

TGC-4 GROUP

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

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Board of Directors of Open Joint Stock Company "Territorial Generation Company 4" (JSC "TGC-4")

We have audited the accompanying consolidated financial statements of JSC "TGC-4" and its subsidiaries (the "TGC-4 Group") which comprise the consolidated balance sheet as of 31 December 2007 and the consolidated income statement, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the TGC-4 Group as of 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation

16 July 2008

TGC-4 GROUP
Consolidated Balance Sheet as at 31 December 2007
(in thousands of Russian Roubles, unless otherwise stated)

	Notes	31 December 2007	31 December 2006 Restated
ASSETS			
Non-current assets			
Property, plant and equipment	8	38,485,791	26,553,867
Intangible assets		28,769	6,421
Investments in associates	5	13,463	34,394
Deferred tax assets	21	500,931	581,506
Long-term accounts receivable and prepayments	12	100,948	184,978
Other non-current assets	9	121,007	386,695
Total non-current assets		39,250,909	27,747,861
Current assets			
Cash and cash equivalents	10	198,637	116,841
Accounts receivable and prepayments	12	3,099,321	1,935,735
Current income tax prepayments		159,031	115,787
Inventories	11	1,928,123	1,980,630
Other current assets	13	16,562	17,576
		5,401,674	4,166,569
Non-current assets held for sale	6	-	66,087
Total current assets		5,401,674	4,232,656
TOTAL ASSETS		44,652,583	31,980,517
EQUITY AND LIABILITIES			
Share capital			
Ordinary shares (nominal value)		13,212,020	13,212,020
Preference shares		752,729	752,729
Share premium		959,867	959,867
Merger reserve		(1,807,993)	(1,807,993)
Revaluation reserve for property, plant and equipment		10,664,296	255,720
Retained earnings		2,890,448	7,226,863
Equity attributable to shareholders of TGC-4		26,671,367	20,599,206
Minority interest		27,388	42,608
TOTAL EQUITY	14	26,698,755	20,641,814
Non-current liabilities			
Deferred tax liabilities	21	5,286,975	3,571,104
Non-current debt	16	5,568,470	3,089,297
Other non-current liabilities		-	53,758
Pension liabilities	18	705,187	642,978
Total non-current liabilities		11,560,632	7,357,137
Current liabilities			
Current debt and current portion of non-current debt	17	4,984,707	2,386,129
Accounts payable and accruals	19	1,152,267	1,329,171
Provision for legal claims	26	38,558	-
Current income tax liabilities	21	3,375	40,893
Other taxes payable	20	214,289	194,899
		6,393,196	3,951,092
Liabilities directly associated with non-current assets held for sale	6	-	30,474
Total current liabilities		6,393,196	3,981,566
TOTAL LIABILITIES		17,953,828	11,338,703
TOTAL EQUITY AND LIABILITIES		44,652,583	31,980,517

General Director

Chief Accountant



G.A. Kochetkov
I.A. Lapitskaya

G.A. Kochetkov

I.A. Lapitskaya

11 July 2008

TGC-4 GROUP

Consolidated Income Statement for the year ended 31 December 2007

(in thousands of Russian Roubles, unless otherwise stated)

	Notes	Year ended 31 December 2007	Year ended 31 December 2006 Restated
Revenue	22	24,627,275	18,971,940
Cost of sales	23	(24,817,825)	(18,019,583)
Gross profit		(190,550)	952,357
The excess of the fair value of the Group's share in the acquired net assets over the cost of acquisition			
	3	-	123,109
Other operating income		193,118	103,364
Income from impairment of property, plant and equipment reversal	8	279,480	10,520,508
Revaluation write down	8	(6,257,915)	-
Operating profit		(5,975,867)	11,699,338
Finance income		10,519	8,447
Finance costs	24	(836,412)	(429,896)
Share of result of associates		7,315	45,750
Profit/(loss) before income tax		(6,794,445)	11,323,639
Income tax expense	21	1,578,388	(2,859,711)
Profit/(loss) for the year from continuing operations		(5,216,057)	8,463,928
Discontinued operations:			
Profit for the year from discontinued operations	6	63,465	10,057
Profit/(loss) for the year		(5,152,592)	8,473,985
Attributable to:			
The Group shareholders		(5,137,467)	8,473,985
Minority interest		(15,125)	
Earnings / (loss) per ordinary share for profit/(loss) from continuing operations attributable to the Group shareholders – basic and diluted (in Russian Roubles per share)			
	15	(0.004)	0.022
Earnings per ordinary share for profit from discontinued operations attributable to the Group shareholders – basic and diluted (in Russian Roubles per share)			
	15	0.00005	0.00003

General Director

Chief Accountant



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G.A. Kochetkov

I.A. Lapitskaya

11 July 2008

TGC-4 GROUP
Consolidated Statement of Cash Flows for the year ended 31 December 2007
(in thousands of Russian Roubles, unless otherwise stated)

	Notes	Year ended 31 December 2007	Year ended 31 December 2006 Restated
CASH FLOW FROM OPERATING ACTIVITIES:			
Profit before tax		(6,794,445)	11,323,639
Profit for the year from discontinued operations		63,465	10,057
Adjustments for other non-cash items:			
Depreciation of property, plant and equipment	8, 23	3,191,973	857,585
Amortization of intangible assets		8,707	-
Reversal of impairment of property, plant and equipment	8	(279,480)	(10,520,508)
Revaluation write down	8	6,257,915	-
Income tax related to discontinued operations		(18,431)	-
(Profit)/loss on disposal of subsidiary		(48,753)	7,783
Share of profits of associate		(7,315)	(45,750)
Loss on disposal of associate		12,053	-
Accounts payable written off		(5,078)	(4,991)
Increase of bad debt provision		63,534	18,961
Accounts receivable written off		744	-
Increase of inventory impairment provision		6,962	-
Exchange differences		13,906	-
Interest expense	24	787,217	374,792
Interest income		(614)	(8,447)
Impairment of investments held for sale		26,068	-
Loss on disposal of property, plant and equipment		17,237	35,139
Pension interest expense	18	49,195	36,143
Pension operating expenses/accruals	18	65,430	83,240
Provision for legal claims	26	38,558	-
Excess of the fair value of the Group's share in the acquired net assets over the cost of acquisition	3, 5	-	(123,109)
Other non-cash items		(76,982)	4,154
Operating cash flows before working capital changes and income tax paid		3,371,866	2,048,688
(Increase) / decrease in accounts receivable and prepayments		(1,202,791)	222,029
Increase in other current assets		(39,616)	(10,451)
(Increase) / decrease in inventories		94,438	(945,222)
Increase in other non-current assets		(83,835)	(376,945)
Increase / (decrease) in accounts payable and accruals		(77,340)	188,223
Increase in other long-term payables		-	44,349
Increase / (decrease) in taxes payable other than income tax		1,445	(268,259)
Cash provided by operating activities before interest and taxes		2,064,167	902,412
Income tax paid		(340,658)	(521,390)
Interest paid		(731,139)	(301,384)
Interest received		1,019	8,447
Net cash generated from operating activities		993,389	88,085
CASH FLOW FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment and other non-current assets		(5,554,276)	(2,451,171)
Proceeds from sale of property, plant and equipment and other non-current assets		56,545	28,827
Purchase of intangible assets		(18,707)	-
Acquisition of subsidiary, net of cash acquired		-	163,923
Proceeds from sale of associates		15,100	-
Purchase of short-term financial investments		(31,313)	(57,468)
Proceeds from sale of short-term financial investments		32,000	51,444
Disposal of subsidiaries, net of cash disposed		93,175	151,907
Dividends received		1,092	-
Net cash used in investing activities		(5,406,384)	(2,112,538)
CASH FLOW FROM FINANCING ACTIVITIES:			
Repayment of financial lease		(167,895)	(256,513)
Proceeds from borrowing		31,327,366	17,500,019
Repayment of debts		(31,367,587)	(15,157,221)
Proceeds from bonds issuance		5,000,000	-
Expenses from bonds issuance		(950)	-

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

TGC-4 GROUP

Consolidated Statement of Cash Flows for the year ended 31 December 2007
(in thousands of Russian Roubles, unless otherwise stated)

Notes	Year ended 31 December 2007	Year ended 31 December 2006 Restated
Dividends paid	(296,143)	(152,305)
Net cash generated from financing activities	4,494,791	1,933,980
(Decrease) / increase in cash and cash equivalents	81,796	(90,473)
Cash and cash equivalents at the beginning of the year	116,841	207,314
Cash and cash equivalents at the end of the year	198,637	116,841

General Director

Chief Accountant



G.A. Kochetkov
I.A. Lapitskaya

G.A. Kochetkov

I.A. Lapitskaya

11 July 2008

TGC-4 GROUP
Consolidated Statement of Changes in Equity for the year ended 31 December 2007
(in thousands of Russian Roubles, unless otherwise stated)

	Attributable to the shareholders of TGC-4								Total	Minority interest	Total equity
	Ordinary share capital	Preference share capital	Unpaid share capital	Merger reserve	Revaluation reserve	Share premium	Retained Earnings				
At 1 January 2006	4,999	-	5,001	4,749,463	-	-	93,347	4,852,810	5,041,674	9,894,484	
Contribution from shareholders	12,177,856	684,903	(5,001)	(6,557,456)	-	-	-	6,300,302	(6,300,302)	-	
Changes in Group structure	1,029,165	67,826	-	-	-	959,867	(1,322,203)	734,655	1,322,203	2,056,858	
Profit for the year	-	-	-	-	-	-	8,416,611	8,416,611	-	8,416,611	
Total recognised income and expenses for the year	-	-	-	-	-	-	8,416,611	8,416,611	-	8,416,611	
Dividends	-	-	-	-	-	-	(18,266)	(18,266)	(20,967)	(39,233)	
At 31 December 2006 prior to restatement	13,212,020	752,729	-	(1,807,993)	-	959,867	7,169,489	20,286,112	42,608	20,328,720	
Revaluation of assets and liabilities of JSC "Heat Power Company" (Belgorod) at the acquisition date (Note 5)	-	-	-	-	255,720	-	57,374	313,094	-	313,094	
At 31 December 2006 after restatement	13,212,020	752,729	-	(1,807,993)	255,720	959,867	7,226,863	20,599,206	42,608	20,641,814	
Property, plant and equipment: Revaluation (Note 8)	-	-	-	-	15,146,880	-	-	15,146,880	-	15,146,880	
Transfer of the realised revaluation reserve	-	-	-	-	(1,451,386)	-	1,451,386	-	-	-	
Income tax recognised in equity (Note 21)	-	-	-	-	(3,635,251)	-	-	(3,635,251)	-	(3,635,251)	
Transfer of income tax recognised in equity	-	-	-	-	348,333	-	(348,333)	-	-	-	
Net income/expenses recognised directly in equity	-	-	-	-	10,408,576	-	1,103,053	11,511,629	-	11,511,629	
Loss for the year	-	-	-	-	-	-	(5,137,467)	(5,137,467)	(15,125)	(5,152,592)	
Total recognised income and expenses for the year	-	-	-	-	10,408,576	-	(4,034,414)	6,374,162	(15,125)	6,359,037	
Dividends (Note 14)	-	-	-	-	-	-	(302,001)	(302,001)	(95)	(302,096)	
At 31 December 2007	13,212,020	752,729	-	(1,807,993)	10,664,296	959,867	2,890,448	26,671,367	27,388	26,698,755	

General Director
Chief Accountant

G.A. Kochetkov

I.A. Lapitskaya

11 July 2008



TGC-4 GROUP

Notes to the Consolidated Financial Statement for the year ended 31 December 2007
(in thousands of Russian Roubles, unless otherwise stated)

Note 1. The Group and its operations

Open Joint-Stock Company "Territorial Generation Company 4" ("TGC-4" or "the Company") was established on 18 April 2005 as a subsidiary of OJSC "RAO UES of Russia" ("RAO UES" or "Parent") within the framework of Russian electricity sector restructuring.

As at 31 December 2007 the Group TGC-4 (hereinafter – the Group) incorporates TGC-4 with ten branches located in Belgorod, Bryansk, Voronezh, Kaluga, Kursk, Lipetsk, Oryol, Ryazan, Smolensk and Tula and subsidiaries for the purposes of preparation of the consolidated financial statements. The principal subsidiaries are listed in Note 5.

The branches were formed on the basis of eleven regional generating companies (JSC "Bryansk Generating Company", JSC "Voronezh Generating Company", JSC "Kaluga Generating Company", JSC "Kursk Generating Company", JSC "Oryol Generating Company", JSC "Prioksk Territorial Generating Company", JSC "Ryazan Heat Supply Company", JSC "Smolensk Generating Company", JSC "Lipetsk Generating Company", JSC "Tambov Generating Company" and JSC "Heat Power Company" (Belgorod), whose assets were merged into and with TGC-4 as at 15 September 2006. The merger was a business combination among entities under common control (except for JSC "Heat Power Company" (Belgorod) Note 5), and has been accounted for using the predecessor accounting method (see Note 3).

To enhance the efficiency of the Group's operating activities the branches of TGC-4 are being amalgamated. According to the decision of the Board of Directors starting from 1 September 2007 the branch "Vostochnaya regional generation" including Lipetsky and Tambovsky branches started its operations.

These financial statements include the performance results of all aforementioned companies for the years ended 31 December 2007 and 31 December 2006.

The Company is incorporated under the law of Russian Federation.

The Company's registered office is located at 99, Timiryazev Str., 300600, Tula, Russia. The Company has branches.

As at 31 December 2007, the number of the Group's employees was 16,892 (as at 31 December 2006 16,841).

The Company's shares are listed in the Russian Trade System.

The TGC-4 operates 10 power plants and its principal activity is electricity and heat generation.

Operating environment

Whilst there have been improvements in the economic trends in the Russian Federation, the country continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the Russian Federation 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 31 December 2007 the Russian Federation owned 52.7% of RAO UES, which in its turn owned 50.02% of voting ordinary shares of TGC-4. The Russian Government is the ultimate controlling party of the Company.

The Group's customer base includes a large number of entities controlled by or related to the state. Moreover, the state controls a number of the Group's fuel and other suppliers.

The Government of the Russian Federation directly affects the Group's operations through regulation by the Federal Service on Tariffs ("FST"), with respect to its wholesale energy sales, and through regulating by the Regional Services on Tariffs ("RST's"), with respect to the retail sales of electricity and heat.

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

Note 1. The Group and its operations (continued)

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

As described in Notes 2 and 26 the Russian Federation Government's economic, social and other policies could have material effects on the Group's operations.

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 RAO UES Group and its successor companies (including TGC-4) 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 the Electric Utilities of the Russian Federation" 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".
- In September 2003, the Russian Federation Government issued Resolution No. 1254-r "On formation of generation companies of the wholesale electricity market" which approved the composition of wholesale generating companies of the wholesale electricity market.
- In October 2003, the Russian Federation Government issued Resolution No. 643 "On the Rules for the Wholesale Electricity Market during the Transition Period". According to the rules adopted, there will be two sectors within the Federal Wholesale Electricity Market (FOREM): regulated trading sector and free trading sector. Within the free trading sector, electricity suppliers will be able to sell electricity generated with the use of facilities and equipment accounting for 15% of the working capacity. Since November 2003, the non-commercial partnership "Trade System Administrator of the Wholesale Electricity Market", in accordance with the rules for the wholesale electricity market during the transition period, has been holding electricity bidding in the free trading sector. The Group participates in this free trading scheme. According to the laws underlying the electric utilities reform, subsequently free trading will be extended over the whole volume of trading.
- As part of reforming of the operation of the wholesale electricity (power) market in August 2006 the Government issued Resolution No. 529 "On the Improvement of the Operation of the Wholesale Electricity Market" which introduced changes in the Rules for the Wholesale Electricity Market during the transition period from 1 September 2006. Effective as at September 2006 there were changes in pricing procedures and abolition of limitation on sales of power at a free trading sector. Specifically, the Resolution stipulates a gradual reduction (5% to 15% per annum) of the share of electricity sales on the wholesale market at regulated prices (tariffs) and a corresponding increase of trading of electricity at free market prices.
- On 29 May 2003 the Board of Directors of RAO UES of Russia approved a "Concept of RAO UES of Russia strategy for the period from 2003 through 2008". In February 2006 the Board of Directors approved an Appendix to the Concept of RAO UES Strategy: "Generating companies of the Wholesale Electricity Market (TGCs)". This document provides a detailed description of the major changes that are planned to take place in respect of RAO UES Group companies during the electric utilities reform program.

TGC-4 GROUP

Notes to the Consolidated Financial Statement for the year ended 31 December 2007
(in thousands of Russian Roubles, unless otherwise stated)

Note 1. The Group and its operations (continued)

A crucial step in developing a competitive wholesale electricity (capacity) market was the adoption of the new Wholesale Electric Power (capacity) Market (NOREM) Rules of the Transitional Period approved by Resolution of the Government of the Russian Federation No. 529 dated August 31, 2006 and which came into force on September 1, 2006. Under the new wholesale market framework, electricity and power purchase-and-sale transactions in the regulated market sector are to be governed by a regulated bilateral contract system. Starting from 1 September 2006 regulated contracts covered substantial volume of electricity and power produced and consumed.

From 2007 the volumes of electricity (power) traded in the wholesale market at regulated prices will be substantially reduced. The pace of reduction was set by the Russian Federation Government according to socio-economic development forecasts. In 2007 up to 90% of the forecasted production volumes were traded at regulated prices. The period from 2006 to approximately 2011 is a transition period. After that, it is expected that a fully competitive wholesale market will develop.

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

Main developments in the formation process

- On 28 February 2006 the general shareholders' meetings of 8 regional Generating companies - JSC "Bryansk Generating Company", JSC "Voronezh Generating Company", JSC "Kaluga Generating Company", JSC "Kursk Generating Company", JSC "Oryol Generating Company", JSC "Prioksk Territorial Generating Company", JSC "Ryazan Heat Supply Company" and JSC "Smolensk Generating Company" - took a decision to reorganize the companies in the form of merger with JSC "TGC-4" on the conditions envisaged by the Merger Agreement and to approve the Merger Agreement and deeds of transfer of the companies reorganized in the form of merger with JSC "TGC-4".
- On 8 April 2006 similar decisions were taken at the general meetings of shareholders of JSC "Lipetsk Generating Company" and JSC "Tambov Generating Company".
- On 21 July 2006 the general meeting of shareholders of JSC "Heat Power Company" (Belgorod) took a decision to reorganize the company in the form of merger with JSC "TGC-4" on the conditions envisaged by the Merger Agreement and to approve the Merger Agreement and deed of transfer.
- On 21 July 2006 the Board of RAO UES of Russia performing the functions of the general meeting of shareholders of JSC "TGC-4" took a decision to reorganize the Company in the form of takeover of its 11 regional generating companies, to approve the Merger Agreement and increase the Group's charter capital through the placement of additional shares for the conversion of shares of merged companies in the manner envisaged by the Merger Agreement. Conversion coefficients were determined.
- On 15 September 2006 termination of activities of 11 regional generating companies through the merger with JSC "TGC-4" was registered in the United State Register of Enterprises and Organizations of Russia. Shares of merged companies were converted and JSC "TGC-4" started to operate as a single company.

Note 2. Financial condition

As at 31 December 2007 the Group's current liabilities exceeded its current assets by RR 991,522 thousand that is explained by using short-term borrowings to finance the investments (as at 31 December 2006 the Group's current assets exceeded its current liabilities by RR 251,090 thousand).

As discussed above, the Group is affected by Government policy through control of tariffs and other factors. The FST have not always permitted tariff increases in line with the Group's costs and thus some tariffs are insufficient to cover all the costs of generation. Moreover, increases in these tariffs consider costs only on a Russian statutory basis and, accordingly, exclude additional costs recognised under an IFRS basis of accounting. As a result, tariffs may not consistently allow for an adequate return on

Note 2. Financial condition (continued)

investment and currently do not provide sufficient funds for the full replacement of property, plant and equipment. However, during 2007 and to date in 2008 the growing demand for electricity and capacity together with the increasing free trading sector of the wholesale electricity market have resulted in a higher rate of revenue growth, received from the sale of electricity and heat generated by own stations (see Regulatory issues and sector restructuring in Note 1).

Although the Group's current collections of accounts receivable is high enough, the Group continues to experience difficulties in obtaining settlements of accounts receivable, particularly, for heat sales, the majority of which are receivables from state-controlled entities (Note 12). Also, there still remains a significant level of uncollectible accounts receivable for heat sales for the period prior to restructuring. There is legislation enabling the Group to terminate service to delinquent customers, but certain strategic and political factors make this difficult. The Group has created impairment provision against doubtful accounts receivable, as further described in Note 12.

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

- introduction of improved financial budgeting procedures;
- 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 assets; and
- raising long-term debt/equity financing for investments in new generating assets.

Note 3. Basis of preparation**Statement of compliance**

These consolidated financial statements ("Financial Statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS") and related interpretations adopted by the International Accounting Standards Board ("IASB").

Each Group's entity individually maintains its own books of accounts and prepares its statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation ("RAR"). The accompanying financial statements are based on the statutory records and adjusted and reclassified for the purpose of fair presentation in accordance with IFRS.

The accounting policies have been consistently applied to all years presented except for the voluntary change in accounting policy made in relation to measurement of PPE described in Note 8.

Restatement of comparatives

In these consolidated financial statements for the year ended 31 December 2007 the comparative data of the balance sheet as at 31 December 2006, income statement, cash flow statements for the year ended 31 December 2006 and the respective data for 2006 of the statement of changes in equity have been restated.

The restatement is based on the results of valuation of the assets and liabilities of JSC "Heat Power Company" (Belgorod), which was completed during the first year after obtaining the control over JSC "Heat Power Company" (Belgorod) (Note 5). As a result, the opening balance and comparatives were restated by the following amounts:

TGC-4 GROUP

Notes to the Consolidated Financial Statement for the year ended 31 December 2007
(in thousands of Russian Roubles, unless otherwise stated)

Note 3. Basis of preparation (continued)

Narrative	Restated data	Prior to restatement (valuation)	Restatement adjustments
Balance as of 31 December 2006			
Non-current assets			
Property, plant and equipment	26,553,867	25,302,266	1,251,601
Goodwill	-	642,794	(642,794)
Equity and liabilities			
Revaluation reserve for property, plant and equipment	255,720	-	255,720
Retained earnings	7,226,863	7,169,489	57,374
Non-current liabilities			
Deferred tax liabilities	3,571,104	3,275,391	295,713
Income statement for the year ended 31 December 2006			
Cost of sales	(18,019,583)	(17,933,090)	(86,493)
Excess of the fair value of the Group's share in the acquired net assets over cost of an acquisition	123,109	-	123,109
Income tax expense	(2,859,711)	(2,880,469)	20,758
Profit for the year from continuing operations	8,463,928	8,406,554	57,374
Profit for the year	8,473,985	8,416,611	57,374
Profit for the year attributable to The Group shareholders	8,473,985	8,416,611	57,374
Earnings per ordinary share for profit/(loss) attributable to the Group shareholders – basic and diluted (in Russian Roubles per share)	0.022	0.021	0.001
Cash flow statement for the year ended 31 December 2006			
Profit/ (loss) before tax	11,323,639	11,287,023	36,616
Depreciation of property, plant and equipment	857,585	771,092	86,493
Excess of the fair value of the Group's share in the acquired net assets over cost of an acquisition	(123,109)	-	(123,109)

Reclassifications

Certain reclassifications have been made to prior period balances to conform to the current year presentation. In prior reporting periods the long-term accounts receivable and prepayments were recorded within other non-current assets, current income tax prepayments were included in accounts receivable and advances issued. The Group's management believes that these assets were broken down by components and disclosed in the balance sheet in separate lines. Short-term investments were recorded within other current assets.

The effect from the above is presented below:

Narrative	Adjusted comparatives as at 31 December 2006	As at 31 December 2006 prior to adjustments
Long-term accounts receivable and prepayments	184,978	-
Other non-current assets	386,695	571,673
Accounts receivable and prepayments	1,935,735	2,051,522
Current income tax prepayments	115,787	-
Short-term investments	-	12,406
Other current assets	17,576	5,170
Total	2,640,771	2,640,771

Note 3. Basis of preparation (continued)

Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble ("RR"), which is the functional currency of each of the Group's entities and the currency in which these financial statements are presented. All financial information presented in RR has been rounded to the nearest thousand.

Predecessor accounting

In these consolidated financial statements for year ended 31 December 2006, the Group accounted for the merger with entities controlled by RAO UES as business combinations amongst entities under common control in accordance with its accounting policy using the predecessor values method. Accordingly, assets and liabilities of the contributed entity were accounted for at the carrying value, as determined by RAO UES in its IFRS consolidated financial statements. The difference between the consideration paid and the predecessor carrying values of the net assets relating to the acquisition of a business from an entity under common control is recorded in equity, as a merger reserve.

Minority interest represents the minority shareholders' proportionate share of the equity and results of operations of the Group's subsidiaries. This has been calculated based upon the minority interests' ownership percentage of these subsidiaries.

Accounting for the effects of hyperinflation

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

New accounting developments

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

IFRS 7 "Financial Instruments: Disclosures" and a complementary Amendment to IAS 1 Presentation of Financial Statements – Capital Disclosures (effective from 1 January 2007).

The IFRS introduced new disclosures to improve the information disclosed in respect of financial instruments. The volume of disclosures increased significantly with an emphasis on quantitative aspects of risk exposures and the methods of risk management. The quantitative disclosures provide information about the extent to which the entity is exposed to risk, based on information provided internally to the entity's key management personnel. Qualitative and quantitative disclosures cover exposure to credit risk, liquidity risk and market risk including sensitivity analysis to market risk. IFRS 7 replaced IAS 30, "Disclosures in the Financial Statements of Banks and Similar Financial Institutions", and some of the requirements in IAS 32, "Financial Instruments: Disclosure and Presentation". The Amendment to IAS 1 introduced disclosures about the level of an entity's capital and how it manages capital. These consolidated financial statements include the information in accordance with the new requirements.

Other new standards or interpretations

- IFRIC 7 "Applying the Restatement Approach under IAS 29" (effective for periods beginning on or after 1 March 2006);
- IFRIC 8 "Scope of IFRS 2" (effective for periods beginning on or after 1 May 2006);
- IFRIC 9 "Reassessment of Embedded Derivatives" (effective for annual periods beginning on or after 1 June 2006);
- IFRIC 10 "Interim Financial Reporting and Impairment" (effective for annual periods beginning on or after 1 November 2006).

Note 3. Basis of preparation (continued)

The effect of adoption of the above new or revised standards and interpretations on the Group's financial position as at 31 December 2007 and on the results of its operations for the 2007 year was not significant.

New standards and interpretations

New standards and interpretations became effective, which are mandatory for adoption by the Group with regard to the reporting periods starting from 1 January 2008 and which were not adopted by the Group.

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 organization 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. The Group is currently assessing the effect that the application of the above standard may have on the Group's consolidated financial statements.

Amendment to IAS 32 and IAS 1, Puttable financial instruments and obligations arising on liquidation (effective for annual periods beginning on 1 January 2009).

According to the amendments the particular types of financial instruments meeting the criteria of financial liabilities shall be classified within equity.

IAS 23, "Borrowing costs" (revised September 2007: effective for annual periods beginning on or after 1 January 2009).

The revised IAS 23 was issued in March 2007. The main change from the previous version is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset. The Group is currently assessing the impact of the revised standard on its consolidated financial statements. The revised standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009.

IAS 1, "Presentation of Financial Statements" (revised September 2007: effective for annual periods beginning on 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.

IAS 27, "Consolidated and Separate Financial Statements" (revised January 2008; effective for annual periods beginning on or after 1 July 2009).

The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value.

Note 3. Basis of preparation (continued)

IFRS 3, "Business Combinations" (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009).

The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or on the same basis as US GAAP (at fair value). The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, goodwill will be measured as the difference at acquisition date between the fair value of any investment in the business held before the acquisition, the consideration transferred and the net assets acquired. Acquisition-related costs will be accounted for separately from the business combination and therefore recognized as expenses rather than included in goodwill. An acquirer will have to recognize at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognized in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill.

Vesting Conditions and Cancellations – Amendment to IFRS 2, "Share-based Payment" (issued in January 2008; effective for annual periods beginning on or after 1 January 2008).

The amendment clarifies that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment.

Improvements to International Financial Reporting Standards (issued in May 2008).

In 2007, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments issued in May 2008 consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting.

Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate – IFRS 1 and IAS 27 Amendment (revised May 2008; effective for annual periods beginning on or after 1 January 2009).

The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous GAAP carrying value as deemed cost in the separate financial statements. The amendment also requires distributions from pre-acquisition net assets of investees to be recognised in profit or loss rather than as a recovery of the investment.

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

IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC 13 is not relevant to the Group's operations because no the Group companies operate any loyalty program.

Note 3. Basis of preparation (continued)***Other new standards or interpretations.***

The Group has not early adopted the following other new standards or interpretations:

- IFRIC 11, *IFRS 2 «Group and Treasury Share Transactions»* (effective for annual periods beginning on or after 1 March 2007);
- IFRIC 12, *«Service Concession Arrangements»* (effective for annual periods beginning on or after 1 January 2008);
- IFRIC 14, *IAS 19 «The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction»* (effective for annual periods beginning on or after 1 January 2008);
- IFRIC 15, *«Agreements for the Construction of Real Estate»* (effective for annual periods beginning on or after 1 January 2009);
- IFRIC 16, *«Hedges of a Net Investment in a Foreign Operation»* (effective for annual periods beginning on or after 1 October 2008).

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

Going concern

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realisation of assets and the satisfaction of liabilities in the normal course of business. The recoverability of the Group's assets, as well as the future operations of the Group, may be significantly affected by the current and future economic environment. The accompanying financial statements do not include any adjustments should the Group be unable to continue as a going concern.

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 recognized 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:

Provision for impairment of accounts receivable

Provision for impairment of accounts receivable is based on the Group's assessment of whether the collectibility of specific customer accounts deteriorated compared to prior estimates. If there is a deterioration in a major customer's creditworthiness or actual defaults are higher than the estimates, the actual results could differ from these estimates (see Note 12). If conditions change and management determines that the collectibility of accounts receivable has improved, the provision for impairment is fully or partially reversed. See effect of these critical accounting estimates and assumptions in Note 12.

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

Accounting for impairment includes provisions against property, plant and equipment, investments and inventory obsolescence. The provisions for liabilities and charges primarily include provisions for pension liabilities and legal proceedings.

The Group records impairment or accrues provision for legal proceedings 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

Note 3. Basis of preparation (continued)

resolution of the liability in the future. See effect of these critical accounting estimates and assumptions in Note 8.

Revaluation of property, plant and equipment

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

Useful lives of property, plant and equipment

The estimation of the useful lives 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, which can affect the reported income. See effect of these critical accounting estimates and assumptions in Note 8.

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 these IFRS financial statements. See effect of these critical accounting estimates and assumptions in Note 26.

Note 4. Summary of significant accounting policies

Principles of consolidation

The financial statements comprise the financial statements of TGC-4 and the financial statements of those entities whose operations are controlled by TGC-4. Control is presumed to exist when TGC-4 controls, directly or indirectly through subsidiaries, more than 50 % of voting rights.

A) Subsidiaries

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

Minority interest is that part of the net results and of the net assets of a subsidiary, including the fair value adjustments, which is attributable to interests which are not owned, directly or indirectly, by the Group. Minority interest forms a separate component of the Group's equity.

All the gains and losses resulting from the purchases and sales of minority interests are recognised in the statement of changes in equity.

Transactions eliminated on consolidation

Inter-company balances and transactions, and any unrealized gains and losses arising from inter-company transactions, are eliminated in preparing the consolidated financial statements. Unrealized losses are considered an impairment indicator of the assets transferred.

Note 4. Summary of significant accounting policies (continued)*B) Associates*

Associates are entities over which the Group has significant influence, but not control, generally accompanying a shareholding of between 20 % and 50 % of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. The Group's share of the post-acquisition profits or losses of associates is recorded in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves. 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.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Transfers of subsidiaries from parties under common control

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

Foreign currency

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

The exchange rates prevailing as at 31 December 2007 as determined by the Central Bank of the Russian Federation, between the RR and the US Dollar ("USD") was RR 24.5462: USD 1.00 (31 December 2006: RR 26.3311: USD 1.00), between the RR and EURO RR 35.9332: EURO 1.00 (31 December 2006: RR 34.6965: EURO 1.00).

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 amount less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The revaluation model is applied in relation to all classes of PPE except for the following classes of fixed assets: communications; motor vehicles; computer; instruments, tools; measuring equipment; other machinery. Those classes of PPE are measured at costs less accumulated depreciation and accumulated impairment.

Prior to 1 January 2007 property, plant and equipment were stated at costs less accumulated depreciation less accumulated impairment losses. Deemed cost was initially determined by a third party valuation at 31 December 1997 and restated for the impact of inflation until 31 December 2002. Adjustments were made for additions, disposals and depreciation charges.

As of the beginning of 2005 property, plant and equipment were stated at the carrying value determined in accordance with the IFRS at the date of their transfer to the Group by the Predecessor entity.

Note 4. Summary of significant accounting policies (continued)

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the difference is recognised as an expense (impairment loss) in the income statement. An impairment loss recognised in prior years is reversed if there has been a change in the estimates used to determine an asset's recoverable amount.

The amounts determined by the third party valuation at 31 December 1997 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 is not a recurring feature since it was intended to determine the initial cost basis of property, plant and equipment and the Group has not adopted a policy of revaluation on subsequent measurement until after 1 January 2007. The change in carrying value arising from this valuation was charged directly to retained earnings.

Revaluation was performed for all property, plant and equipment of the Group except for the following separate classes of fixed assets: communications; motor vehicles; computer; instruments, tools; measuring equipment; other machinery. 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 are credited to revaluation reserve in equity. Decreases that offset previous increases of the same asset are charged against revaluation reserve directly in equity; all other decreases are charged to the consolidated income statement. The revaluation reserve in equity is transferred directly to retained earnings when the surplus is realised either on the retirement or disposal of the asset or as the asset is used by the Group; in the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

When an item of property, plant and equipment was revalued, any accumulated depreciation at the date of the revaluation was eliminated against the gross carrying amount of the asset and the net amount was restated to the revalued amount of the asset.

Further acquisitions of property, plant and equipment between revaluations are recognized at their actual cost.

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

Gain or loss from sale or other retirement of property, plant and equipment is determined as the difference between the sales proceeds and book value and is recognized in the income statement.

Depreciation

Land is not depreciated. Depreciation of 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.

Useful lives of property, plant and equipment are subject to 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.

In 2007 the depreciation on property, plant and equipment was based on the following useful lives:

Type of facility	Acquired prior to 31 December 2006	Acquired subsequent to 31 December 2006
Electricity and heat generation	4-54	9-32
Electricity distribution	3-28	9-21
Heating networks	3-36	5-25
Other	1-63	3-28

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Notes to the Consolidated Financial Statement for the year ended 31 December 2007
(in thousands of Russian Roubles, unless otherwise stated)

Note 4. Summary of significant accounting policies (continued)

Prior to 1 January 2007 for the property, plant and equipment which were subject to the third party valuation as of 31 December 1997, the depreciation is based on the estimated remaining useful lives as at the above valuation date.

The useful lives, in years of assets by type of facility are as follows:

Type of facility	Acquired prior to 31 December 1997	Acquired subsequent to 31 December 1997
Electricity and heat generation	5-63	20-50
Electricity distribution	6-28	25
Heating networks	4-31	20
Other	8	10

Intangible assets

Intangible assets are stated at cost, adjusted for subsequent disposal, amortization and impairment.

Amortization of intangible assets is calculated on a straight-line basis over the shorter of useful life or validity period of legal rights.

Goodwill

Goodwill is recognized 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 recognized at cost less impairment losses. The carrying amount of goodwill is assessed for impairment on an annual basis. In respect of associates and a jointly controlled entity, 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 recognized immediately in the income statement.

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 intention of holding the investment for less than 12 months from the balance sheet date, they will need to be sold to increase working 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 the buyer. Cost of purchase includes transaction costs. The available-for-sale investments are subsequently carried at fair value. Unrealized 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. Realized gains and losses from the disposal of available-for-sale investments are included in the income statement in the period in which they arise.

Note 4. Summary of significant accounting policies (continued)

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 have any investments held-to-maturity and financial assets at fair value through profit or loss.

Cash and cash equivalents

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

Inventory

Inventories are valued at the lower of acquisition cost and net realizable value. Acquisition cost of fuel is determined on the weighted average basis, for other groups – specific identification of the individual costs.

Provision is made for potential losses on obsolete or slow-moving inventories, taking into account their expected useful life and future realizable value.

Value added tax on purchases and sales

Starting 1 January 2006 output VAT related to sales is payable to tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice.

Before 1 January 2006 there were other tax rules applied for output and input VAT. Output VAT related to sales was generally payable to tax authorities on the collection of the receivables from customers. The related deferred VAT liability was maintained until the underlying debtor is recovered or written off for tax purposes. Input VAT was generally recoverable against output VAT upon payment for purchases made.

There are also special transition rules applied for input and output VAT incurred before 1 January 2006 and which were not settled as at 1 January 2006. Generally, according to the rules these input and output VAT will be settled during 2006-2007 but not later than the first tax period of year 2008.

The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognized in the balance sheet on a gross basis and disclosed separately as an asset and liability.

Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

Accounts receivable

Accounts receivable are recorded inclusive of value added taxes which are payable to tax authorities upon collection of such receivables. Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method less provision for impairment. Such provision 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 provision is the difference between the carrying and recoverable amount, being the present value of the expected cash flows, discounted at the market rate of interest for similar borrowers at the date of origination of the receivables.

Note 4. Summary of significant accounting policies (continued)**Accounts payable and accruals**

Accounts payable are stated inclusive of value added tax. Trade payables are recognized initially at fair value and subsequently measured at amortised cost using the effective interest rate method. If accounts payable are restructured and the fair value of the restructured payable determined using the original effective interest rate differs by more than ten percent from the original liability, then the fair value of the restructured payable is measured as the present value of the future cash flows discounted at the interest rate available to the Group at the date of the restructuring.

The amount of the discount is credited to the income statement (finance costs - net) as a gain on restructuring, and the non-current portion of the discounted payable is reclassified to other non-current liabilities. The discount is amortized over the period of the restructuring as an interest expense.

Guarantee

Financial guarantees are contracts where the Group is required to make payments to reimburse a lender when a specific debtor fails to make payment when due in accordance with a debt instrument. Financial guarantee contracts issued by the entity are initially accounted for at fair value. They are subsequently measured at the higher of the amount determined in accordance with IAS 37 and the amount initially recognized. Fair value is determined using the interest rate differentials method, which provides a suitable basis for estimating the fair value of guarantees. Under this method the fair value of guarantee represents the difference in the present value of the interest payments charged on the guaranteed loan and what would have been charged had the loan not been guaranteed over the period of the guarantee.

Debt

Debt is recognized 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 amortized cost using the effective yield method; any difference between the fair value of the proceeds (net of transaction costs) and the redemption amount is recognized in the income statement as an interest expense over the period of the debt obligation.

Borrowing costs

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

Pension and post-employment benefits

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

The Group's entities operate defined benefit plans. Benefit plans define the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognised in the balance sheet in respect of defined benefit pension plans operated by the Group is the present value of the defined benefit obligation at the balance sheet date 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% of the value of plan assets or 10% of the defined benefit obligations are charged or credited to the income statement over the employees' expected average remaining working lives.

Note 4. Summary of significant accounting policies (continued)

Pension plans are qualified as unfunded plans. Therefore, the balances in the pension accounts of the Fund shall be accounted in the balance sheet within the non-current assets as a separate asset (Note 9).

Income tax

The income tax represents the sum of the tax currently payable and deferred income tax.

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

Deferred income tax

Deferred 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 nor loss. 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 utilized. 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 utilized.

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

Revenue recognition

Revenue is recognized on the delivery of electricity and heat during the period. Revenue amounts are represented exclusive of value added tax.

Operating leases

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

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

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 income statement over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

Note 4. Summary of significant accounting policies (continued)

Government grants

Grants related to income are recognized as income in the same periods as the related expenses. They are presented in the income statement under a general heading such as "other income".

Dividends

Dividends are recognized 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.

Environmental liabilities

Liabilities for environmental remediation are recorded where there is a present obligation, the payment is probable and reliable estimates can be made. The Group regularly pays for normative pollutions and pollutions above norms. All such payments recorded through income statement.

Earnings per share

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

Segment reporting

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

Interest

Interest income and expense are recognized in the income statement for all debt instruments on an accrual basis using the effective rate of interest method. Interest income includes nominal interest and amortised discount and premium. When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognized based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

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.

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Notes to the Consolidated Financial Statement for the year ended 31 December 2007
(in thousands of Russian Roubles, unless otherwise stated)

Note 5. Group subsidiaries and associated companies

The Group's consolidated financial statements include the following subsidiaries.

Subsidiaries	Activity	Ownership, %	
		31 December 2007	31 December 2006
JSC "Novomoskovskaya GRES"	Electricity and heat generation	100	100
JSC "Tulenergocomplex"*	Supply of material resources, storage and cargo transportation	50	50
JSC "Ryazanenergoremont"	Servicing of electrical and heating networks	-	100
JSC "Tambovenergospetsremont"	Repairs, renewal and reconstruction of heating and electrical equipment	-	100

*Control is exercised by means of majority of votes of the Board of JSC "Tulenergocomplex".

In 2007 the shares of repair companies JSC "Ryazanenergoremont" and JSC "Tambovenergospetsremont" were sold by the way of competitive sale (Note 6).

The carrying amounts of assets and liabilities disposed were the following:

Narrative	JSC "Tambovenergospetsremont"	JSC "Ryazanenergoremont"
	19 June 2007	30 March 2007
Date of disposal		
Property, plant and equipment	21,670	19,440
Deferred tax assets	-	6,521
Cash and cash equivalents	5,897	6
Accounts receivable and prepayments	12,275	899
Inventories	7,863	543
Accounts payable and accruals	13,525	3,502
Current debt	-	5,376
Deferred tax liabilities	2,387	-
Net assets	31,793	18,531
Less: disposed cash and cash equivalents	5,897	6
Net assets less cash and cash equivalents	25,896	18,525

In 2006 the shares of repair companies JSC "Voronezhenergoremont", JSC "Kurskenergospetsremont", JSC "Engineering and Production Centre" and JSC "Tulenergocomplex" owned by regional Generating companies were sold by the way of competitive sale.

The carrying amount of assets and liabilities disposed was the following:

Narrative	JSC "Voronezh- energoremont"	JSC "Kurskenergo spetsremont"	JSC "Engineering and Production Centre"	JSC "Tulenergo- remont"
	14 September 2006	30 June 2006	30 June 2006	30 June 2006
Date of disposal				
Property, plant and equipment	107,130	16,966	5,143	23,124
Deferred tax assets	130	24	-	896
Other non-current assets	533	101	1,050	3,155
Cash and cash equivalents	1,629	3,424	1,281	802
Accounts receivable and prepayments	17,976	9,136	6,881	31,845
Other current assets	-	-	-	10,550
Inventories	3,781	7,644	12,609	6,640
Accounts payable and accruals	24,731	15,278	6,653	28,955
Non-current debt	-	1,700	153	354
Deferred tax liabilities	8,797	1,442	-	10,826
Net assets	97,651	18,875	20,158	36,877

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Notes to the Consolidated Financial Statement for the year ended 31 December 2007
(in thousands of Russian Roubles, unless otherwise stated)

Note 5. Group subsidiaries and associated companies (continued)

The Group has the following associated companies:

Associated company	Activity	Ownership, %	
		31 December 2007	31 December 2006
JSC "Energetic Health Centre"	Health and recreation of families and children	49	49
JSC "TechnotestErgo"	Assembly and repair works including facilities controlled by the RF Government Technical Supervision	49	49
JSC "Belgorodenergосervice"	Repair of electronic devices and heat and electrical meters	-	25

Summarised financial information of associates, including the aggregated amounts of assets, liabilities, revenues and profit or loss is as follows:

JSC "Energetic Health Centre"

Balance Sheet

Narrative	31 December 2007	31 December 2006
Property, plant and equipment	21,836	19,024
Total non-current assets	21,836	19,024
Cash and cash equivalents	2,692	2,467
Accounts receivable and prepayments	389	430
Inventories	306	426
Total current assets	3,387	3,323
TOTAL ASSETS	25,223	22,347
Non-current debt	-	2,263
Total non-current liabilities	-	2,263
Accounts payable and accruals	75	409
Total current liabilities	75	409
TOTAL LIABILITIES	75	2,672

Income Statement

Narrative	Year ended 31 December 2007	Year ended 31 December 2006
Revenue	11,992	10,889
Profit/(loss) for the period	5,473	(3,728)

JSC "TechnotestErgo"

Balance Sheet

Narrative	31 December 2007	31 December 2006
Property, plant and equipment	695	468
Other non-current assets	-	89
Total non-current assets	695	557
Cash and cash equivalents	865	1,139
Accounts receivable and prepayments	1,066	1,221
Inventories	-	7
Total current assets	1,931	2,367
TOTAL ASSETS	2,626	2,924
Deferred tax liabilities	28	362
Non-current debt	-	110
Total non-current liabilities	28	472
Accounts payable and accruals	271	640
Total current liabilities	271	640
TOTAL LIABILITIES	299	1,112

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Notes to the Consolidated Financial Statement for the year ended 31 December 2007
(in thousands of Russian Roubles, unless otherwise stated)

Note 5. Group subsidiaries and associated companies (continued)**Income Statement**

Narrative	Year ended 31 December 2007	Year ended 31 December 2006
Revenue	17,502	9,065
Profit for the period	992	251

JSC "Belgorodenergосervice"**Balance Sheet**

Narrative	30 September 2007	31 December 2006
Property, plant and equipment	-	6
Other non-current assets	75,069	86,259
Total non-current assets	75,069	86,265
Cash and cash equivalents	7,455	2,003
Accounts receivable and prepayments	37,777	31,419
Inventories	7,300	5,947
Total current assets	52,532	39,369
TOTAL ASSETS	127,601	125,634
Deferred tax liabilities	8,989	2,462
Non-current debt	-	11,412
Total non-current liabilities	8,989	13,874
Accounts payable and accruals	9,998	16,299
Total current liabilities	9,998	16,299
TOTAL LIABILITIES	18,987	30,173

Income Statement

Narrative	Year ended 30 September 2007	Year ended 31 December 2006
Revenue	209,300	277,149
Profit/(loss) for the period	16,588	(45,598)

In 2007 the shares of JSC "Belgorodenergосervice" were sold to unrelated third party.

Business combinations with JSC "Heat Power Company" (Belgorod)

JSC "Heat Power Company" (Belgorod) was accounted within the Group till 30 June 2005. In July 2005 JSC "Heat Power Company" (Belgorod) issued the additional shares and merged municipally owned JSC "BeITEK" that resulted in the decrease of RAO UES ownership share from 49% to 25.1%. The loss resulting from the decrease of RAO UES ownership share in JSC "Heat Power Company" (Belgorod) net assets amounted to RR 405,069 thousand.

On 15 September 2006 the Group obtained the full control over JSC "Heat Power Company" (Belgorod). As a result of the merger the Group's revenue increased by RR 1,429,187 thousand and the net income decreased by RR 482,481 thousand.

If the control was obtained over JSC "Heat Power Company" (Belgorod) as at 1 January 2006, the Group's revenue would have increased by RR 2,123,065 thousand, and an additional income before allocation would have been recognized of RR 225,399 thousand.

The fair value of TGC-4 shares issued for exchange of JSC "Heat Power Company" (Belgorod) net assets was based on the first published share price (December 2006).

No formal valuation of assets and liabilities of JSC "Heat Power Company" (Belgorod) has been completed due to the lack of economic feasibility for valuation performing in the year ended 31 December 2006. The valuation was completed during the first year after obtaining the control over JSC "Heat Power Company" (Belgorod).

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Notes to the Consolidated Financial Statement for the year ended 31 December 2007
(in thousands of Russian Roubles, unless otherwise stated)

Note 5. Group subsidiaries and associated companies (continued)

Accordingly, the valuation results are disclosed in the Group's financial statements for 2007 with respective adjustments of the opening balance (Note 3). As a result of significant increase in property, plant and equipment, fair value of net assets acquired exceeded purchase price and financial results (gain in amount of RR 123,109 thousand) was recognised in the income statement for year ended 31 December 2006 as restated data.

The assets and liabilities after obtaining the control over JSC "Heat Power Company" (Belgorod) were as follows:

Narrative	Cost based on the valuation results	Provisional value	Difference
Property, plant and equipment	5,262,733	3,279,216	1,983,517
Investments	18,021	18,021	-
Deferred tax assets	152,924	77,093	75,831
Accounts receivable and prepayments	181,780	422,600	(240,820)
Inventories	95,413	95,413	-
Cash and cash equivalents	163,923	163,923	-
Non-current debt	1,552,143	1,185,370	366,773
Pension liabilities	165,549	165,549	-
Deferred tax liability	645,827	253,526	392,301
Current debt and current portion of non-current debt	413,932	370,465	43,467
Accounts payable and accruals	189,528	195,165	(5,637)
Total net assets	2,907,815	1,886,191	1,021,624

As obtaining the control over JSC "Heat Power Company" (Belgorod) was a step acquisition procedure (25% was owned by the Group before 15 September 2006 and then 75% of net assets was acquired), the amount resulted from adjustment to the fair values relating to previously held interests of 25% was recognized in equity as "Revaluation of assets and liabilities of JSC "Heat Power Company" (Belgorod) at the acquisition date.

The terms of transaction were negotiated and determined by RAO UES a year before the merging at 15 September 2006, so net assets of JSC "Heat Power Company" (Belgorod) had changed resulted in negative goodwill as at date of transaction.

The amounts of the acquired net assets and goodwill are presented below:

Narrative	Cost based on the valuation results	Provisional value	Difference
Full cost of acquisition	2,056,858	2,056,858	-
Net assets acquired at 15 September 2006 (75% share of total net assets)	2,179,967	1,414,064	765,903
Goodwill	(123,109)	642,794	(765,903)

Note 6. Assets held for sale and discontinued operations

As part of RAO UES strategy to decrease the affiliation with the Group's service entities the Group sold its investments in the following repair subsidiaries.

As at 31 December 2006 these subsidiaries were classified as assets held for sale:

Narrative	31 December 2007	31 December 2006
Assets of the subsidiaries	-	66,087
JSC "Ryazanenergoremont"	-	24,192
JSC "Tambovenergospetsremont"	-	41,895
Liabilities of the subsidiaries	-	30,474
JSC "Ryazanenergoremont"	-	22,459
JSC "Tambovenergospetsremont"	-	8,015

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Notes to the Consolidated Financial Statement for the year ended 31 December 2007
(in thousands of Russian Roubles, unless otherwise stated)

Note 6. Assets held for sale and discontinued operations (continued)

In 2006 Board of Directors of TGC-4 (decision #12/30 dated 14 November 2006 and 02/35 dated 14 February 2007) approved disposal of 100% of the following subsidiaries' shares:

- JSC "Ryazanenergoremont";
- JSC "Tambovenergospetsremont".

Disposal of subsidiaries was established by competitive sale of shares with the involvement of a specialized agent.

JSC "Ryazanenergoremont"**Balance Sheet**

Narrative	31 December 2006
Property, plant and equipment	20,555
Deferred tax assets	9
Other non-current assets	2
Total non-current assets	20,566
Cash and cash equivalents	16
Accounts receivable and prepayments	3,056
Inventories	554
Total current assets	3,626
TOTAL ASSETS	24,192
Deferred tax liabilities	11,162
Total non-current liabilities	11,162
Current debt and current portion of non-current debt	1,000
Accounts payable and accruals	4,035
Other taxes payable	6,262
Total current liabilities	11,297
TOTAL LIABILITIES	22,459

JSC "Tambovenergospetsremont"**Balance Sheet**

Narrative	31 December 2006
Property, plant and equipment	22,405
Deferred tax assets	14
Other non-current assets	33
Total non-current assets	22,452
Cash and cash equivalents	1,174
Accounts receivable and prepayments	12,134
Inventories	6,135
Total current assets	19,443
TOTAL ASSETS	41,895
Deferred tax liabilities	2,635
Total non-current liabilities	2,635
Current debt and current portion of non-current debt	400
Accounts payable and accruals	2,884
Other taxes payable	2,096
Total current liabilities	5,380
TOTAL LIABILITIES	8,015

Note 6. Assets held for sale and discontinued operations (continued)**Discontinued operations in 2007****JSC "Ryazanenergoremont"****Income statement**

Narrative	3 months ended 30 March 2007	Year ended 31 December 2006
Revenue	285	5,810
Cost of sales	(1,116)	(10,397)
Finance costs	(45)	(150)
Income tax expense	17,674	7,823
Profit for the period	16,798	3,086

Cash Flow Statement

Narrative	3 months ended 30 March 2007	Year ended 31 December 2006
Cash at the beginning of the period	16	48
Operating activities	(7,058)	(864)
Investing activities	2,675	723
Financing activities	4,373	109
Cash at the end of the period	6	16

JSC "Tambovenergospetsremont"**Income Statement**

Narrative	6 months ended 19 June 2007	Year ended 31 December 2006
Revenue	5,094	13,715
Cost of sales	(7,937)	(12,402)
Finance costs	-	-
Income tax expense	757	(43)
Profit/(loss) for the period	(2,086)	1,270

Cash Flow Statement

Narrative	6 months ended 19 June 2007	Year ended 31 December 2006
Cash at the beginning of the period	1,174	6
Operating activities	5,333	(1,973)
Investing activities	(210)	2,741
Financing activities	(400)	400
Cash at the end of the period	5,897	1,174

Discontinued operations in 2006**JSC "Voronezhenergoremont"****Income Statement**

Narrative	Year ended 31 December 2006	Year ended 31 December 2005
Revenue	10,138	37,701
Cost of sales	(7,552)	(53,488)
Finance costs	-	-
Income tax expense	(551)	19,595
Profit for the period	2,035	3,808

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Notes to the Consolidated Financial Statement for the year ended 31 December 2007
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Note 6. Assets held for sale and discontinued operations (continued)**Cash Flow Statement**

Narrative	Year ended 31 December 2006	Year ended 31 December 2005
Cash at the beginning of the period	71	83
Operating activities	3,969	1,402
Investing activities	(2,866)	(1,414)
Financing activities	-	-
Cash at the end of the period	1,174	71

JSC "Kurskenergoremont"**Income Statement**

Narrative	Year ended 31 December 2006	Year ended 31 December 2005
Revenue	22,257	55,011
Cost of sales	(22,861)	(59,908)
Finance costs	-	-
Income tax expense	(67)	480
Loss for the period	(671)	(4,417)

Cash Flow Statement

Narrative	Year ended 31 December 2006	Year ended 31 December 2005
Cash at the beginning of the period	8,839	4,322
Operating activities	(5,415)	4,623
Investing activities	-	(106)
Financing activities	-	-
Cash at the end of the period	3,424	8,839

JSC "Tulenergoremont"**Income Statement**

Narrative	Year ended 31 December 2006	Year ended 31 December 2005
Revenue	26,750	86,373
Cost of sales	(22,383)	(80,493)
Finance costs	1,229	(1,525)
Income tax expense	(2,263)	(7,472)
Profit/(loss) for the period	3,333	(3,117)

Cash Flow Statement

Narrative	Year ended 31 December 2006	Year ended 31 December 2005
Cash at the beginning of the period	2,060	1,296
Operating activities	171	7 490
Investing activities	(1,959)	(6,196)
Financing activities	530	(530)
Cash at the end of the period	802	2,060

Note 6. Assets held for sale and discontinued operations (continued)**JSC "Engineering and Production Centre"****Income Statement**

Narrative	Year ended 31 December 2006	Year ended 31 December 2005
Revenue	26,623	43,141
Cost of sales	(26,136)	(38,728)
Finance costs	-	(6)
Income tax expense	517	(1,345)
Profit for the period	1,004	3,062

Cash Flow Statement

Narrative	Year ended 31 December 2006	Year ended 31 December 2005
Cash at the beginning of the period	443	250
Operating activities	838	193
Investing activities	-	-
Financing activities	-	-
Cash at the end of the period	1,281	443

The following gain from sales of subsidiaries was included in profit from discontinued operations:

Narrative	Year ended 31 December 2007	Year ended 31 December 2006
Gain from sales of subsidiaries	48,753	-

Note 7. Related parties

For the purposes of these financial statements parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial and operational decisions, or the party is a member of the key management personnel of the entity or its parent. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

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

As at 31 December 2007 50.02% of the voting ordinary shares were owned by the state-controlled RAO UES. Therefore, the related parties of the Group include RAO UES and its subsidiaries as well as other entities controlled by the State.

The table below shows related party transactions for the periods ended 31 December 2007 and 31 December 2006 and balances with related parties as at 31 December 2007 and 31 December 2006.

RAO UES

As at 31 December 2007 the Company had no outstanding balance on a loan received from the RAO UES (Centre of Power Sector Reform Promotion) (31 December 2006: RR 87,111 thousand) (see Note 17).

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Notes to the Consolidated Financial Statement for the year ended 31 December 2007
(in thousands of Russian Roubles, unless otherwise stated)

Note 7. Related parties (continued)**Transactions and balances with the Parent's subsidiaries**

Transactions with subsidiaries of RAO UES were as follows:

Narrative	Year ended	Year ended
	31 December 2007	31 December 2006
Income		
Sales of heat and electricity	6,963,683	7,256,225
Other sales	37,633	105,588
Expenses		
Purchase of electricity	364,040	415,799
Repairs and technical maintenance	94,974	89,693
NOREM services	153,499	135,969
Other expenses	223,521	125,630
Interest expense	8,633	16,410

Balances with subsidiaries of RAO UES were as follows:

Narrative	Year ended	Year ended
	31 December 2007	31 December 2006
Accounts receivable and prepayments, gross	83,919	98,702
Provision for impairment of accounts receivable	(46,765)	(20,675)
Accounts receivable and prepayments, net	37,154	78,027
Accounts payable and accruals	44,413	69,334

State-controlled entities

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

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

Narrative	Year ended	Year ended
	31 December 2007	31 December 2006
Sale of heat and electricity	1,174,875	389,862
Purchase of fuel	11,216,191	6,854,833
Interest expense	211,044	250,540

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

Narrative	Year ended	Year ended
	31 December 2007	31 December 2006
Cash and cash equivalents in the state-controlled entities	174,715	82,976
Accounts receivable and prepayments	1,285,008	504,988
Accounts payable and accruals	59,511	88,111
Loans payable	2,991,367	3,214,389

Taxes payable are disclosed in the balance sheet and Note 20. Tax transactions are disclosed in the income statement and Note 21.

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Notes to the Consolidated Financial Statement for the year ended 31 December 2007
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Note 7. Related parties (continued)**Transactions with key management**

Compensation is paid to members of the Management Board of the Group 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 the Russian statutory financial statements. The compensation is approved by the Board of Directors. In addition, members of the Management Board are paid discretionary bonuses, which are approved by the Chairman of the Management Board based on his assessment of each Board member's 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.

Key management received the following remuneration during the years ended 31 December 2007 and 31 December 2006:

Narrative	2007		2006	
	Expenses	Liabilities	Expenses	Liabilities
Salaries	15,600	1,072	11,487	676
Bonuses	21,566	-	25,609	-
Compensations	4,827	-	3,169	-
Other	4,177	-	4,261	-
Total	46,170	1,072	44,526	676

At 31 December 2007 there were 11 members of the Board of Directors and 8 members of the Management Board.

Termination Benefits

The Company entered into additional agreements to employment contracts with the General Director and members of the Company's Management Board after the balance sheet date. These agreements set out the procedure, terms and conditions for termination benefits payable to members of the TGC-4 top management. The amount of such benefits depends on the cause and date of the termination. Under these agreements, termination benefits are only paid on termination taking place within the period from 1 May 2008 through 30 April 2011. The amount to be paid by TGC-4 varies from zero to RR 101,468 thousand.

The Group has no other compensation programs.

Note 8. Property, plant and equipment

Narrative	Electricity & heat generation	Electricity distribution	Heating networks	Other	CIP	Total
Historical cost						
Opening balance as at 31 December 2006	23,556,876	1,045,469	9,405,046	7,540,417	2,178,450	43,726,258
Revaluation - reclassification of accumulated depreciation	(7,092,865)	(451,190)	(4,089,947)	(5,099,181)	-	(16,733,183)
Revaluation increase	6,189,760	197,158	4,422,322	3,166,250	1,171,390	15,146,880
Revaluation write down	(4,030,812)	(164,615)	(1,360,014)	(402,488)	(299,986)	(6,257,915)
Additions	575,435	108	70,543	94,480	5,289,081	6,029,647
Transfers	1,808,721	95,393	801,865	1,156,749	(3,862,728)	-
Disposals	(10,956)	(1,271)	(3,832)	(11,365)	(50,077)	(77,501)
Closing balance as at 31 December 2007	20,996,159	721,052	9,245,983	6,444,852	4,426,130	41,834,186
Accumulated depreciation (including impairment)						
Opening balance as at 31 December 2006	(7,339,262)	(474,534)	(4,089,947)	(5,268,648)	-	(17,172,391)
Reversal of impairment loss	231,679	20,241	-	27,560	-	279,480
Revaluation - reclassification of accumulated depreciation	7,092,865	451,190	4,089,947	5,099,181	-	16,733,183
Charge for the period	(1,640,091)	(64,783)	(972,483)	(514,616)	-	(3,191,973)
Disposal	606	362	763	1,575	-	3,306
Closing balance as at 31 December 2007	(1,654,203)	(67,524)	(971,720)	(654,948)	-	(3,348,395)
Net book value as at 31 December 2006	16,217,614	570,935	5,315,099	2,271,769	2,178,450	26,553,867
Net book value as at 31 December 2007	19,341,956	653,528	8,274,263	5,789,914	4,426,130	38,485,791

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Notes to the Consolidated Financial Statement for the year ended 31 December 2007
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Note 8. Property, plant and equipment (continued)

Narrative	Electricity & heat generation	Electricity distribution	Heating networks	Other	CIP	Total
Historical cost						
Opening balance as at 31 December 2005	20,987,635	837,309	6,341,149	7,220,259	1,576,904	36,963,256
Additions	2,148,032	191,945	1,154,972	522,068	2,372,714	6,389,731
Transfers	360,805	20,541	945,840	338,597	(1,665,783)	-
Disposals	(25,347)	(1,018)	(14,655)	(734,346)	(105,279)	(880,645)
Increase in value JSC "Heat Power Company" (Belgorod) at the date of merger	85,751	(3,308)	977,740	277,824	-	1,338,007
Transfers due to disposal of subsidiaries and reclassifications as "Non-current assets held for sale"	-	-	-	(83,985)	(106)	(84,091)
Closing balance as at 31 December 2006	23,556,876	1,045,469	9,405,046	7,540,417	2,178,450	43,726,258
Accumulated depreciation (including impairment)						
Opening balance as at 31 December 2005	(15,650,210)	(648,301)	(5,089,412)	(6,122,209)	(12,457)	(27,522,589)
Charge for the period	(332,425)	(12,780)	(165,862)	(260,025)	-	(771,092)
Reversal of impairment loss	8,646,572	188,701	1,197,174	475,604	12,457	10,520,508
Disposal	10,767	378	11,750	601,145	-	624,040
Depreciation of revalued JSC "Heat Power Company" (Belgorod) property, plant and equipment	(13,966)	(2,532)	(43,597)	(26,311)	-	(86,406)
Transfers due to disposal of subsidiaries and reclassifications as "Non-current assets held for sale"	-	-	-	63,148	-	63,148
Closing balance as at 31 December 2006	(7,339,262)	(474,534)	(4,089,947)	(5,268,648)	-	(17,172,391)
Net book value as at 31 December 2005	5,337,425	189,008	1,251,737	1,098,050	1,564,447	9,440,667
Net book value as at 31 December 2006	16,217,614	570,935	5,315,099	2,271,769	2,178,450	26,553,867

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Note 8. Property, plant and equipment (continued)

The Group changed its accounting policies related to revaluation of property, plant and equipment from 1 January 2007 (Note 4). The revaluation was performed by independent appraisers who hold a recognised and relevant professional qualification and who have recent experience in valuation of assets of similar location and category.

Fair value of property, plant and equipment was determined using the cost method (calculation of remaining replacement amount), based on all assets considered to be specialized.

As the results of the revaluation in relation to those assets which value increased and had some impairment loss not yet reversed in previous period, the revaluation increase was first recognized in the consolidated income statement in amount of RR 279,480 thousand. The remaining effect of the revaluation RR 15,146,880 thousand was recognized directly in equity as a revaluation reserve. In relation to those assets which value decreased, the revaluation write down of RR 6,257,915 thousand was recognised in the consolidated income statement. There are no any restrictions on the distribution of the balance to shareholders regarding revaluation surplus.

Revaluation was performed for all property, plant and equipment, except for the following separate classes of fixed assets which are measured using cost model and those net book value amounted to RR 427,208 thousand, including:

Types of PPE, which were not revalued	Net book value as at 1 January 2007
Communications	174,433
Motor vehicles	73,558
Computers	69,990
Instruments, tools	27,016
Measuring equipment	14,540
Other machinery	67,671

For each revalued class of property, plant and equipment stated at revalued amount in these financial statements, the carrying amount that would have been recognized as at 31 December 2007 had the assets been carried under the cost model is as follows:

Electricity & heat generation	Electricity distribution	Heating networks	Other	CIP	Total
17,275,346	647,561	5,648,336	5,214,778	1,751,466	30,537,487

Construction in progress represents the carrying amount of property, plant and equipment that has not yet been available for use in production, including generating stations under construction, and advances to construction companies and suppliers of property, plant and equipment. As at 31 December 2007 such advances amounted to RR 2,130,936 thousand (as at 31 December 2006 – RR 446,386 thousand).

Other property, plant and equipment include motor roads, coolers, chimneys, vehicles, computers, office fixtures and other equipment.

The following table shows the net book value of assets pledged as collateral under loan agreements.

Narrative	31 December 2007	31 December 2006
Electricity and heat generation	-	2,082,265
Heat network	-	822,470
Other	-	20,840
Total	-	2,925,575

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Note 8. Property, plant and equipment (continued)**Impairment provision for property, plant and equipment**

In 2006 the management has concluded that as at the reporting date there were indications for reversing previously recognised impairment losses based on significant changes with a favorable effect on the Group that have occurred or are expected to occur in the near future in the market and economic environment in which the Group operates.

Such positive changes included:

1. upward revisions, based on recent trends, in the expected growth of demand for electricity and heat in the regions in which the Group operates;
2. higher degree of certainty about the free trading sector for electricity, which has been enacted by the government of the Russian Federation as of August 2006 (see Note 1).

These developments have resulted in a change to the assumptions that were used to determine the value in use of the assets that comprised the cash generating units. An impairment review has been carried out by comparing the recoverable amount of the individual cash generating units with their net book values. For the purposes of the review, each of the Group's power plants was used as the relevant cash generating unit. The recoverable amount was generally based on value in use, which was calculated based on estimated future cash flows using various assumptions including the following:

- annual increase in electricity tariffs is estimated by the management as 13%-18% p.a. in 2008-2011 and 3% p.a. in 2012 and onwards;
- annual increase in heat tariffs is estimated by the management as 15%-18% p.a. in 2008-2011; 3% p.a. in 2012 and onwards;
- annual growth of gas prices is estimated by the management as 25%-28% p.a. in 2008-2011; 3% p.a. in 2012 and onwards;
- annual growth of coal prices is estimated by the management as 10% p.a. in 2008-2011; 3-6% p.a. in 2012 and onwards;
- growth of mazut prices set for the Company were on average 5-6% in 2008-2011 and 3-6% p.a. in 2012 and onwards;
- growth of peat prices set for the Company were on average 5-7% in 2008-2011 and 4% p.a. in 2012 and onwards;
- the assumption was made that production volumes of electricity and heat will remain at the current level for the whole impairment test period (investment program is not included);
- increase of major cost (except of fuel) will not exceed the inflation rate;
- weighted average cost of capital of 13.90 % was applied for discounting future operating cash flows generated by the Company for all cash generating units;
- the Company's restructuring did not change the manner of recovery of the assets – the regulator allocated previously single tariffs for electricity and heat set for a vertically integrated power companies among newly created generating businesses.

The impairment provision has been reversed in amount of RR 10,520,508 thousand as at 31 December 2006.

Finance lease

The Group leases property, plant and equipment on the basis of finance lease agreements. At the end of each lease transaction the Group buys property, plant and equipment at repurchase price.

The following table shows the net book value of assets under finance lease:

Narrative	31 December 2007	31 December 2006
Electricity and heat generation	917,435	692,367

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Note 8. Property, plant and equipment (continued)

Finance lease rentals are payable as follows:

Maturity table for finance lease (discounted minimum lease payments)	31 December 2007	31 December 2006
Maturity		
Under one year	169,855	374,831
From 1 to 5 years	390,537	684,817
From 5 years	-	135
Total	560,392	1,059,783

Maturity table for finance lease (undiscounted minimum lease payments)	31 December 2007 года	31 December 2006 года
Maturity		
Under one year	346,866	428,244
From 1 to 5 years	562,088	1,001,266
From 5 years	-	32,132
Total	908,954	1,461,642

Operating lease

The Group use land on which the Group's buildings and facilities are located. The land is a property of local state authorities and the Group uses it under operating lease terms.

Lease payments for land and other property, plant and equipment determined based on the lease agreements terms are as follows:

As at 31 December 2007

Narrative	Land lease	Lease of buildings and structures	Lease of other property, plant and equipment	Total
Under one year	115,831	21,072	3,436	140,339
From 1 to 5 years	364,449	60,234	11,034	435,717
From 5 years	1,048,589	-	-	1,048,589
Total	1,528,869	81,306	14,470	1,624,645

As at 31 December 2006

Narrative	Land lease	Lease of buildings and structures	Lease of other property, plant and equipment	Total
Under one year	156,205	61,349	39,317	256,871
From 1 to 5 years	614,920	42,727	36,855	694,502
From 5 years	4,067,508	52,965	39,425	4,159,898
Total	4,838,633	157,041	115,597	5,111,271

The above lease agreements are usually concluded for 1-49 years with prolongation right. The rentals are subject to regular review that may result in adjustment to reflect the market conditions.

Decrease in rentals for land is explained by the reduction in the effective period of operating lease agreements due to changes in the regional policy of Kursk oblast.

Management of the Group believes, that after the expiration of the land lease agreements they will be renegotiated onto additional periods.

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Notes to the Consolidated Financial Statement for the year ended 31 December 2007
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Note 9. Other non-current assets

The comparatives of the balance sheet as at 31 December 2006 were adjusted to ensure the comparability with the current period (Note 3).

Narrative	31 December 2007	31 December 2006
Available-for-sale investments in the fund	76,002	-
Letter of credit	38,538	355,473
Available-for-sale investments	6,467	31,222
Total	121,007	386,695

At 31 December 2007 the amounts recorded in the joint pension accounts and individual pension accounts of RR 76,002 thousand are treated as potential compensations of expenses associated with pension benefits by the Fund.

As at 31 December 2006 the Group issued an irrevocable letter of credit for equipment amounting to RR 355,473 thousand. Bank performed payment on the letter of credit in full amount after the equipment was supplied in 2007.

As at 31 December 2007 the Group issued an irrevocable letter of credit for equipment amounting to RR 38,538 thousand. Bank perform payment on the letter of credit in full amount after the equipment will be supplied in 2008.

Note 10. Cash and cash equivalents

Narrative	31 December 2007	31 December 2006
Cash at bank and in hand	198,463	116,623
Cash equivalents	174	218
Total	198,637	116,841

Cash equivalents comprise cash in corporate cards. The Group has no restricted cash balances. All cash balances are in Russian Roubles.

Bank	Bank's rating	Rating agency	31 December 2007	31 December 2006
Cash in bank accounts				
GPB (OAO)	BBB-	Standard & Poor's	137,020	62,170
Sberbank of Russia OAO	Baa2	Moody's	20,891	15,283
OAO Bank VTB	Baa2	Moody's	17,172	6,352
NKO Clearing house of RTS (OOO)	-	-	13,692	19,683
OAO Bank of Moscow	BBB	Fitch	6,598	2,012
OAO Prio-Vneshtorgbank	-	-	2,062	7,754
OAO Alfa-Bank	BB	Standard & Poor's	277	346
OAO Promsvyazbank	B+	Standard & Poor's	189	-
OAO MInB	-	-	74	508
OAO AKB Rosbank	BB+	Standard & Poor's	66	209
ZAO Raiffaisenbank	Baa2	Moody's	-	2,000
Other	-	-	422	306
Total cash in bank accounts			198,463	116,623
Cash in corporate cards				
GPB (OAO)	BBB-	Standard & Poor's	60	25
Sberbank of Russia OAO	Baa2	Moody's	13	74
OAO Bank VTB	Baa2	Moody's	60	30
Other cash equivalents	-	-	41	89
Total cash in corporate cards			174	218

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Note 11. Inventories

Narrative	31 December 2007	31 December 2006
Fuel stock	1,396,867	1,427,717
Raw and materials	338,222	335,507
less: impairment provision	(3,873)	-
Other inventories	205,672	223,082
less: impairment provision	(8,765)	(5,676)
Total	1,928,123	1,980,630

As at 31 December 2007 no inventories were pledged as collateral. Inventories balances as at 31 December 2006 included RR 1,195,265 thousand of inventories which were pledged as collateral according to loan agreements.

Note 12. Accounts receivable and prepayments

Accounts receivable (payments expected after 12 months of the reporting date)

Narrative	31 December 2007	31 December 2006
Long-term trade receivables	248,808	363,338
less: bad debt provision	(204,603)	(231,151)
Long-term advances issued to suppliers and prepayments	39,206	30,889
less: bad debt provision	-	-
Other long-term receivables	19,399	-
less: bad debt provision	(7,535)	-
Long-term VAT due from budget	5,673	21,902
Total	100,948	184,978

Accounts receivable (payments expected within 12 months of the reporting date):

Narrative	31 December 2007	31 December 2006
Trade receivables	1,826,466	1,188,610
less: bad debt provision	(170,141)	(114,908)
Advances issued to suppliers and prepayments	1,252,049	613,754
less: bad debt provision	-	-
Other receivables	104,947	178,784
less: bad debt provision	-	-
Taxes prepaid	55,916	-
VAT reimbursable	30,084	69,495
Total	3,099,321	1,935,735

The above accounts receivable and prepayments include receivables from related parties (Note 7).

The individually impaired receivables mainly relate to Housing and utilities infrastructure, which are in unexpectedly difficult economic situations. It was assessed that a portion of the receivables is expected to be recovered.

Below are trade receivables (payments expected within 12 months of the reporting date) by customers and dates of delay.

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Notes to the Consolidated Financial Statement for the year ended 31 December 2007
(in thousands of Russian Roubles, unless otherwise stated)

Note 12. Accounts receivable and advances issued (continued)

Accounts receivable by groups as at 31 December 2007:

	Industrial consumers	Housing and utilities infrastructure	Population	Other	Total
Undue accounts receivable	27,075	568,615	89,166	458,165	1,143,021
Overdue accounts receivable not included in bad debt provision	14,597	428,017	55,759	119,878	618,251
including by dates of delay					
from 1 to 60 days	1,495	110,659	24,714	38,513	175,381
from 61 to 150 days	37	44,643	2,132	6,750	53,562
from 151 to 330 days	1,405	137,272	8,329	31,196	178,202
from 331 to 1050 days	3,741	125,847	20,584	43,029	193,201
over 1051 days	7,919	9,596	-	390	17,905
Overdue accounts receivable included in bad debt provision	49,328	45,410	11,310	64,093	170,141
including by dates of delay					
from 1 to 60 days	-	1,996	2,215	316	4,527
from 61 to 150 days	-	4,492	-	-	4,492
from 151 to 330 days	17	12,194	2,305	30,825	45,341
from 331 to 1050 days	10,261	18,134	6,159	22,920	57,474
over 1051 days	39,050	8,594	631	10,032	58,307
less: provision for overdue receivables	(49,328)	(45,410)	(11,310)	(64,093)	(170,141)
Total	41,672	996,632	144,925	578,043	1,761,272

Accounts receivable by groups as at 31 December 2006:

	Industrial consumers	Housing and utilities infrastructure	Population	Other	Total
Undue accounts receivable	19,860	343,291	99,737	364,839	827,727
Overdue accounts receivable not included in bad debt provision	16,273	179,499	18,161	210,826	424,759
including by dates of delay					
from 1 to 60 days	1,045	55,344	14,304	194,337	265,030
from 61 to 150 days	604	27,152	205	16,489	44,450
from 151 to 330 days	1,588	49,212	3,218	-	54,018
from 331 to 1050 days	5,706	22,470	434	-	28,610
over 1051 days	7,330	25,321	-	-	32,651
Overdue accounts receivable included in bad debt provision	44,963	36,167	7,603	26,175	114,908
including by dates of delay					
from 1 to 60 days	-	22	1,083	20,743	21,848
from 61 to 150 days	-	-	598	8	606
from 151 to 330 days	32	1,153	3,153	690	5,028
from 331 to 1050 days	35,567	3,505	2,709	988	42,769
over 1051 days	9,364	31,487	60	3,746	44,657
Less: provision for overdue receivables	(44,963)	(36,167)	(7,603)	(26,175)	(114,908)
Total	36,133	522,790	117,898	575,665	1,252,486

Management has determined the bad debt provision based on the specific customer identification, customer payment trends, subsequent receipts and settlements and analyses of expected future cash flows. The Group's management believes that the Group's entities will be able to realize the net receivable amount through direct collections and other non-cash settlements, and therefore, the recorded value approximates their fair value. Long term restructured receivables recognized by discounted value. The discounting effect is included into bad debts provision.

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Notes to the Consolidated Financial Statement for the year ended 31 December 2007
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Note 12. Accounts receivable and advances issued (continued)

Movements of bad debt provision are presented below:

Narrative	Year ended 31 December 2007	Year ended 31 December 2006
At the beginning of the period, including discounting effect	346,059	436,424
Accrual of provision	87,596	-
Accounts receivable written-off as bad debts against provision	(27,314)	(109,326)
Reversal of unused provision	(8,198)	-
Discounting effect, net*	(15,864)	18,961
At the end of the period	382,279	346,059

*Effect of discounting (net) is disclosed within finance costs in 2006.

Note 13. Other current assets

Narrative	31 December 2007	31 December 2006
Available-for-sale investments	16,209	12,406
Other current assets	353	5,170
Total	16,562	17,576

Available-for-sale investments as at 31 December 2007 include bank promissory notes of AKB Evrofinance Mosnarbank (the bank's rating is B according to the rating agency Fitch Ratings) received as payments for the electricity supplied, with nominal value of RR 16,209 thousand repaid upon presentation but not earlier December 2008.

Note 14. Equity**Basis of presentation of movements in equity**

The Group was formed by the combination of a number of businesses under common control. Because of the consequent use of the predecessor basis of accounting (Note 3), the principal component of the net equity recognised for the Group is based on the historic carrying value of the net assets of the businesses contributed as recorded in the IFRS financial records of the predecessor enterprises, rather than the fair values of those net assets.

Shareholders' equity

In 2007 the Group did not place additional shares. The information about the Group's shareholders' equity is presented below:

Narrative	Total number	Nominal value (in RR)
Ordinary shares as at		
1 January 2007	1,321,201,964,859	13,212,019,649
31 December 2007	1,321,201,964,859	13,212,019,649
Preference shares as at		
1 January 2007	75,272,938,838	752,729,388
31 December 2007	75,272,938,838	752,729,388
TOTAL as at		
1 January 2007	1,396,474,903,697	13,964,749,037
31 December 2007	1,396,474,903,697	13,964,749,037

On 31 August 2006 the Group registered an additional issue of ordinary and preference shares placed by means of conversion of shares of merged companies into the shares of TGC-4 with conversion coefficients approved by merger agreement. The shares were converted at the date of completion of reorganization, i.e. 15 September 2006.

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Notes to the Consolidated Financial Statement for the year ended 31 December 2007
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Note 14. Equity (continued)

Narrative	Total number	Nominal value (in RR)
Ordinary shares as at		
1 January 2006	1,000,000,000	10,000,000
31 December 2006	1,321,201,964,859	13,212,019,649
Preference shares as at		
1 January 2006	-	-
31 December 2006	75,272,938,838	752,729,388
TOTAL as at		
1 January 2006	1,000,000,000	10,000,000
31 December 2006	1,396,474,903,697	13,964,749,037

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 Annual Shareholders' meeting has not decided on dividends payment or decided on partial dividends payments, 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.

Merger reserve

Merger reserve represents the difference between IFRS carrying value of the contributed net assets merged into the Group and the minority interest. The merger reserve was subsequently adjusted by the share capital issued by TGC-4 to reflect the transfer of businesses owned by the entities under common control.

Dividends

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

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

Наименование	Year ended 31 December 2007		Year ended 31 December 2006	
	Declared dividends, in thousands of RR	Dividends per share, RR	Declared dividends, in thousands of RR	Dividends per share, RR
JSC "Bryansk Generating Company" for year 2005	-	-	10	-
JSC "Lipetsk Generating Company" - for 2005	-	-	4,937	0.031745
JSC "Lipetsk Generating Company" - for 3 months 2006	-	-	21,000	0.135029
JSC "Orel Generating Company" - for year 2005	-	-	1,478	0.006233
JSC "Tambov Generating Company" - for year 2005	-	-	11,809	0.005649 per ordinary share; 0.014630 per preference share

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Notes to the Consolidated Financial Statement for the year ended 31 December 2007
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Note 14. Equity (continued)

Наименование	Year ended 31 December 2007		Year ended 31 December 2006	
	Declared dividends, in thousands of RR	Dividends per share, RR	Declared dividends, in thousands of RR	Dividends per share, RR
JSC "Territorial Generating Company 4" – for year 2006	252,001	0.000180455 per ordinary and preference share	-	-
JSC "Territorial Generating Company 4" – for 6 months 2006	50,000	0.0000358044 per ordinary and preference share	-	-
JSC "Tulenergocomplect" – for year 2006	95	0.2274 per ordinary share	-	-

As disclosed in Note 28 Subsequent events in May 2008 TGC-4 declared the additional dividends of RR 5,587 thousand based on the performance results for the year ended 31 December 2007.

Note 15. Basic and diluted earnings per share

Narrative	Year ended	Year ended
	31 December 2007	31 December 2006
Profit/(loss) attributable to the shareholders of TGC-4	(5,137,467)	8,473,985
Less profit from discontinued operations	63,465	10,057
Profit/(loss) from continuing operations	(5,200,932)	8,463,928
Weighted average number of ordinary shares issued (thousands of shares)	1,321,201,965	391,638,399
Earnings / (loss) per ordinary share for profit/(loss) from continuing operations attributable to the Group shareholders – basic and diluted (in Russian Roubles per share)	(0.004)	0.022
Earnings per ordinary share for profit from discontinued operations attributable to the Group shareholders – basic and diluted (in Russian Roubles per share)	0.00005	0.00003

Note 16. Non-current debt

Name	Effective interest rate, %	Maturity date	31 December 2007	31 December 2006
JSC "Sberbank RF", Central-Chernozem Branch	11.5	2013	-	812,390
JSC "Sberbank RF", Central-Chernozem Branch	11.5	2009	-	330,000
JSC "Alfa-Bank", Tula Branch	10.5	2008	-	400,000
GPB (OAO), Tula Branch	9.8	2008	-	1,156,532
Smolensk Branch 8609 of JSC "Sberbank" Russia	11.0	2008	-	30,140
Bonded loan	7.6	2012	5,000,000	-
JSC AKB Rosbank	10.6	2009	145,898	-
JSC "Sberbank RF", Tula branch	8.4	2009	32,035	-
Finance lease		2010	560,392	489,656
Total non-current debt			5,738,325	3,218,718
Less: current portion of non-current debt			-	-
Less: current portion of non-current finance lease			(169,855)	(129,421)
Total			5,568,470	3,089,297

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Notes to the Consolidated Financial Statement for the year ended 31 December 2007
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Note 16. Non-current debt (continued)

Early repayment of non-current borrowings recorded in the financial statements as at 31 December 2006 was made by the bonded loan without penalties payments.

The currency of all non-current borrowings is the Russian Roubles.

Maturity schedule for non-current debt (except for finance lease)	31 December 2007	31 December 2006
Maturity		
Under one year	-	-
From 1 to 2 years	177,933	1,586,672
From 2 to 5 years	5,000,000	1,142,390
Total	5,177,933	2,729,062

The effective interest rate is the market interest rate applicable to the loans with fixed interest rate at the date of origination.

As at 31 December 2007 the estimated fair value of the long-term loans (excluding bond) approximates its carrying value.

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

The current debts are denominated in Russian Roubles.

Name	Effective interest rate, %	At 31 December 2007	At 31 December 2006
JSC "Alfa-Bank"	8.2	-	19,861
JSC "Alfa-Bank", Tula Branch	9-9.2	100,123	100,152
JSC "Alfa-Bank", Voronezh Branch	9.5-12	-	100,188
JSCB "Rosbank"	9.25-10.5	-	113,251
JSCB "Rosbank", Mid-Russian branch	8.5-12.75	245,500	498,536
JSB "Gazprombank", Lipetsk Branch	9.8	-	221,992
JSB "Gazprombank", Tula Branch	7.9-12	1,507,848	601,241
JSC "IMB"	10.45-10.75	-	200,115
JSC "Sberbank RF", Central-Chernozem Branch	11.5	-	112,577
JSC "Sberbank RF", Tula branch № 8604	7.0-8.0	1,451,483	-
JSC "Vneshtorgbank"	10-10.5	-	95,637
SC "Sberbank RF", Smolensky branch № 8609	9.2-11	-	106,047
RAO UES (Center for Energy Reform Assistance)	interest-free	-	87,111
ABN AMRO Bank (ZAO)	8.35	1,483,868	-
Interest on bonded loan	7.6	26,030	-
Current portion of non-current debt, including		169,855	129,421
- finance lease		169,855	129,421
Total		4,984,707	2,386,129

Short-term loans issued to the Group were not secured by inventories as at 31 December 2007 (as at 31 December 2006 short-term loans were secured by inventories totalling RR 1,195,265 thousand (Note 11)).

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Note 18. Pension liabilities

The tables below provide information about the benefit obligations, plan assets and actuarial assumptions used for the year ended 31 December 2007 and the year ended 31 December 2006. Amounts recognised in the consolidated balance sheet are as follows:

Narrative	31 December 2007	31 December 2006
Present value of defined benefit obligations (DBO)	863,322	746,645
Present value of unfunded obligations	863,322	746,645
Unrecognised actuarial losses	(67,974)	(5,497)
Unrecognised past service cost	(90,161)	(98,170)
Net liability in the balance sheet	705,187	642,978

Amounts recognised in the consolidated statement of operations are as follows:

Narrative	Year ended 31 December 2007	Year ended 31 December 2006
Current service cost	60,563	30,861
Interest cost	49,195	36,143
Recognised actuarial gains	(363)	-
Amortisation of past service cost	9,255	7,142
Curtailment gain	(39,081)	-
Immediate recognition of vested prior service cost	35,056	64,023
Net expense recognized in the Income Statement	114,625	138,169

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

Narrative	31 December 2007	31 December 2006
Present value of defined benefit obligations (DBO) at beginning of year	746,645	463,423
Service cost	60,563	30,861
Interest cost	49,195	36,143
Actuarial (gain)/loss	62,405	(14,034)
Past service cost	36,301	83,489
Benefits paid	(52,416)	(18,786)
Curtailment gain	(39,371)	-
Business combination JSC "Heat Power Company" (Belgorod)	-	165,549
Present value of defined benefit obligations (DBO) at the end of year	863,322	746,645

Curtailment gain related to reduction of lump sum on retirement.

Principal actuarial assumptions are as follows:

Narrative	31 December 2007	31 December 2006
Nominal discount rate	6.75%	6.75%
Wage growth rate	7.0%	7.0%
Inflation Rate	6.0%	5.0%
Mortality table	Russian 1998	Russian 1998

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Notes to the Consolidated Financial Statement for the year ended 31 December 2007
(in thousands of Russian Roubles, unless otherwise stated)

Note 19. Accounts payable and accruals

Narrative	31 December 2007	31 December 2006
Trade payables	408,387	560,960
Wages and salaries payable	306,604	300,671
Advances received	155,567	165,044
Income payable to participants	20,014	14,061
Future period expenses provision	31,581	39,470
Other payables	230,114	248,965
Total	1,152,267	1,329,171

Note 20. Other taxes payable

Narrative	31 December 2007	31 December 2006
Property tax	64,149	69,096
Unified social tax	78,871	34,440
Personal income tax	26,758	23,946
Land tax	14,639	13,030
VAT	106	24,605
Other taxes	29,766	29,782
Total	214,289	194,899

Note 21. Income tax expense

Narrative	Year ended 31 December 2007	Year ended 31 December 2006
Current income tax charge	260,417	335,176
Deferred income tax charge	(1,838,805)	2,524,686
Other similar payments	-	(151)
Total	(1,578,388)	2,859,711

During the year ended 31 December 2007 the Group entities were subject to a 24% income tax rate on taxable profits.

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

Net profit before income tax for financial reporting purposes is reconciled to theoretical income tax (statutory profit tax rate – 24%) as follows:

Narrative	Year ended 31 December 2007	Year ended 31 December 2006
Profit before income tax	(6,794,445)	11,323,639
Theoretical income tax charge at an average statutory tax rate of 24 percent	1,630,667	(2,717,673)
Tax effect of items which are not deductible for taxation purposes	(52,279)	(142,038)
Total	1,578,388	(2,859,711)

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Note 21. Income tax expense (continued)

Deferred income 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 income tax purposes. The tax effect of temporary differences that resulted in formation of deferred assets and liabilities is shown below:

	31 December 2007	Movement for the year recognized in the statement of operations	Movement for the year recognized in the capital	31 December 2006
Deferred tax assets				
Other non-current liabilities	169,245	14,930	-	154,315
Property, plant and equipment	-	(138,820)	-	138,820
Non-current debt	93,729	10,118	-	83,611
Accounts receivable and prepayments	131,742	4,885	-	126,857
Accounts payable and accruals	106,215	28,830	-	77,385
Inventories	-	(518)	-	518
Deferred tax assets as at year end	500,931	(80,575)	-	581,506

	31 December 2007	Movement for the year recognized in the statement of operations	Movement for the year recognized in the capital	31 December 2006
Deferred tax liabilities				
PPE	5,259,489	(1,945,205)	3,635,251	3,569,443
Other non-current assets	18,240	18,232	-	8
Inventories	1,478	1,478	-	-
Other	7,768	6,115	-	1,653
Deferred tax liabilities as at year end	5,286,975	(1,919,380)	3,635,251	3,571,104

Note 22. Revenue

Narrative	Year ended	
	31 December 2007	31 December 2006
Electricity	12,399,817	9,490,257
Heating	11,429,726	8,745,863
Other	797,732	735,820
Total	24,627,275	18,971,940

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Note 23. Cost of sales

Narrative	Year ended	Year ended
	31 December 2007	31 December 2006
Fuel expenses	11,811,133	10,113,566
Employee benefits	3,396,523	2,329,636
Depreciation of property, plant and equipment and amortization of intangible assets	3,200,680	857,585
Purchased electricity	1,830,713	1,033,962
Repairs and maintenance	1,045,848	1,413,544
Other raw materials and supplies (including chemical agents)	834,801	318,706
Water usage expenses (including payments to water treatment plants)	598,697	280,684
Taxes other than income tax	379,487	339,202
Rent payments	247,150	126,090
NOREM services	161,066	165,909
Guarding expenses	142,687	113,362
Insurance cost	86,827	86,770
Consulting, legal and audit services	84,325	36,332
Pension plan expenses	65,430	102,026
Changes in the bad debt provision	63,534	-
Loss from fixed assets disposal	46,549	35,139
Provision for legal claims	38,558	-
Other transportation services	37,606	75,837
Social expenses	35,321	31,970
Environmental payments	25,773	23,486
Utilities	9,111	39,468
Changes in the inventory impairment provision	6,962	5,676
Other expenses	669,044	490,633
Total	24,817,825	18,019,583

Employee benefits expenses are comprised of the following:

Narrative	Year ended	Year ended
	31 December 2007	31 December 2006
Salaries and wages, payroll taxes	3,167,730	2,067,288
Financial assistance to employees and retired employees	152,672	139,998
Expenses on defined benefit pension plans	65,429	102,026
Expenses on defined contribution pension plans	10,692	20,324
Total	3,396,523	2,329,636

Note 24. Finance costs

Narrative	Year ended	Year ended
	31 December 2007	31 December 2006
Discounting effect	8,633	18,961
Interest expense	778,584	374,792
Pension interest expenses	49,195	36,143
Total	836,412	429,896

Note 25. Commitments**Sales commitments**

The Group sells electricity on the two wholesale electricity (capacity) market sectors: free trading sector and regulated trading sector.

The Group has entered into a number of annual electricity sales agreements with JSC "Centre for Financial Settlements", retail companies and large industrial customers.

Fuel commitments

The Group entities concluded a number of contracts for fuel supply. The principal suppliers of fuel are JSC "Gazprom" subsidiaries: LLC "Bryanskregiongaz", LLC "Voronezhregiongaz", LLC "Kalugaregiongaz", LLC "Kurskregiongas", LLC "Lipetskregiongaz", LLC "Oryolregiongaz", "Ryazanregiongaz", LLC "Smolenskregiongaz", LLC "Tambovregiongaz" and LLC "Tularegiongaz". Supplies are carried out under the terms of annual agreements. Purchase volumes are determined on the basis of estimated production demands. The purchase price of gas is determined by Federal Service of Tariffs.

Social commitments

The Group contributes 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 expenditure for which contracts have been signed amounted to RR 7,882,096 thousand as at 31 December 2007 (31 December 2006: RR 2,604,517 thousand).

Note 26. Contingencies**Political environment**

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

Insurance

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

Legal proceedings

A Group entity has a trilateral agreement with JSC "Voronezhenergo" and JSC "Voronezhskaya Energy Sales Company" on the joint and several responsibility to the creditors with respect to obligations that arose before the restructuring of JSC "Voronezhenergo", dated 13 September 2006. The Group entity accounts for the 56.65% share of the joint and several responsibility. In 2007 under the decision of the Federal Arbitration for the Central Region JSC "Voronezhenergo" was enforced to pay RR 41,008 thousand to MUP "Vodocanal Voronezh" for hot water supplies in 2003. In accordance with the agreement on the joint and several responsibility it is highly probable that the Group entity will have to settle the liability of RR 23,238 thousand to JSC "Vorenezhenergo".

A Group entity has a trilateral agreement with JSC "Lipetskenergo" and JSC "Lipetskaya Energy Sales Company" on the joint and several responsibility before the creditors with respect to obligations that arose before the restructuring of JSC "Lipetskenergo", dated 9 August 2006. The Group entity accounts for the 71% share of the joint and several responsibility. In 2007 the Arbitration of the Lipetsk territory resolved to collect the interest of RR 9,055 thousand in favor of MUP "Lipetsk Vodokanal" for the use of other party money in the period from 1 September 2001 through 31 October 2003. In accordance with the agreement on the joint and several responsibility it is highly probable that the Group entity will have to settle the liability of RR 6,429 thousand to MUP "Lipetsk Vodokanal".

Note 26. Contingencies (continued)

Apart from the above trilateral agreements (Voronezh, Lipetsk) agreements on the joint and several responsibility were signed during 2006 year in the following regions: Belgorod, Bryansk, Kaluga, Orel, Tambov, Ryazan, Tula, Smolensk, no agreement has been signed in Kursk. In accordance with the agreements, the basis for distribution of liability between the parties can only be a legally effective judicial decision on full or partial satisfaction of creditors' claims. Management believes that currently the Group does not face any other claims, apart from those stated above, the outcome of which, given the high likelihood of applying the agreement on the joint and several responsibility, may have a material adverse impact on the financial position of the Group.

In addition, the Group is a defendant in a number of arbitration proceedings the risk of incurring loss in which is assessed as high; as at the reporting date such claims amounted to RR 8,892 thousand.

The Group created a provision of RR 38,558 thousand against the full amount of the above claims as at the reporting date, the execution of which is expected in 2008.

Management believes that other currently existing claims or suits to entities of the Group (not stated above) and final decisions taken on them do not include any that could have significant adverse impact on the financial position of the Group.

Entities of the Group filed a number of claims related to disputes with utility customers regarding volumes of provided heat supply services. The filed claims have been partially satisfied, the practice shows that disputes on volumes of heat supply services have been usually settled in favour of the Group. The Group does not expect to incur any losses in connection with these claims.

Tax contingency

Russian tax, currency and customs legislation is subject to varying interpretation, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities, in particular the way of accounting for tax purposes of water tax, deductibility of certain expenses and property received in the course of reorganisation. 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 prior to the year of review. Under certain circumstances review may cover longer periods.

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

In addition, tax and other legislation do not address specifically all the aspects of the Group's reorganisation related to reforming of the electric utilities industry. As such there may be tax and legal challenges to the various interpretations, transactions and resolutions that were a part of the reorganisation and reform process.

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. The Group entities periodically evaluate their obligations under environmental regulations. Potential liabilities might arise as a result of changes in legislation and regulation or civil litigation. The impact of these potential changes cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

Guarantees

Guarantees are irrevocable assurances that the Group will make payments in the event that another party cannot meet its obligations. As at 31 December 2007 the Group issued guarantees in respect of the borrowings drawn down by related and other parties in accordance with the contracts of guarantees in the total amount of RR 341,810 thousand (31 December 2006: RR 585,950 thousand).

Note 27. Financial instruments and financial risk factors

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 any risk policy to hedge its financial exposures.

Liquidity risk

Prudent liquidity risk management includes maintaining sufficient level of cash and liquidity of securities, availability of funding from an adequate amount of committed credit facilities and the ability to close positions on financial markets.

The Group aims to maintain flexibility in its funding requirements by monitoring its cash position (through budgeting) and keeping committed credit lines available.

In 2008 year TGC-4 attracted RR 15,822,000 thousand, issuing additional shares (Note 28). Management believes that the situation as at 31 December 2007 (excess of the current liabilities over the current assets) is only temporary and there is no actual liquidity risk exists for the Group.

Interest rate risk

The Group's operating profits and cash flows from operating activity independent from changes in market interest rates. The Group is exposed to interest rate risk through market value fluctuations of interest bearing long-term and short-term borrowings (Notes 16,17). Substantially all of the Group's long-term and short-term borrowings are at fixed interest rates and credit lines are available in several credit organizations at the same time.

The Group replaced short-term loans with high interest rate by long-term loans with low interest rate and management believes, that this helps eliminate negative influence of interest rate changes.

The global liquidity crisis which caused the increased cost of monetary funds at the financial markets did not significantly influence the Group's activity.

The Group does not have any significant assets on which interest income is accrued.

Credit risk

The credit risk represents the risk of default by the Group contractors of their obligations to the Group when due and in full.

The Group holds cash in the most safe Russian banks, according the ratings given by rating agencies and considers it enough to present ratings to assess the credit quality of bank balances as actually the ratings are high in comparison with other banks in Russia.

Financial assets which potentially subject the Group entities to concentrations of credit risk consist principally of trade receivables. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the allowance for doubtful debtors already recorded. The Group has not few big clients which constitute majority of the trade receivable balances; there is no concentration of the credit risk for the Group.

The Group has developed and approved credit policy, ensuring the maintenance of debt position levels and cost of debts levels. Credit risk is managed on the Group basis. For customers there is no independent rating and therefore the Group assesses the credit quality of the customer, taking into account its financial position, past experience and other factors.

Decision on the Group's debt structure is made based on minimization of the debt's cost, availability of borrowings and income maximizing.

Fair value

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

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Note 27. Financial instruments and financial risk factors (continued)

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

Financial instruments categories

Financial instruments include the following categories of financial assets and liabilities:

31 December 2007	Loans and receivables	Other financial liabilities	Total
Assets			
Long-term accounts receivable	56,069	-	56,069
Other non-current assets	121,007	-	121,007
Accounts receivable	1,761,272	-	1,761,272
Other current assets	16,209	-	16,209
Cash and cash equivalents	198,637	-	198,637
Total assets	2,153,194	-	2,153,194
Liabilities			
Non-current debt	-	5,568,470	5,568,470
Current debt and current portion of non-current debt	-	4,984,707	4,984,707
Total liabilities	-	10,553,177	10,553,177
31 December 2006			
Assets			
Long-term accounts receivable	132,187	-	132,187
Other non-current assets	386,695	-	386,695
Accounts receivable	1,252,486	-	1,252,486
Other current assets	12,406	-	12,406
Cash and cash equivalents	116,841	-	116,841
Total assets	1,900,615	-	1,900,615
Liabilities			
Non-current debt	-	3,089,297	3,089,297
Other non-current liabilities	-	53,758	53,758
Current debt and current portion of non-current debt	-	2,386,129	2,386,129
Total liabilities	-	5,529,184	5,529,184

Foreign currency risk

The Group carries out its operations in the territory of the Russian Federation. All significant purchases and borrowings of the Group are denominated in Russian Roubles.

Capital risk

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

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

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

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Note 27. Financial instruments and financial risk factors (continued)

The gearing ratios at 31 December 2007 and at 31 December 2006 were as follows:

	31 December 2007	31 December 2006
Total borrowings (Notes16,17)	10,553,177	5,475,426
Less cash and cash equivalents (Note10)	198,637	116,841
Total net debt	10,354,540	5,358,585
Equity	26,698,755	20,641,814
Total capital	37,053,295	26,000,399
Gearing ratio	28%	21%

Management of the Group assesses the gearing ratios for the year ended 31 December 2007 and the year ended 31 December 2006 given as being healthy.

Note 28. Subsequent events**Dividends**

Annual dividend amount per preference share was approved by the TGC-4 general meeting of shareholders on 30 May 2008 and equals to RR 0.00007432577. At the same time the TGC-4 general meeting of shareholders decided not to pay any dividends on ordinary shares. Total amount of declared annual dividends is RR 5,587 thousand.

Equity issue

At the extraordinary general meeting held 31 August 2007 TGC-4 shareholders decided to increase the equity capital of TGC-4 by placing 586,000,000 additional ordinary registered shares with the par value of RR 0.01 per share and the total par value of RR 5,860,000 thousand. The placement was executed in May 2008 by public subscription at the price of RR 0.027 per share as defined by the Board of Directors. The purchaser was Onexim Holdings Limited. As a result of this placement the Group raised cash of RR 15,822,000 thousand.

RAO UES's interest in TGC-4 decreased from 50.02% to 34.649% of voting shares as a result of additional placement of shares. In June 2008 RAO UES's interest decreased to 0% due to the sale of TGC-4's shares previously owned by RAO UES to Onexim Holdings Limited and transfer of 212,754,467,344 shares to TGC-4's account for conversion into the shares of JSC "TGC-4 Holding".

On 29 April 2008 the Board of Directors approved the decision on the additional issue of the registered non-documentary ordinary shares of TGC-4 amounting to 6,600,255,897 shares with nominal par value of RR 0.01 each, which are placed when spinning-off TGC-4 from RAO UES with subsequent merger of JSC "TGC-4 Holding" into TGC-4 by converting the shares of JSC "TGC-4 Holding" into the shares TGC-4.

Upon the spin-off operation, the following RAO UES property was transferred to TGC-4 Holding's balance sheet, in accordance with RAO UES's separation balance sheet: securities, accounts receivable, investments into non-current assets. As a result of TGC-4 Holding's merger with TGC-4, the latter was assigned all TGC-4 Holding's property, rights and liabilities.

4 July 2008 all shares of JSC "TGC-4 Holding" were converted into the shares of TGC-4 with the application of conversion ratios provided in the merger contract.

Reorganization

On 29 October 2007 the extraordinary general meeting of TGC-4 shareholders adopted the decision on the reorganization of the TGC-4 in the form of a merger with JSC "Novomoskovskaya GRES". The reorganization was finalized 30 June 2008.

Note 28. Subsequent events (continued)

Creation of subsidiaries

In November 2007 the Board of Directors made a decision to create JSC "Orlovskaya Heat Network Company" (the Group's interest is 100%) and JSC "Belgorodskaya Heat Network Company" (the Group's interest is 100%).

JSC "Orlovskaya Heat Network Company" was registered in November 2007, with the charter capital of RR 10,000 thousand to be paid in cash (the payment was executed in December 2007 and recognized within other accounts receivable).

JSC "Belgorodskaya Heat Network Company" was registered in December 2007 with the charter capital of RR 3,084,430 thousand of which RR 10,000 thousand are to be paid in cash and RR 3,074,430 thousand are to be contributed in other assets (fixed assets at market value determined by an independent appraiser). The charter capital was paid up in February 2008.

As at the year end the stock issues of the above entities were in the process of state registration in the Federal Financial Markets Service of Russia (FFMS). Notification of the FFMS Regional Branch on the state registration of the securities issue and the report on the results of the stock issue of JSC "Orlovskaya Heat Network Company" was provided on 19.02.2008 and on the stock issue of JSC "Belgorodskaya Heat Network Company" – on 12.03.2008.

