*12,284*	*11,073*
Employee benefit expenses and payroll taxes	88,321	75,097
Third parties services, including	55,693	44,744
Repairs and maintenance	*28,558*	*25,644*
Rent	*5,350*	*3,205*
Consulting, legal and information services	*7,131*	*4,197*
Security services	*3,044*	*2,520*
Insurance expense	*2,416*	*2,422*
Transportation services	*3,007*	*2,272*
Commission fee	*2,649*	*1,813*
Bank services	*1,932*	*1,492*
Telecommunication services	*1,606*	*1,179*
Purchased power	46,787	39,292
Depreciation of property, plant and equipment	42,591	30,707
Other taxes	12,562	10,743
Electricity and heat distribution expenses	16,339	9,579
Water usage expenses	4,909	4,688
Loss on the disposal of fixed assets and investments	1,754	2,683
Doubtful debtors expense	5,205	5,652
Fines and penalties, other than on taxes	1,609	2,029
Social expenditures	1,329	1,183
Business trip expenses	1,064	816
Charity expenses	1,237	802
Labor protection costs	382	406
Expenses related to restructuring process	353	373
Work performed by the Group and capitalised	(3,611)	(2,111)
Other expenses	15,761	14,109
Total	**449,985**	**393,408**

Doubtful debtors expenses are presented net of interest income during the six months ended 30 June 2007 in the amount of RR 2,827 million (six months ended 30 June 2006: RR 3,101 million) accrued on trade receivables.

Note 25: Finance costs

	Six months ended 30 June 2007	Six months ended 30 June 2006
Interest expense (debts)	(8,655)	(5,888)
Interest expense	(1,702)	(653)
Leasing finance charges	(415)	(183)
Foreign exchange gain / (loss)	297	264
Total	**(10,475)**	**(6,460)**

The discounting of restructured payable amounts gives rise to a gain. Subsequent to its initial recognition, the discount is amortized over the period of the restructuring as an expense. Further information on the restructuring of accounts payable and taxes payable is contained in Notes 18, 20 and 21.

(in millions of Russian Roubles)

Note 26: Earnings per share

	Six months ended 30 June 2007	Six months ended 30 June 2006
Weighted average number of ordinary shares issued (thousands)	41,041,754	41,041,754
Weighted average number of preference shares issued (thousands)	2,075,149	2,075,149
Adjustment for weighted average number of treasury shares (thousands)	(404,716)	(456,887)
Weighted average number of ordinary and preference shares outstanding (thousands)	42,712,187	42,660,016
Profit attributable to the shareholders of RAO UES	12,689	20,045
less profit for the period from discontinued operations	(914)	(554)
Profit from continuing operations attributable to the shareholders of RAO UES	11,775	19,491
Weighted average earnings from continuing operations per ordinary and preference share – basic and diluted (in RR)	0.27	0.46
Weighted average earnings from discontinued operations per ordinary and preference share – basic and diluted (in RR)	0.02	0.01

Taking into account the effect of the unequal dividends paid in the previous period (for the reporting period - see Note 15), and based on the weighted average numbers of preference and ordinary shares outstanding, the earnings per share for the two classes of shares were as follows:

	Six months ended 30 June 2007	Six months ended 30 June 2006
Weighted average number of ordinary shares issued (thousands)	41,041,754	41,041,754
Adjustment for weighted average number of ordinary treasury shares (thousands)	(398,019)	(450,190)
Weighted average number of ordinary shares outstanding (thousands)	40,643,735	40,591,564
Weighted average number of preference shares issued (thousands)	2,075,149	2,075,149
Adjustment for weighted average number of preference treasury shares (thousands)	(6,697)	(6,697)
Weighted average number of preference shares outstanding (thousands)	2,068,452	2,068,452
Profit attributable to the shareholders of RAO	12,689	20,045
Less profit for the period from discontinued operations	(914)	(554)
Less dividends to ordinary shares outstanding	-	(2,356)
Less dividends to preference shares outstanding	-	(402)
Profit from continuing operations attributable to the shareholders of RAO UES less dividends paid	11,775	16,733
- attributable to ordinary shareholders	11,210	15,922
- attributable to preference shareholders	565	811
Total earnings from continuing operations attributable to the ordinary shareholders	11,210	18,277
Total earnings from continuing operations attributable to the preference shareholders	565	1,214
Earnings from continuing operations per ordinary share – basic and diluted (in RR)	0.27	0.46
Earnings from continuing operations per preference share – basic and diluted (in RR)	0.27	0.60

(in millions of Russian Roubles)

	Six months ended 30 June 2007	Six months ended 30 June 2006
Total Profit from discontinued operations attributable to ordinary equity holders less dividends paid	914	554
- attributable to ordinary shareholders	870	527
- attributable to preference shareholders	44	27
Total earnings from discontinued operations attributable to the ordinary shareholders	870	527
Total earnings from discontinued operations attributable to the preference shareholders	44	27
Earnings from discontinued operations per ordinary share – basic and diluted (in RR)	0.02	0.01
Earnings from discontinued operations per preference share – basic and diluted (in RR)	0.02	0.01

Note 27: Discontinued Operations

On 8 December 2006 the Board of Directors of RAO UES has approved the 'Disposition of shares of retailing subsidiaries' strategy, which provides that public auctions will be held to sell the shares of the retailing subsidiaries. In May 2007 several auction were held, but as at 30 June 2007 no reserve prices and dates of the remaining auctions have been announced. Consequently, as at 30 June 2007 none of these companies, except those already sold, were classified as assets held for sale.

On 21-23 May 2007 several auctions were held to sell 49.0 percent of the shares in OJSC Kuban Energy Retail Company, OJSC Sverdlovenergosbyt, OJSC Nizhny Novgorod Retail Company, OJSC Kuzbass Energy Retail Company, OJSC Belgorod Retail Company and OJSC Vologda Retail Company and 100 percent of the shares in OJSC Orenburgenergosbyt. All these companies operated in the Retailing segment (see Note 6) and are presented as a discontinued operations following the decision of RAO UES Board of Directors in February 2007 to sell them and subsequent announcement of auctions details in May 2007.

An analysis of the result of discontinued operations, and the result recognised on the remeasurement of assets or disposal group is as follows:

	Six months ended 30 June 2007	Six months ended 30 June 2006
Revenues	15,108	7,150
Operating expenses	(14,148)	(6,548)
Profit before tax of discontinued operations	**960**	**602**
Profit tax charge	(46)	(48)
Profit for the period from discontinued operations	**914**	**554**

Note 28: Commitments

Sales commitments. The Group has entered into three contracts with TOO Kazenergoresource, a contract with Belenergo, three contracts with TPK Sirious, agreements with CJSC "Energijos realizacios centras" (Lithuania), Ost Elektra Gmbh (Germany), Uralskenergo, Scaent AB (Sweden), AK "CREPS" (Mongolia), GAO "Latvenergo" (Latvia), two contracts with Fortum Power and Heat Oy (Finland) and GUGT Mongolii (Mongolia).

Electricity sales under the above mentioned contracts for the year 2007 are expected to be as follows: USD 109 million; EUR 303 million and RUR 1,195 million For further periods sales volumes and prices are subject to further periods sales volumes and prices are subject to further clarification with the Group's clients, but the figures for sales estimated within the frameworks of the above signed contracts will be above:

(in millions of Russian Roubles)

2008: USD 168 million, EUR 273 million and RR 1,195 million;
other years: USD 1,739 million and EUR 912 million.

Purchase commitments. The Group concluded agreements with its electricity suppliers Ekibastuzskaya GRES-2 (Kazakhstan), Elektricheskie Stantsii (Kirgizstan), AES Ekibastuz (Kazakhstan), TOO Kazenergoresurs (Kazakhstan), OAHK Barki Tochik (Tadjikistan), AK CREPS (Mongolia) and Access Energo.

Electricity purchases under the above mentioned contracts the year 2007 are expected to be as follows: USD 53 million and RUR 2,870 million. For further periods purchases volumes and prices are a subject for clarification with the Group's suppliers, but the figures for purchases estimated within the frameworks of the signed contract will be not be less than:

2008: USD 56 million and RUR 2,919 million;
other years: USD 247 million and RUR 25,920 million.

Fuel commitments. Group entities have numerous fuel contracts. These fuel contracts represent less than the total annual fuel requirement of the Group. Additional fuel requirements are purchased through short-term agreements and on a spot basis from a variety of suppliers. Prices under the Group's natural gas and coal contracts are generally determined by reference to base amounts adjusted to reflect provisions for changes in regulatory prices, published inflation indices and current market prices.

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

Capital commitments. Future capital expenditures for which contracts have been signed amount to RR 158,089 million as at 30 June 2007 and RR 129,641 million as at 31 December 2006.

According to the agreement HydroWGC and RUSAL will jointly control Boguchanskaya power plant and Boguchansky Aluminium Smelter. Anticipated total investments to be contributed by HydroWGC and RUSAL jointly amounts to RR 100,619 million (USD 3,821.3 million). The first line of Boguchanskaya power plant and Boguchansky Aluminium Smelter is planned to be put into operation in the fourth quarter of 2009 (see Note 5).

Note 29: Non-current assets classified as held for sale

On 29 December 2006 the Group classified OJSC Zapadno-Sibirskaya TETS and OJSC Yuzhno-Kuzbasskaya GRES as held for sale as all recognition criterias were met. As at 31 December 2006 the Group owned 47.5 percent in each of the above companies. In March 2007 shares of OJSC Zapadno-Sibirskaya TETS and OJSC Yuzhno-Kuzbasskaya GRES were sold (see Note 30).

Major classes of assets classified as held for sale and liabilities directly associated with those non-current assets as at 31 December 2006 are as following:

	As at 31 December 2006
Property, plant and equipment	4,295
Accounts receivable	132
Inventories	325
Other current assets	7
Cash and cash equivalents	124
Total assets	**4,883**
Deferred tax liabilities	338
Taxes payable	95
Accounts payable and accrued charges	197
Total liabilities	**630**

Note 30: Contingencies

Political environment. The operations and earnings of Group entities continue, from time to time and in varying degrees, to be affected by political, legislative, fiscal and regulatory developments, including those related to environmental protection, in 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 for those risks for which it does not have insurance.

Legal proceedings. Group entities are party to certain legal proceedings arising in the ordinary course of business. In the opinion of management, there are no 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.

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

Based on decisions of the tax authorities some of the Group's companies may incur additional tax liabilities due to the fact that VAT-invoices confirming VAT recovery could be found incorrectly completed. The tax authorities may also challenge the existing way of accounting for tax purposes of tariff imbalance, settlement via agents, water tax, certain tax property values including property received as contribution to the charter capital or challenge the deduction of management expenses, expenses related to maintenance, operations and repair of the equipment, non-state pension fund contributions and some loses of electricity energy.

Russian transfer pricing legislation introduced 1 January 1999 provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%. Controllable transactions include transactions with interdependent parties, as determined under the Russian Tax Code, all cross-border transactions (irrespective whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. There is no formal guidance as to how these rules should be applied in practice. In the past, the arbitration court practice with this respect has been contradictory.

Tax liabilities arising from intercompany transactions are determined using actual transaction prices. It is possible with the evolution of the interpretation of the transfer pricing rules in the Russian Federation and the changes in the approach of the Russian tax authorities, that such transfer prices could potentially be challenged in the future. Given the brief nature of the current Russian transfer pricing rules, the impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the entity.

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. 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.

(in millions of Russian Roubles)

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

Tariff imbalance. As at 31 December 2006 management of the Group decided that the previously recognised tariff imbalance amounting to RR 11,708 million was no longer a liability (see note 20). The Government of the Russian Federation affect the Group's operations through tariff regulation within wholesale electricity market. Management cannot be certain that the federal government will not change its policies and seek to recover tariff imbalances accumulated under the pre-September 2006 wholesale electricity market. Accordingly, the Group has a possible obligation in the amount of RR 11,708 million.

Note 31: Financial instruments and financial risks

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

Credit risk. Financial assets which potentially subject Group entities to concentrations of credit risk consist principally of trade receivables including promissory notes. Credit risks related to trade receivables are systematically monitored at the Group's subsidiaries level and are considered when the allowance for doubtful debtors is made. The carrying amount of trade receivables, net of the allowance for doubtful debtors, represents the maximum amount exposed to credit risk. 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 allowance for doubtful debtors already recorded (see Note 2).

Management has determined the allowance for doubtful debtors based on specific customer identification, customer payment trends, subsequent receipts and settlements and the analysis of expected future cash flows. Based on the expected collection rate, discount rates of 11.0-19.0 percent have been used in the estimate of present value of future cash flows. The management of the Group believes that Group entities will be able to realise the net receivable amount through direct collections and other non-cash settlements, and that therefore, the recorded value approximates their fair value.

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

	30 June 2007 (See Note 12)	Reversal of provision	Accrued provision	Discount effects	Change in Group structure	31 December 2006
Restructured trade receivables	(1,962)	114	(399)	245	-	(See Note (1,922)
Other non-current assets	(425)	24	(229)	-	-	(220) 12)
Trade receivables	(47,139)	6,351	(4,727)	(3,154)	3,952	(49,561)
Other receivables	(5,115)	2,100	(1,720)	-	624	(6,119)
Advances to suppliers	(824)	-	(373)	-	-	(451)
Receivables from associates	(824)	-	(503)	-	-	(321)
Total	**(56,289)**	**8,589**	**(7,951)**	**(2,909)**	**4,576**	**(58,594)**

	30 June 2006 (See Note 12)	Reversal of provision	Accrued provision	Discount effects	Change in Group structure	31 December 2005
Restructured trade receivables	(1,552)	-	-	529	-	(See Note (2,081)
Other non-current assets	(757)	160	(338)	-	-	(579) 12)
Trade receivables	(53,526)	6,171	(6,225)	(1,728)	(1,177)	(50,567)
Other receivables	(5,783)	1,369	(2,359)	-	-	(4,793)
Advances to suppliers	(742)	-	(240)	-	-	(502)
Receivables from associates	(7)	1	-	-	-	(8)
Total	**(62,367)**	**7,701**	**(9,162)**	**(1,199)**	**(1,177)**	**(58,530)**

(in millions of Russian Roubles)

As of 30 June 2007, receivables of RR 24,079 million (31 December 2006: RR 19,244 million) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	30 June 2007	31 December 2006
Up to 3 months	15,837	11,557
between 3 months and 6 months	3,580	1,452
between 6 months and one year	3,619	4,670
between one year and five years	958	1,450
more than five years	85	115
Total	**24,079**	**19,244**

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

Liquidity risk. Prudent liquidity risk management includes maintaining sufficient cash and the availability of funding from an adequate amount of committed credit facilities.

To manage the liquidity risk the Group applies a policy of holding financial assets for which there is a liquid market and that are readily convertible to meet liquidity needs.

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

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
At 30 June 2007				
Debt and borrowings	101,426	20,559	87,777	12,212
Trade and other payables	136,239	1,732	764	3,681
At 31 December 2006				
Debt and borrowings	101,935	26,423	52,192	29,162
Trade and other payables	112,128	909	3,979	4,197

Foreign exchange risk. The Group primarily operates within the Russian Federation, with limited exports of electricity. The majority of the Group's purchases are denominated in RR. The major concentration of foreign exchange risk is in relation to foreign currency denominated sales and purchase commitments (see Note 27) and foreign currency denominated debt (see Note 17).

Sensitivity analysis for foreign exchange risk at the reporting date is shown in the table below.

	The hypothetical effect on income and equity results from changes in the relevant risk variable that were reasonably possible at 30 June 2007	
	-3.36%	+1.82%
Foreign exchange risk - USD	(485)	-
Foreign exchange risk- Euro	-	45

Proceeding from the fact that the preparation of the financial statement for the six month ended 30 June 2007 was finished after the next reporting date (30 September 2007), the assumption of deviation was based on the real rate of exchange as at 30 September 2007. According to the information of Central Bank of Russia the RR/USD rate was reduced from 25.8186 at 30 June 2007 to 24.9493 at 30 September 2007. The RR/EUR rate was increased from 34.7150 at 30 June 2007 to 35.3457 at 30 September 2007.

Interest rate risk. The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group is exposed to interest rate risk through market value fluctuations of interest-bearing long-term borrowings. The majority of interest rates on long term borrowings are fixed, these are disclosed in Note 17. The Group has no significant interest-bearing assets.

(in millions of Russian Roubles)

Currently the Group does not operate a formal management program focusing on the unpredictability of financial markets or seeking to minimize potential adverse effects on the financial performance of the Group.

The Group performs sensitivity analysis for interest rate risk. Proceeding from the fact that the preparation of the financial statement for the six month ended 30 June 2007 was finished after the next reporting date (30 September 2007), the assumption of deviation was based on real interest rates as at 30 September 2007.

The shift of real interest rates is shown in the table below:

	Real interest rate	
	30 September 2007	**30 June 2007**
MOSPRIME	7.92%	4.28%
MOSIBOR	7.93%	4.20%
LIBOR	4.79%	5.32%
EURIBOR	4.79%	4.12%

An analysis of Group's interest rate exposure indicates that the impact on profit and loss of defined interest rate shift is insignificant.

Fair values. The fair value of investments and borrowings is discussed in Note 9 and 17 respectively. Management believes that the fair value of other financial assets and financial liabilities is not significantly different from their carrying amounts.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to the short-term nature of trade receivables.

The Group's deposits in banks are short-term and their carrying amount approximates fair value.

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

Note 32: Subsequent events

Sales of shares

In September 2007 RAO UES held an auction to sell 60.75 percent of the authorised capital (state owned shares) of OJSC WGC-4. The shares were sold in October 2007 to E.ON Russia Power GmbH for an amount of RR 100 billion. The Group's effective interest in OJSC WGC-4 was reduced from 89.60 to 28.85 percent.

In October 2007 OJSC WGC-4 issued an additional 14 billion ordinary shares with a par value of RR 0.4 each, thereby increasing its outstanding share capital from RR 19.65 to 25.21 billion. The issue, representing 28.26 percent of the share capital of OJSC WGC-4 before issue was purchased by E.ON Russia Power GmbH for the amount of RR 46.4 billion. The effective interest of the Group in OJSC WGC-4 decreased from 28.85 to 22.49 percent.

In November 2007 RAO UES and Highstat Ltd. executed a Share Purchase Agreement in respect of the Group's blocking stake (25% plus one share) in Power Machines. Highstat Ltd. offered RR 11.8 billion for the shares.

In November 2007 RAO UES held an auction to sell 64.44 percent of the shares of OJSC Marienergosbit, 46.80 percent of OJSC Buryatenergosbit, 49.00 percent of OJSC Omsk ESC and 52.03 percent of OJSC Tomsk ESC. The shares were sold for a total amount of RR 901 million.

Share issue

In July 2007 OJSC TGC-1 issued an additional 926 billion ordinary shares with the a value of RR 0.01 each. The issue, representing 31.65 percent of the share capital of OJSC TGC-1 before issue, was purchased by third parties. The effective interest of the Group in OJSC TGC-1 was reduced from 55.70 to 42.31 percent.

In August 2007 OJSC TGC-9 issued an additional 3,673 billion ordinary shares with the a value of RR 0.003 each. The issue, representing 64.46 percent of the share capital of OJSC TGC-9 before issue.

In August 2007 OJSC WGC-2 issued an additional 6.3 billion ordinary shares with a par value of RR 0.3627 each. The issue, representing 23.61 percent of the share capital of OJSC WGC-2 before issue, was purchased by third parties. The effective interest of the Group in OJSC WGC-2 decreased from 80.93 to 65.47 percent.

In August OJSC TGC-8 issued an additional 686 billion ordinary shares with a par value RR 0.01 each. The issue, representing 57.68 percent of the share capital of OJSC TGC-8 before issue, was purchased by third parties. The effective interest of the Group in OJSC TGC-8 was reduced from 53.05 to 33.65 percent.

On 22 August 2007 RAO UES completed the acquisition of 3.34 percent of the ordinary shares of JSC Lenenergo from Fortum Power and Heat Oy. Consequently, the Group's ownership in JSC Lenenergo has increased up to 59.34 percent, the Group holds 66.94 percent of the voting shares. In October 2007 OJSC Lenenergo issued an additional 0.24 billion of ordinary shares with a par value of RR 1 each. The issue, representing 30.56 percent of the share capital of OJSC Lenenergo before issue, was placed via a private offering with a third parties. The Group ownership in OJSC Lenenergo after completion of the share placing will be reduced from 59.34 to 44.45 percent, with the share in voting shares reduced from 66.94 to 50 percent plus one share. Lenenergo will remain a subsidiary.

As at 4 September 2007 the first stage of reorganization of the Parent company – RAO UES has been completed which resulted in the spin-off of two generating companies – WGC-5 and TGC-5. As at the date of spinning-off, the Group ownership interest in WGC-5 and TGC-5 was 50.99 and 47.45 percent (see Note 1).

In December OJSC Kuzbassenergo (TGC-12) issued an additional 100 million ordinary shares with a par value RR 1 each. The issue, representing 16.5 percent of the share capital of OJSC Kuzbassenegro (TGC-12) before issue, was purchased by third parties. The effective interest of the Group in OJSC Kuzbassenergo (TGC-12) was reduced from 49.0 to 42.1 percent. At the signing date the Group retains control over OJSC Kuzbassenergo (TGC-12) due to the fact that RAO UES still has the majority in the Board of Directors of OJSC Kuzbassenergo (TGC-12).

Bonds issue and loan agreements

In July 2007 OJSC WGC-2 issued ruble-denominated bonds with a nominal value of RR 5 billion payable in July 2010 with a coupon yield per annum stated at the rate of 7.70 percent.

In September 2007 OJSC TGC-4 signed an Agreement with the CJSC Gazprombank on opening of a line of credit in the amount of RR 5 billion for the period of five years and the general Agreement with Sberbank of Russian on opening of the renewed line of credit for the sum of RR 1.5 billion for the period of two years.

Other

As at 26 October 2007, the Extraordinary shareholder's meeting approved the basic structure for the second (final) phase of the Company's reorganization. Those shareholders who voted against approval of the reorganisation or did not participate in that shareholders meeting have the right to demand that RAO UES buy back its shares within 45 days of the shareholders meeting date. The re-purchase price was calculated by an independent appraiser and approved by the RAO UES Board of Directors at the level of RR 32.15 per ordinary share and RR 29.44 per preference share. The total amount of RAO UES's obligation is RR 101,853 million.