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

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REPORT ON REVIEW OF INTERIM FINANCIAL STATEMENTS

To the Shareholders and the Board of Directors of Open Joint-Stock Company "The Second Generating Company of the Wholesale Electric Power Market" (OJSC OGK-2):

Introduction
We have reviewed the accompanying interim combined and consolidated financial statements of OJSC OGK-2 and its subsidiaries (the "OGK-2 Group") which comprise the consolidated balance sheet as at 30 June 2007 and the combined and consolidated income statement, combined and consolidated statement of changes in equity and combined and consolidated statement of cash flows for the six months then ended and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of these interim combined and consolidated financial statements in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on these interim combined and consolidated financial statements based on our review. Management has issued interim combined and consolidated financial statements for the first time as of and for the period ended 30 June 2007 and hence we did not perform a review of interim financial information as of and for the period ended 30 June 2006.

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

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim combined and consolidated financial statements do not present fairly, in all material respects, the financial position of the OGK-2 Group as at 30 June 2007, and its financial performance and its cash flows for the six months period then ended in accordance with International Accounting Standard 34 "Interim Financial Reporting".

Emphasis of Matter
Without qualifying our conclusion, we draw your attention to Notes 1, 2 and 5 to the accompanying interim combined and consolidated financial statements. The Government of the Russian Federation has an ultimate controlling interest in the OGK-2 Group and Governmental economic and social policies affect the Group's financial position, results of operations and cash flows.

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation

30 August 2007

OGK-2 Group
Interim Combined and Consolidated Balance Sheet as at 30 June 2007
(in thousands of Russian Roubles)

	Notes	Unaudited 30 June 2007	31 December 2006
ASSETS			
Non-current assets			
Property, plant and equipment	6	17,318,018	17,346,025
Intangible assets	7	331,677	298,861
Other non-current assets	8	326,014	302,477
Total non-current assets		**17,975,709**	**17,947,363**
Current assets			
Cash		643,786	1,178,570
Accounts receivable and prepayments	9	1,739,126	1,917,403
Inventories	10	2,192,521	1,980,743
Current income tax prepayments		249,839	241,477
Other current assets	11	540,842	541,709
Total current assets		**5,366,114**	**5,859,902**
TOTAL ASSETS		**23,341,823**	**23,807,265**
EQUITY AND LIABILITIES			
Equity			
Share capital			
Ordinary shares (nominal value RR 9,604,621)	12	9,604,621	26,480,896
Share premium		1,818,408	1,818,408
Merger reserve	12	(632,422)	(17,508,697)
Retained earnings		2,872,968	2,284,262
Total equity		**13,663,575**	**13,074,869**
Non-current liabilities			
Deferred income tax liabilities	13	2,696,057	2,700,229
Non-current debt	14	1,246,314	1,074,660
Pension liabilities	18	282,653	461,754
Total non-current liabilities		**4,225,024**	**4,236,643**
Current liabilities			
Current debt and current portion of non-current debt	15	2,944,914	4,662,797
Accounts payable and accruals	16	2,163,282	1,481,092
Other taxes payable	17	345,028	351,864
Total current liabilities		**5,453,224**	**6,495,753**
Total liabilities		**9,678,248**	**10,732,396**
TOTAL EQUITY AND LIABILITIES		**23,341,823**	**23,807,265**

General Director M.V.Kuzichev

Chief Accountant A.P.Vainilavichute

30 August 2007

The accompanying notes are an integral part of these interim combined and consolidated financial statements (unaudited)

OGK-2 Group
Interim Combined and Consolidated Income Statement
for the 6 months ended 30 June 2007 (unaudited)
(in thousands of Russian Roubles, except for earning/(loss) per ordinary share information)

	Notes	6 months ended 30 June 2007	6 months ended 30 June 2006
Revenues	19	15,938,225	12,003,763
Operating expenses	20	(14,753,714)	(11,723,329)
Other operating income/(expenses)		1,207	(81,002)
Operating profit		**1,185,718**	**199,432**
Finance costs	21	(205,148)	(98,981)
Profit before income tax		**980,570**	**100,451**
Total income tax charge	13	(301,864)	(219,854)
Profit/(loss) for the period		**678,706**	**(119,403)**
Attributable to:			
Shareholders of OJSC OGK-2		678,706	(210,594)
Minority interest		-	91,191
Earnings/(loss) per ordinary share for profit/(loss) attributable to the shareholders of OJSC OGK-2 – basic and diluted (in Russian Roubles)	22	**0.03**	**(0.01)**

General Director M.V.Kuzichev

Chief Accountant A.P.Vainilavichute

30 August 2007

Interim Combined and Consolidated Cash Flow Statement for the 6 months ended 30 June 2007 (unaudited)

(in thousands of Russian Roubles)

	Notes	6 months ended 30 June 2007	6 months ended 30 June 2006
CASH FLOW FROM OPERATING ACTIVITIES:			
Profit before income tax		**980,570**	**100,451**
Adjustments for non-cash items:			
Depreciation of property, plant and equipment	6	539,326	439,378
(Reversal)/charge of provision for impairment of accounts receivable		(22,070)	27,300
Decrease in provision for inventory obsolescence		(24,743)	(35,251)
Interest income		(23,405)	(4,417)
Interest expense		211,760	65,839
(Decrease)/accrual for pension liabilities		(154,703)	33,263
Other non-cash items		13,325	54,167
Operating cash flows before working capital changes and income tax paid		**1,520,060**	**680,730**
Working capital changes:			
Decrease in accounts receivable and prepayments		235,933	329,837
Increase in inventories		(187,035)	(290,166)
Decrease/(increase) in other current assets		867	(20,392)
Increase in other non-current assets		(23,577)	(10,486)
Increase in accounts payable and accruals		764,218	202,370
Decrease in taxes payable, other than income tax		(6,833)	(282,634)
Decrease in pension liabilities		(24,398)	(18,389)
Income tax paid in cash		(304,086)	(360,779)
Net cash generated from operating activities		**1,975,149**	**230,091**
CASH FLOW FROM INVESTING ACTIVITIES:			
Interest received		1,229	3,801
Purchase of property, plant and equipment		(620,930)	(201,505)
Proceeds from sale of property, plant and equipment		2,695	9,626
Acquisitions of intangible assets		(34,051)	(7,809)
Net cash used in investing activities		**(651,057)**	**(195,887)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from short-term borrowings		450,000	4,495,100
Proceeds from long-term borrowings		1,200,000	840,000
Repayment of short-term debt		(3,160,225)	(4,310,828)
Repayment of long-term debt		-	(641,000)
Interest paid		(215,486)	(72,358)
Payments under finance lease		(57,314)	(67,085)
Dividend paid by the Company to shareholders of OJSC OGK-2		(75,851)	(246,260)
Dividend paid by the Company to minority interest shareholders		-	(51,106)
Net cash used in financing activities		**(1,858,876)**	**(53,537)**
Net decrease in cash		(534,784)	(19,333)
Cash at the beginning of the period		1,178,570	880,355
Cash at the end of the period		643,786	861,022

General Director M.V.Kuzichev

Chief Accountant A.P.Vainilavichute

30 August 2007

OGK-2 Group

Interim Combined and Consolidated Statement of Changes in Equity for the 6 months ended 30 June 2007 (unaudited)

(in thousands of Russian Roubles)

	Attributable to the shareholders of OJSC OGK-2						
	Ordinary share capital	Share premium	Merger reserve	Retained Earnings	Total	Minority interest	Total Equity
At 1 January 2006	**10,769,804**	-	**(2,146,523)**	**296,614**	**8,919,895**	**2,306,639**	**11,226,534**
(Loss)/profit for the period	-	-	-	(210,594)	(210,594)	91,191	(119,403)
Dividends	-	-	-	(489,303)	(489,303)	(6,778)	(496,081)
Payment of share capital (Note 12)	14,547,266	1,818,408	(14,697,082)	-	1,668,592	(1,668,592)	-
At 30 June 2006	**25,317,070**	**1,818,408**	**(16,843,605)**	**(403,283)**	**9,888,590**	**722,460**	**10,611,050**
At 1 January 2007	**26,480,896**	**1,818,408**	**(17,508,697)**	**2,284,262**	**13,074,869**	-	**13,074,869**
Profit for the period	-	-	-	678,706	678,706	-	678,706
Dividends (Note 12)	-	-	-	(90,000)	(90,000)	-	(90,000)
Decrease in share capital (Note 12)	(16,876,275)	-	16,876,275	-	-	-	-
At 30 June 2007	**9,604,621**	**1,818,408**	**(632,422)**	**2,872,968**	**13,663,575**	-	**13,663,575**

General Director M.V.Kuzichev

Chief Accountant A.P.Vainilavichute

30 August 2007

Note 1. The Company and its operations

Open Joint-Stock Company "The Second Generating Company of the Wholesale Electric Power Market" (OJSC OGK-2, or the "Company") was established on 9 March 2005 within the framework of Russian electricity sector restructuring in accordance with the Resolution No. 1254-r adopted by the Russian Federation Government on 1 September 2003.

The OJSC OGK-2 primary activities are generation and sale of electric power and heat. The Company primarily consists of the following power stations: Troitskaya GRES, Stavropolskaya GRES, Pskovkaya GRES, Serovskaya GRES and Surgutskaya GRES-1.

The Company is registered by the Izobilnensk District Inspectorate of the RF Ministry of Taxation of Stavropol Region.

The Company's office is located at 56, Profsoyuznaya str., 117393, Moscow, Russia.

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

Relations with the state and current regulation. As at 30 June 2007 the Russian Federation owned 52.7% of the Russian Open Joint Stock Company for Energy and Electrification Unified Energy System of Russia ("RAO UES") (the "Parent"), which in its turn owned 80.93% of voting ordinary shares of OJSC OGK-2 (80.93% as at 31 December 2006). The Government of the Russian Federation is the ultimate controlling party of the Company.

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

The Government of the Russian Federation directly affects the Company's operations through regulation by the Federal Tariff Service ("FTS"), with respect to its wholesale energy sales, and by the Regional Tariff Services ("RTSs"), with respect to its heat sales. The operations of all generating facilities are coordinated by JSC System Operator – Central Despatch Unit of Unified Energy System ("SO-CDU") in order to meet system requirements in an efficient manner. SO-CDU is controlled by RAO UES of Russia.

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

As described in Notes 2, 23 and 24, the Government's economic, social and other policies could have material effects on the operations of the Company.

Sector restructuring. The Russian electric utilities industry is presently undergoing a restructuring process designed to introduce competition into the electricity sector and to create an environment in which the RAO UES Group and its successor companies (including OJSC OGK-2) can raise the capital required to maintain and expand current capacity.

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 31 August 2006 and which came into force on 1 September 2006. Under the new wholesale market framework, electricity and power purchase-and-sale transactions in the regulated market sector are to be governed by a regulated bilateral contract system. From 1 September 2006, regulated contracts covered all volumes of electricity and power produced and consumed.

From 2007 the volumes of electricity (power) traded in the wholesale market at regulated prices will begin to be substantially reduced. The pace of reduction was set by the Russian Federation Government according to socio-economic development forecasts. In 2007 it is expected up to 90% of the forecasted production volumes will be 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.

Establishment of the Company

The Company was incorporated on 9 March 2005 by its then sole shareholder RAO UES. At the date of incorporation, RAO UES made contributions to the Company's charter capital in the form of shares of the thermal power generating companies OJSC "Troitskaya GRES" ("**OJSC Troitskaya GRES**"), OJSC "Stavropolskaya GRES" ("**OJSC Stavropolskaya GRES**") and OJSC "Pskovskaya GRES" ("**OJSC Pskovskaya GRES**"). These three generating companies had been incorporated as subsidiaries of RAO UES in 1993 (OJSC Troitskaya GRES and OJSC Stavropolskaya GRES) and 1994 (OJSC Pskovskaya GRES), and, following their contribution to the Company in March 2005, became operating subsidiaries of the Company.

On 22 May 2006, the Company acquired control through a transfer of business under common contol of a further two generating companies, OJSC "Serovskaya GRES" ("**OJSC Serovskaya GRES**") and OJSC "Surgutskaya GRES-1" ("**OJSC Surgutskaya GRES-1**"). In contrast to the three generating companies referred to above, neither of these two subsidiaries had existed as a separate business unit prior to 2005. OJSC Serovskaya GRES had been incorporated on 1 April 2005 and comprised various business and production assets that had been transferred from OJSC "Sverdlovenergo" ("**OJSC Sverdlovenergo**"), a subsidiary of RAO UES. OJSC Surgutskaya GRES-1 had been incorporated on 1 July 2005 and comprised various business and production assets that had been transferred from another subsidiary of RAO UES, OJSC "Tyumenenergo" ("**OJSC Tyumenenergo**"). Each of OJSC Sverdlovenergo and OJSC Tyumenenergo had comprised various businesses in addition to electric and heat energy generation, and the assets that were transferred to OJSC Serovskaya GRES and OJSC Surgutskaya GRES-1, respectively, had not in either case been operated as an identifiable and discrete business unit.

On 29 September 2006, each of OJSC Troitskaya GRES, OJSC Stavropolskaya GRES, OJSC Pskovskaya GRES, OJSC Serovskaya GRES and OJSC Surgutskaya GRES-1 were merged with the Company. As a result, they ceased to exist as separate legal entities and became operating units of the Company.

After the merger the Company doesn't have any other material subsidiaries.

Note 2. Financial condition

As at 30 June 2007, the Company's current liabilities exceeded its current assets by Russian Roubles ("RR") 87,110 thousand (as at 31 December 2006 the Company's current liabilities exceeded its current assets by RR 635,851 thousand).

As discussed above the Company is affected by government policy through the control of tariffs and other factors. The FTS does not always permit tariff increases in line with increases in the Company's costs and thus some tariffs are insufficient to cover all the costs of generation. Moreover, these tariffs consider costs only on a Russian statutory basis and, accordingly, exclude additional costs recognized under an IFRS basis of accounting. As a result, tariffs may not consistently allow for an adequate return on investment and currently do not provide sufficient funds for the full replacement of property, plant and equipment. However, during 2006 and to date in 2007 the growing demand for electricity and capacity together with increasing the free trading sector of the wholesale electricity market have resulted in a higher rate of revenue growth (see Regulatory issues and sector restructuring in Note 1).

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

- introduction of improved financial budgeting procedures, a strong focus on timely cash collection of current and old debtor balances;
- 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 Company's generation, transmission and distribution assets;
- raising long-term debt/equity financing for investments in new generation assets.

Note 3. Basis of preparation

Statement of compliance. These interim combined and 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 subsidiary of the Company individually maintains its own books of accounts and prepares its statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation. The accompanying Financial Statements are based on the statutory records and adjusted and reclassified for the purpose of fair presentation in accordance with IFRS.

Functional and presentation currency. The national currency of the Russian Federation is the Russian rouble ("RR"), which is the functional currency of the Company and its subsidiaries 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. During 2005, the Parent transferred to the Company 100% less 1 share, 51.01% and 50.00% of the outstanding ordinary shares of Troitskaya GRES, Stavropolskaya GRES and Pskovskaya GRES respectively. During 2006 the Parent transferred to the Company 100% and 65.33% of the outstanding ordinary shares of Surgutskaya GRES-1 and Serovskaya GRES respectively in exchange for the ordinary shares of the Company.

In these interim combined and consolidated financial statements, the Company accounted for the business combination with these entities as business combinations amongst entities under common control under an accounting policy using the predecessor values method. Accordingly, assets and liabilities of the contributed entities were accounted for at the carrying value, as determined by RAO UES in its IFRS consolidated financial statements. Information in respect of the comparative has been presented as if the business combination took place at 1 January 2005. Therefore Troitskaya GRES, Stavropolskaya GRES, Pskovkaya GRES, Serovskaya GRES and Surgutskaya GRES-1 were accounted in the Company's combined and consolidated financial statements effective from 1 January 2005.

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.

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. For these balances, the amounts expressed in the measuring unit current at 31 December 2002 are treated as the basis for the carrying amounts of these financial statements.

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

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

- IFRS 7 Financial Instruments: Disclosures and a complementary Amendment to IAS 1 Presentation of Financial Statements – Capital Disclosures.

- IFRIC 7, Applying the Restatement Approach under IAS 29 (effective for periods beginning on or after 1 May 2006, that is from 1 January 2007);

- IFRIC 8, Scope of IFRS 2 (effective for periods beginning on or after 1 May 2006, that is from 1 January 2007).

The effect of adoption of the above new standard and interpretations on the Company's financial position at 30 June 2007 and 31 December 2006 and on the results of its operations for the six month ended 30 June 2007 and 30 June 2006 was not significant.

Other new standards or interpretations. The Company has not early adopted the following other new standards or interpretations:

- IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). The Standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments and specifies how an entity should report such information;

- 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);

- 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 13, Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008);

- IFRIC 14, IAS 19 - Defined Benefit Assets and Minimum Funding Requirements (effective for annual periods beginning on or after 1 January 2008);

- IAS 23, Borrowing Cost (Amendment, applies to borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after 1 January 2009). All borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale must be capitalized under the revised standard. The Company currently expenses all borrowing costs.

The effect of these changes for the Company's financial statements in the period of their initial application is not known or reasonably estimable at the moment.

Going concern. The accompanying interim combined and 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 Company's assets, as well as the future operations of the Company, may be significantly affected by the current and future economic environment. The accompanying financial statements do not include any adjustments should the Company be unable to continue as a going concern.

Critical accounting estimates and assumptions. The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgments, apart from those involving estimations, in the process of applying the accounting policies. Judgments 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 Company's assessment of whether the collectibility of specific customer accounts worsened compared to prior estimates. If there is deterioration in a major customer's creditworthiness or actual defaults are higher than the estimates, the actual results could differ from these estimates.

Provision for impairment of property, plant and equipment

At each balance sheet date the Company assesses whether there is any indication that the recoverable amount of the Company's property, plant and equipment 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 property, plant and equipment has increased, the impairment provision will be fully or partially reversed.

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 assets, 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.

Tax contingencies

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

Note 4. Summary of significant accounting policies

Principles of consolidation. The Financial Statements comprise the financial statements of OJSC OGK-2 and the financial statements of those entities whose operations are controlled by OJSC OGK-2. Control is presumed to exist when OJSC OGK-2 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 minority interest has been disclosed as part of equity.

B) Transactions eliminated on consolidation

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

Transfers of subsidiaries from parties under common control. Contributions to share capital of shares in subsidiaries from parties under common control are accounted for using the pooling of interest 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 at the predecessor entity's carrying amounts. Any difference between the carrying amount of net assets and the nominal value of share capital contributed and share premium is accounted for in these consolidated financial statements as an adjustment to equity.

Foreign currency. Monetary assets and liabilities, held by the Company and denominated in foreign currencies at the balance sheet date, are translated into RR at the exchange rates prevailing at the 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 the monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

As at 30 June 2007, the official rate of exchange, as determined by the Central Bank of the Russian Federation, between the RR and the US Dollar ("USD") was RR 25.82: USD 1.00 (31 December 2006: RR 26.33: USD 1.00), between the RR and the EURO RR 34.72: EURO 1.00 (31 December 2006: RR 34.70: EURO 1.00).

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.

Property, plant and equipment. In 2005 property, plant and equipment were recognized at the carrying value determined in accordance with IFRS by the Predecessor.

Property, plant and equipment are stated at depreciated cost less impairment. Deemed cost was initially determined by a third party valuation as at 31 December 1997 and restated for the impact of inflation until 31 December 2002. Adjustments are made for additions, disposals and depreciation charges. At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If 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 statement of operations. An impairment loss recognised in prior years is reversed if there has been an increase in the estimated fair value or value in use used to determine an asset's recoverable amount.

The amounts determined by the third party valuation represent 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 Company has not adopted a policy of revaluation on subsequent measurement.

(in thousands of Russian Roubles)

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

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

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. The remaining useful lives of property, plant and equipment are reviewed annually.

The useful lives, used for depreciation calculation, in years, are as follows:

Type of facility	Remaining useful lives re-assessed at 01 January 2005	Remaining useful lives re-assessed at 01 January 2006
Electricity and heat generation	10-66	4-66
Other	7-10	7-22

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

Accounts receivable and prepayments. Accounts receivable are recorded inclusive of value added taxes. Accounts receivable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method less provision for impairment. Such provision for doubtful debtors is established if there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. The amount of the allowance is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers at the date of origination of receivables. In practice, the entity has estimated that the nominal amount of accounts receivable approximates the fair value at inception.

Differences in tariffs between the sale and purchase of electricity through FOREM (Federal Wholesale Electricity (Power) Market) resulted in unallocated balances (tariff imbalance). These imbalances and related revenues were not recognised in the Company's accounts.

The deferred value added tax ("VAT") and profit tax were recognised in relation to the above tariff imbalance represented liabilities to the budget and was reflected in the balance sheet until the specified VAT and profit tax returns for their reversal were submitted to tax authorities.

As part of the state reform of the electricity sector as at 1 September 2006 new rules on wholesale electricity (power) market implemented (see Note 1) which eliminated the instances of tariff imbalance, as suppliers and consumers of electricity conclude bilateral contracts with agreed tariffs.

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 receivable balances are either recovered or written off for tax purposes. Input VAT was generally recoverable against output VAT upon payment for purchases made.

There are also some transition rules applied for output and input VAT incurred before 1 January 2006 and which were not settled as at 1 January 2006. Generally, according to the rules these output and input 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.

Inventories. Inventories are valued at the lower of net realizable value and weighed average acquisition cost. Provision is made for potential losses on obsolete or slow-moving inventories, taking into account their expected use and future realizable value.

Intangible assets. Intangible assets acquired separately are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

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

Deferred income tax. Deferred tax is provided using the balance sheet liability method for the temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for the 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 or 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 Company. 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.

Accounts payable and accrued charges. Accounts payable are stated inclusive of value added tax. Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method. If accounts payable are restructured and the discounted present value of the cash flows under the restructured terms discounted using the original effective interest rate differs by more than ten percent from the discounted present value of the remaining cash flows of the original financial liability, then the fair value of the restructured payable is measured as the discounted present value of the cash flows under the restructured terms. In this case the amount of the discount is credited to the income statement (finance costs) 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.

Debt. Debt is recognized initially at its' fair value. If it is significantly different from the transaction price, fair value is determined using the prevailing market interest rate for a similar instrument. In subsequent periods, debt is stated at amortized cost using the effective yield method; any difference between the fair value at initial recognition (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 Company 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.

Finance leases. Where the Company is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Company, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The corresponding rental obligations, net of future finance charges, are included in debts. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest cost is charged to the statement of operations over the lease period using the effective interest method.

Operating leases. Where the Company is a lessee in a lease which does not transfer substantially all the risk and rewards incidental to ownership from the lessor to the Company, 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.

Minority interest. Minority interest represents the minority shareholders' proportionate share of the equity and results of operations of the Company's subsidiaries. This has been calculated based upon the minority interests' ownership percentage of these subsidiaries. In purchases of minority interest, difference, if any, between the carrying amount of a minority interest and the amount paid to acquire it is recorded directly in equity.

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

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 Company 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 statement of operations over the employees' expected average remaining working lives.

The effect of curtailment or settlement of a defined benefit plan is recognised immediately in income statement.

Revenue recognition. Revenue is recognized on the delivery of electricity and heat during the period. Revenues are measured at the fair value of consideration received or receivable. Revenue amounts are represented exclusive of value added tax.

Segment reporting. The Company operates predominantly in a single geographical area and industry, the generation of electric power and heat in the Russian Federation.

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

(in thousands of Russian Roubles)

Fair value measurement. The fair value of accounts receivable for disclosure purposes is measured by discounting the value of expected cash flows at the market rate of interest for similar borrowers at the reporting date.

The fair value of financial liabilities and other financial instruments (except if publicly quoted) for disclosure purposes is measured by discounting the future contractual cash flows at the current market interest rate available to the Company for similar financial instruments. The fair value of publicly quoted financial instruments for disclosure purposes are measured based on current market value at the close of business on the reporting date.

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.

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 Company.

Note 5. Related Parties

The nature of the related party relationships for those related parties with whom the Company entered into significant transactions in the 6 months ended 30 June 2007 and in the 6 months ended 30 June 2006 or had significant balances outstanding at 30 June 2007 and at 31 December 2006 are detailed below.

Parent

Transactions with the Parent were as follows:

	6 months ended 30 June 2007	6 months ended 30 June 2006
Dividends accrued	72,837	489,303

Balances with Parent at the end of the periods were as follows:

	30 June 2007	31 December 2006
Accounts payable	170,221	173,441

Transactions with the Parent's subsidiaries and associates

Transactions with the Parent's subsidiaries were as follows:

	6 months ended 30 June 2007	6 months ended 30 June 2006
Sales of electricity	11,637,503	9,386,163
Sales of heat	181,536	123,215
Other sales	11,424	10,875

Balances with Parent's subsidiaries at the end of the periods were as follows:

	30 June 2007	31 December 2006
Accounts receivable, gross	1,173,218	966,650
Provision for impairment of accounts receivable	(426,110)	(449,429)
Accounts payable	429,291	129,443

(in thousands of Russian Roubles)

State-controlled entities

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

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

	6 months ended 30 June 2007	6 months ended 30 June 2006
Sales of heat, condensate and utilities services	36,497	149,223
Purchase of fuel	3,227,639	2,740,300

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

	30 June 2007	31 December 2006
Accounts receivable and prepayments	127,652	79,026
Bad debt provision	(59,538)	(48,449)
Accounts payable and accruals	153,747	175,321
Current debt and current portion of non-current debt	1,075,500	1,504,800

Interest expense accrued for the 6 months ended 30 June 2007 was RR 63,682 thousands (for the 6 months ended 30 June 2006: RR 28,059 thousands).

Tax balances are disclosed in the balance sheet and Notes 13 and 17. Tax transactions are disclosed in the Company's statement of operations and Notes 13 and 20.

Transactions with key management

Compensation is paid to members of the Management Board of the Company for their services in full time management positions. The compensation is made up of a contractual salary and a performance bonus depending on results for the period according to Russian statutory financial statements. The compensation is approved by the Board of Directors. Discretionary bonuses are also payable to members of the Management Board, which are approved by the Chairman of the Management Board according to his perception of the value of their contribution.

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

Total remuneration in the form of salary and bonuses paid to the members of the Board of Directors and Management Board for the 6 months ended 30 June 2007 was RR 21,672 thousand (for the 6 months ended 30 June 2006 – RR 14,179 thousand). Total remuneration in the form of salary and bonuses accrued to the members of the Board of Directors and Management Board for the 6 months ended 30 June 2007 was RR 20,933 thousand (for the 6 months ended 30 June 2006 – RR 15,252 thousand).

There are no transactions or balances with key management besides their remuneration in the form of salary and bonuses.

(in thousands of Russian Roubles)

Note 6. Property, plant and equipment

Cost	Electricity and heat generation	Construction in progress	Other	Total
Opening balance as at 31 December 2005	23,551,853	1,497,259	3,246,509	28,295,621
Additions	542	170,105	14,302	184,949
Transfer	27,267	(80,081)	52,814	-
Disposals	(24,149)	(2,943)	(80,510)	(107,602)
Closing balance as at 30 June 2006	23,555,513	1,584,340	3,233,115	28,372,968
Accumulated depreciation (including impairment)				
Opening balance as at 31 December 2005	(12,240,801)	(739,557)	(2,115,513)	(15,095,871)
Charge for the period	(347,401)	-	(91,977)	(439,378)
Disposals	3,375	-	46,066	49,441
Closing balance as at 30 June 2006	(12,584,827)	(739,557)	(2,161,424)	(15,485,808)
Net book value as at 30 June 2006	10,970,686	844,783	1,071,691	12,887,160
Net book value as at 31 December 2005	11,311,052	757,702	1,130,996	13,199,750
Cost				
Opening balance as at 31 December 2006	23,577,932	1,779,314	3,400,466	28,757,712
Additions	2,459	479,375	31,003	512,837
Transfer	82,178	(208,460)	126,282	-
Disposals	-	(1,494)	(119)	(1,613)
Closing balance as at 30 June 2007	23,662,569	2,048,735	3,557,632	29,268,936
Accumulated depreciation (including impairment)				
Opening balance as at 31 December 2006	(8,726,897)	(598,116)	(2,086,674)	(11,411,687)
Charge for the period	(460,319)	-	(79,007)	(539,326)
Disposals	-	-	95	95
Closing balance as at 30 June 2007	(9,187,216)	(598,116)	(2,165,586)	(11,950,918)
Net book value as at 30 June 2007	14,475,353	1,450,619	1,392,046	17,318,018
Net book value as at 31 December 2006	14,851,035	1,181,198	1,313,792	17,346,025

Management has concluded that at 31 December 2006 there were indications for reversing previously recognised impairment losses for those generating units that were controlled by the Group at respective reporting date. Consequently, it has resulted in the reversal of the previously recognized impairment loss to the extent of RR 4,307,159 thousand at 31 December 2006.

The assets transferred to the Company did not include the land on which the Company's buildings and facilities are situated. The Company has the right to purchase this land upon application to the state registration body or to formalize the right for rent after the right expiry date, which is 1 January 2008.

Leased property, plant and equipment

The Company leased certain equipment under a number of finance lease agreements. In some cases at the end of the leases the Company has the option to purchase the equipment at a beneficial price, in other cases at the end of the leases the Company receives the equipment in ownership without additional payments. As at 30 June 2007 the net book value of leased property, plant and equipment was RR 214,104 thousand (as at 31 December 2006 RR 227,434 thousand). The leased equipment secures lease obligations.

(in thousands of Russian Roubles)

Operating lease

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

Non-cancellable operating lease rentals are payable as follows:

	30 June 2007	31 December 2006
Not later than one year	8,935	70,908
Later than one year and not later than five years	7,636	7,950
Later than five years	25,535	22,652
Total	**42,106**	**101,510**

The land areas leased by OJSC OGK-2 are the territories on which the Company's electric power stations, stations and other assets are located. Lease payments are reviewed regularly to reflect market rentals.

Note 7. Intangible assets

	SAP R-3 software	Other intangibles	Total intangible assets
Balance as at 1 January 2005	-	**3,612**	**3,612**
Additions	83,241	1,979	85,220
Disposals	-	-	-
Balance as at 31 December 2005	**83,241**	**5,591**	**88,832**
Additions	211,506	-	211,506
Disposals	-	(1,477)	(1,477)
Balance as at 31 December 2006	**294,747**	**4,114**	**298,861**
Additions	34,051	-	34,051
Disposals	-	(1,235)	(1,235)
Balance as at 30 June 2007	**328,798**	**2,879**	**331,677**

Intangible assets include costs incurred in respect of implementation of SAP R-3 software. Amortisation of software will be started on completion of the implementation projects.

Note 8. Other non-current assets

	30 June 2007	31 December 2006
Restructured trade and other receivables (net of provision for impairment of accounts receivable of 289,237 thousand as at 30 June 2007 and 302,186 thousand as at 31 December 2006)	187,097	188,489
Prepayments/deposits for pensions	115,604	90,635
Other	23,313	23,353
Total	**326,014**	**302,477**

Assets on solidarity accounts and on individual accounts in non-state pension fund in respect of current employees were recognized as "Prepayments/ deposits for pensions". This prepayment/deposits for pensions are disclosed gross of pension liabilities for both periods presented.

(in thousands of Russian Roubles)

Note 9. Accounts receivable and prepayments

	30 June 2007	31 December 2006
Trade receivables (net of provision for impairment of accounts receivable of RR 384,368 thousand as at 30 June 2007 and RR 411,840 thousand as at 31 December 2006)	1,134,165	614,108
Advances to suppliers	369,281	729,314
Prepayments and accrued income	60,449	51,092
Prepaid value-added tax	84,112	208,853
Value added tax recoverable (net of provision for impairment of accounts receivable of RR 1,323 thousand as at 30 June 2007 and 4,603 thousand as at 31 December 2006)	54,628	63,937
Other receivables (net of provision for impairment of accounts receivable of RR 141,145 thousand as at 30 June 2007 and 123,855 thousand as at 31 December 2006)	223,588	438,588
Total	**1,926,223**	**2,105,892**
Less: Restructured trade and other receivables (net of provision for impairment of accounts receivable of 289,237 thousand as at 30 June 2007 and 263,929 thousand as at 31 December 2006)	(187,097)	(188,489)
Total	**1,739,126**	**1,917,403**

Management has determined the provision for impairment of accounts receivable based on specific customer identification, customer payment trends, subsequent receipts and settlements and analyses of expected future cash flows. The effects of discounting are reflected in the provision for impairment of accounts receivable and expense. Management of the Company believes that Company 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.

Note 10. Inventories

	30 June 2007	31 December 2006
Fuel supplies	1,125,986	1,177,585
Materials and supplies	466,311	333,163
Spare parts	600,224	469,995
Total	**2,192,521**	**1,980,743**

The above inventory balances are recorded net of an obsolescence provision of RR 10,340 thousand and RR 35,083 thousand as at 30 June 2007 and 31 December 2006, respectively.

Inventory balances as at 30 June 2007 and 31 December 2006 included RR 212,828 thousand and RR 409,013 thousand, respectively, of inventory pledged as collateral according to loan agreements.

Note 11. Other current assets

	30 June 2007	31 December 2006
Short-term deposits (7.5%)	500,000	500,000
Bank promissory notes (zero interest rate)	40,842	41,542
Other short-term investments	-	167
Total	**540,842**	**541,709**

(in thousands of Russian Roubles)

Note 12. Equity

Share capital

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 (see 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. As the Group was formed as a result of a series of share issues completed after 1 January 2005, the equity statement reflects additions to share capital in the amount equal to the statutory nominal value of the shares issued and share premium which are based on the fair value of the net assets of the businesses contributed. In accordance with the predecessor basis of accounting, the effect of such additions to equity is offset by a corresponding decrease in the merger reserve and reduction in minority interest.

In March 2007 An Extraordinary Shareholders Meeting of OJSC OGK-2 approved the decrease of the company's share capital to RR 9,604,621 thousand by decreasing the nominal value of the shares issued. The company's share capital was decreased to comply with legal capital requirements.

The nominal value of ordinary shares after the decrease is RR 0.3627 per share. The decrease in capital was achieved by the conversion of the shares to ones of the same category (type) with a lower nominal value.

Share capital

(Number of shares unless otherwise stated)	**Ordinary shares 30 June 2007**	**Ordinary shares 31 December 2006**
Issued shares	26,480,895,818	26,480,895,818
Par value (in RR)	0.3627	1.00

As at 30 June 2007 number of issued ordinary shares is 26,480,895,818 with a par value of RR 0.363 each. The authorised and not yet issued as at 30 June 2007 number of ordinary shares is 12,000,000,000 with a par value of RR 0.3627 each.

Transactions with the Parent and minority shareholders

In the second quarter 2006 the Company issued 14,547,265,563 shares paid in kind by 94.78%, 100%, 40.69% and 24.63% of the outstanding ordinary shares of Serovskaya GRES, Surgutskaya GRES-1, Stavropolskaya GRES and Pskovskaya GRES. The shares were paid by the Parent and the minorities.

As of result of the share issue the Parent transferred to the Company 65.33% and 100% of the outstanding ordinary shares of Serovskaya GRES and Surgutskaya GRES-1 respectively in exchange for the ordinary shares of the Company with nominal value of RR 10,781,306 thousand. The value of the shares, transferred by the Parent, as determined by the independent appraiser, amounted to RR 767,434 thousand and RR 11,361,535 thousand respectively. Difference between nominal value of ordinary shares of the Company and value of the shares transferred by the Parent of RR 1,347,663 thousand was recorded as share premium.

As a result of the share issue, in the second quarter 2006 the minority shareholders exchanged 40.69%, 24.63% and 29.45% of the outstanding ordinary shares of Stavropolskaya GRES, Pskovskaya GRES and Serovskaya GRES respectively for the ordinary shares of the Company. The difference of RR 470,745 thousand between the values of the shares received from the minority shareholders of RR 4,236,704 thousand as determined by independent appraiser and nominal value of shares issued by the Company of RR 3,765,959 thousand was recorded as share premium.

Merger reserve

Based on the application of predecessor accounting (see Note 3), the difference as at 1 January 2007 of RR 17,508,697 thousand between the value of share capital issued, the IFRS carrying values of the contributed assets and the minority interest has been recorded as a merger reserve within equity.

(in thousands of Russian Roubles)

The effect of decrease in share capital in amount of RR 16,876,275 thousand is offset by a corresponding movement in the merger reserve.

Dividends

The Company's annual statutory accounts form the basis for the annual profit distribution and other appropriations. The specific Russian legislation identifies the basis of distribution as the net profit. However, this legislation and other statutory laws and regulations dealing with the distribution rights are open to legal interpretation and, accordingly, management believes at present it would not be appropriate to disclose an amount for the distributable reserves in these financial statements.

In April 2006 the Company declared final dividends for the year ended 31 December 2005 of RR 0.011836 per share for the total of RR 127,471 thousands, which were totally payable to the Parent. These dividends were recognized as a liability and deducted from equity at 31 December 2006.

In April 2006 Surgutskaya GRES declared interim dividends for three months ended 31 March 2006 of RR 1.315122 per share for the total of RR 361,832 thousand, which were totally payable to the Parent. These dividends were recognized as a liability and deducted from equity at 31 December 2006.

In June 2006 Pskovskaya GRES declared final dividends for the year ended 31 December 2005 of RR 0.013185 per share for the total of RR 10,468 thousand, out of which RR 7,819 and RR 2,649 were payable to the Company and the minority shareholders respectively. These dividends were recognized as liability and deducted from equity at 31 December 2006.

In June 2006 Stavropolskaya GRES declared interim dividends for three months of 2006 of RR 36.804 per share for the total of RR 50,000 thousand, out of which RR 45,871 and RR 4,129 were payable to the Company and the minority shareholders respectively. These dividends were recognized as liability and deducted from equity at 31 December 2006.

All dividends payable to the Company are eliminated as intercompany transactions.

In June 2007 the Company declared final dividends for the year ended 31 December 2006 of RR 0.01873 per share for the total of RR 49,599 thousand, out of which RR 40,140 and RR 9,459 were payable to the Parent and the other Company's shareholders respectively. These dividends were recognized as liability and deducted from equity at 30 June 2007.

In June 2007 the Company declared interim dividends for the three months ended March 31, 2007 of RR 0,0015257 per share for the total of RR 40,401 thousand, out of which RR 32,697 thousand were payable to the Parent and RR 7,704 thousand were payable to other Company's shareholders. These dividends were recognized as a liability and deducted from equity at 30 June 2007.

Note 13. Income tax

Income tax charge	**6 months ended 30 June 2007**	**6 months ended 30 June 2006**
Current income tax charge	(306,036)	(227,779)
Deferred income tax benefit	4,172	7,925
Total income tax charge	**(301,864)**	**(219,854)**

During the 6 months ended 30 June 2007 the Company was subject to a 24% income tax rate on taxable profits.

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

(in thousands of Russian Roubles)

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

	6 months ended 30 June 2007	6 months ended 30 June 2006
Profit before tax	**980,570**	**100,451**
Theoretical tax charge at the statutory tax rate of 24%	(235,337)	(24,108)
Taxes charged on tariff imbalance	-	(103,380)
Tax effect of change in pension obligations	35,317	-
Other net non-deductible and non-taxable items, net	(101,844)	(92,366)
Total income tax charge	**(301,864)**	**(219,854)**

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 their tax bases. Deferred tax assets and liabilities are measured at 24%, the rate applicable when the temporary differences will reverse.

Since the date of merger, 29 September 2006, the Company became a single tax payer in terms of both past and future tax obligations. Accordingly, as of 30 June 2007 the Company estimates its current and deferred income tax obligations on net basis as follows:

Deferred tax liabilities

	31 December 2006	Movement for the period recognized in the income statement	30 June 2007
Property, plant and equipment	(2,866,576)	(12,301)	(2,878,877)
Intangible assets (SAP R-3)	(70,739)	16,301	(54,438)
Total	**(2,937,315)**	**4,000**	**(2,933,315)**

Deferred tax assets

	31 December 2006	Movement for the period recognized in the income statement	30 June 2007
Prior years tax losses	118,335	-	118,335
Provision for impairment of accounts receivable	89,311	(46,737)	42,574
Finance lease	37,136	(8,641)	28,495
Inventory provision	3,987	(3,400)	587
Accounts payable	(11,683)	58,950	47,267
Total	**237,086**	**172**	**237,258**

	31 December 2006	Movement for the period recognized in the income statement	30 June 2007
Total deferred tax liabilities	(2,937,315)	4,000	(2,933,315)
Total deferred tax assets	237,086	172	237,258
Deferred tax liabilities, net	**(2,700,229)**	**4,172**	**(2,696,057)**

(in thousands of Russian Roubles)

Note 14. Non-current debt

	Currency	Effective interest rate	Due	30 June 2007	31 December 2006
OAO Evrofinance Mosnarbank	RR	10.50-10.75%	2008	1,400,000	325,000
OAO Alfa-Bank	RR	10.75%	2008	500,000	800,000
OAO Sberbank	RR	9.5-11.8%	2007	168,000	339,000
ZAO Nomos-bank	RR	10.00-10.5%	2007	1,097,000	1,197,000
Finance lease liability	RR	24.86%	2007-2011	46,314	74,660
Total non-current debt				**3,211,314**	**2,735,660**
Less current portion of long-term debt	RR		2007-2008	(1,965,000)	(1,661,000)
Total				**1,246,314**	**1,074,660**

Maturity table

	30 June 2007	31 December 2006
Due for repayment		
Between one and two years	1,246,314	1,074,660
Total	**1,246,314**	**1,074,660**

All of the above bank debt is obtained at fixed interest rates.

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

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

Both long-term and short-term borrowings were repaid in July 2007 with the proceeds of the bond issuance (see Note 26).

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

Finance lease liabilities – minimum lease payments	30 June 2007	31 December 2006
Due for repayment		
Less than one year	93,201	108,124
Between one year and five years	52,606	88,619
Future finance charges on finance lease	(27,079)	(42,010)
Present value of lease liabilities	**118,728**	**154,733**

Management believes that total current value of non-current debt approximates its fair value since actual interest rates approximate current market interest rates available to the Company for similar financial instruments.

(in thousands of Russian Roubles)

Note 15. Current debt and current portion of non-current debt

	Currency	Effective interest rate	30 June 2007	31 December 2006
OAO Sberbank	RR	7.6%-9.0%	907,500	1,165,800
OAO Eurofinance Mosnarbank	RR	8.5%-10.5%	-	1,273,300
OAO Transcreditbank	RR	11.5%	-	200,000
OAO MDM-Bank	RR	9.5%	-	282,625
Current portion of finance lease liability	RR	25%	72,414	80,072
Current portion of long-term debt	RR	-	1,965,000	1,661,000
Total			**2,944,914**	**4,662,797**

Note 16. Accounts payable and accruals

	30 June 2007	31 December 2006
Trade payables	1,063,847	962,707
Salaries and wages payable	203,620	213,318
Advances from customers	549,755	20,693
Accrued liabilities and other payables	255,854	208,317
Dividend payable	90,206	76,057
Total	**2,163,282**	**1,481,092**

Note 17. Other taxes payable

	30 June 2007	31 December 2006
Water usage tax	125,743	159,730
Value added tax	122,085	79,391
Property tax	35,452	39,328
Social tax	28,259	35,076
Personal income tax	17,252	20,411
Current income tax liability	193	2
Other taxes	16,044	17,926
Total	**345,028**	**351,864**

The value added tax figure at 30 June 2007 includes RR 62,817 thousand of deferred VAT (31 December 2006: RR 78,719 thousand), which only becomes payable to the authorities when the underlying receivable balances are either recovered or written off.

Note 18. Pension liabilities

The post employment and post retirement program of the company consists of the occupational pension plan and various post employment, long-term and jubilee benefits. This is a defined benefit plan, under which the participants accrue pension entitlements on the basis of a formula or defined rule. The occupational pension program comprises the main part of the program. According to the pension formulae, the pension benefit is dependent on the past service of participants and their final salary. Employees born before 1967 are entitled to the occupational pension benefits.

The defined benefit pension plan provides old age retirement pension and disability pension. The plan's old age retirement pension is conditional on the member qualifying for the State old age pension.

The company also provides various long-term and post employment benefits including death in service and death in occupational pension benefit, lump sum payments upon retirement and jubilee benefits to active employees.

Additionally the company provides financial support payments of a defined benefit nature to its former employees, who have reached the age of the State old age pension. Such benefits are paid to both those who qualify for the occupational pension plan and those who do not. The company also provides jubilee benefits to its retired former employees.

(in thousands of Russian Roubles)

As at 30 June 2007, there were 4,734 active employees eligible to participate in the post retirement defined benefit program of the company and 2,808 recipients of the financial support benefits.

The last independent actuarial valuation of pension and other post employment and long-term benefits in accordance with the provisions of IAS 19 was performed in July 2007, with valuation date of 30 June 2007 using individual members' census data as at the valuation date.

In January 2007 the Company introduced new benefit formula (common for all its plants) for calculation of pension amount to be paid via non-state pension fund. The new benefit formula assumes reduction (curtailment) in benefits to be paid. The effect of this special event is treated in these financial statements as curtailment. The effect of the curtailment is gain of RR 201,380 thousand recognised in income statement within employee benefits expenses. See also Note 20.

Amounts recognised in the Balance Sheets are as follows:

	30 June 2007	31 December 2006
Present value of defined benefit obligations (DBO)	379,967	579,145
Fair value of plan assets	-	-
Present value of unfunded obligations	379,967	579,145
Unrecognised actuarial losses	(88,522)	(98,886)
Unrecognised past service cost	(8,792)	(18,505)
Net liability at the end of year	**282,653**	**461,754**
Employees' average remaining working life (years)	10	10

Amounts recognised in the Income Statements are as follows:

	6 months ended 30 June 2007	6 months ended 30 June 2006
Current service cost	21,622	16,879
Interest cost	19,451	13,310
Expected return on plan assets	-	-
Net actuarial losses recognised in year	4,683	3,151
Amortisation of past service cost	921	(77)
Settlement/curtailment gain	(201,380)	-
Immediate recognition of vested prior service cost	-	-
Net (income)/expense recognised in the income statement (DB only)	**(154,703)**	**33,263**

Movements in the net liability recognised in the balance sheet are as follows:

	30 June 2007	31 December 2006
Net liability at start of year	461,754	390,008
Net (income)/expense recognised in the income statement	(154,703)	108,523
Benefits paid	(24,398)	(36,777)
Net liability at end of year	**282,653**	**461,754**

(in thousands of Russian Roubles)

The key actuarial assumptions used were as follows:

	30 June 2007	31 December 2006	31 December 2005
Discount rate at 31 December	6.60% p.a.	6.60% p.a.	6.60% p.a.
Future salary increases	9.20% p.a.	9.20% p.a.	9.20% p.a.
Future pension increases	6.60% p.a.	6.60% p.a.	6.60% p.a.
Future financial support benefits increases	5.00% p.a.	5.00% p.a.	5.00% p.a.
Staff turnover	5% p.a.	5% p.a.	5% p.a.
Mortality	Russia 1998	Russia 1998	Russia 1998

Reconciliation of opening and closing balances of the present value of the defined benefit obligation (DBO):

	30 June 2007	31 December 2006
Present value of defined benefit obligations (DBO) at beginning of year	579,145	421,706
Service cost	21,622	33,757
Interest cost	19,451	26,619
Plan participants' contributions	-	-
Actuarial loss	58,156	71,970
Past service cost	-	61,870
Benefits paid	(24,399)	(36,777)
Settlement and curtailment gain	(274,008)	-
Present value of defined benefit obligations (DBO) at the end of year	**379,967**	**579,145**

Funded status of the pension and other post employment and long-term obligations as well as gains/losses arising of experience adjustments is as follows:

	30 June 2007	31 December 2006
Present value of defined benefit obligations (DBO)	379,967	579,145
Fair value of plan assets	-	-
(Surplus)/deficit in plan	379,967	579,145
Gains/(losses) arising of experience adjustments on plan liabilities	(58,156)	(71,970)
Gains/(losses) arising of experience adjustments on plan assets	-	-

Note 19. Revenues

	6 months ended 30 June 2007	6 months ended 30 June 2006
Electricity	15,525,172	11,654,262
Heating	352,010	296,741
Other	61,043	52,760
Total	**15,938,225**	**12,003,763**

(in thousands of Russian Roubles)

Note 20. Operating expenses

	Notes	6 months ended 30 June 2007	6 months ended 30 June 2006
Fuel		8,747,132	7,910,122
Purchased electricity and heat		2,174,500	7,955
Employee benefits		832,794	996,385
Repairs and maintenance		749,424	704,054
Depreciation	6	539,326	439,378
Taxes other than income tax		422,601	450,718
Raw materials and supplies		330,790	323,704
Dispatcher's fees		220,129	194,625
Consulting, legal and audit services		101,759	28,086
Leasing and rent		76,444	58,203
Transport		69,602	57,638
Ecology payments		66,230	66,588
Insurance		29,232	28,763
Decrease in provision for inventory obsolescence		(24,743)	(35,251)
Charge/(reversal) of impairment provision for accounts receivable		(22,070)	27,300
Other expenses		440,564	465,061
Total operating expenses		**14,753,714**	**11,723,329**

Employee benefits expenses comprise the following:

	6 months ended 30 June 2007	6 months ended 30 June 2006
Salaries and wages	753,198	763,575
Payroll taxes	172,015	151,658
Non-state pensions and other long-term benefits (Note 18)	(154,703)	33,263
Financial aid to employees and pensioners	50,173	39,669
Medical insurance	12,111	8,220
Employee benefits	**832,794**	**996,385**
Number of personnel at the end of the period	4,740	4,851

Note 21. Finance costs

	6 months ended 30 June 2007	6 months ended 30 June 2006
Interest income	23,405	4,417
Interest expense	(211,760)	(65,839)
Finance lease charges	(16,793)	(37,559)
Total finance costs	**(205,148)**	**(98,981)**

(in thousands of Russian Roubles)

Note 22. Earnings/(loss) per ordinary share for profit/(loss) attributable to the shareholders of OJSC OGK-2 – basic and diluted (in RR)

	6 months ended 30 June 2007	6 months ended 30 June 2006
Weighed average number of ordinary shares issued*	26,480,895,818	26,480,895,818
Profit/(loss) attributable to the shareholders of OJSC OGK-2 (thousands of RR)	678,706	(210,594)
Earnings/(loss) per ordinary share for profit /(loss) attributable to the shareholders of OJSC OGK-2 – basic and diluted (in RR)	**0.03**	**(0.01)**

* weighted average number of shares was calculated as they always were in issue starting the first period presented.

Note 23. Commitments

Sales commitments. The Company sells electricity on the two wholesale market sectors: free trading sector and regulated trading sector. The tariffs for the electricity sold/purchased in the regulated trading sector (including the sector of deviations) are set by the Federal Service on Tariffs.

The Company has not entered into sales agreements with duration of more than one year.

Fuel commitments. The Company has a number of outstanding contracts to purchase natural gas and coal, which are supplied under annual contracts. Part of the Company's gas supplies are provided on short-term basis from a variety of suppliers. Prices under the Company's natural gas and coal contracts are generally determined by reference to base amounts adjusted to reflect provisions for changes in regulatory prices, published inflation indices and current market prices.

Capital commitments. The Company has capital commitments of RR 852,876 thousand and RR 886,118 thousand as of 30 June 2007 and as of 31 December 2006, respectively. As at 30 June 2007 the Company has commitments of RR 169,732 thousands in respect of SAP R-3 implementation costs. Also, in July 2007 the Company has negotiated with environmental authorities new limits on contagious smokes for one of its plants. As a result of new limits approval the Company became committed for capital expenditures of RR 495,000 thousands which are aimed to reduce smokes levels of the respective plant.

Note 24. Contingencies

Political environment. The operations and earnings of the Company 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 Russian Federation.

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

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

The Company entered into a joint and several liability agreement for the contingent liabilities of OJSC Tumenenergo from which Surgutskaya GRES-1 power plant spun off. The agreement stipulates joint and several liability over the contingent liabilities of OJSC Tumenenergo which can crystallise as a result of legal claim against OJSC Tumenenergo in respect of events happened before the date of spun-off. Share of liability of the Company in case the liability arises equals 18.7%. The amount for which the Company could be liable is not reasonably assessable.

Tax contingency. Russian tax, currency and customs legislation is subject to varying interpretation, and changes, which can occur frequently. Management' interpretation of such legislation as applied to the transactions and activity of the Company may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, in particular, the way of accounting for tax purposes of tariff imbalance, water tax, and deductibility of some costs for income tax purposes and recoverability of input VAT associated with these costs. 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 proceeding the year of review. Under certain circumstances review may cover longer periods.

As at 30 June 2007, management believes that its interpretation of the relevant legislation is appropriate and the Company'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.

No disclosure has been made in respect of the possible financial effect of potential claims or disputes on some matters as this might seriously prejudice the position of the Company.

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

Environmental matters. Company and its 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. Company periodically evaluates 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.

Note 25. Financial instruments and financial risks factors

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

Credit risk. Financial assets, which potentially subject the Company 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 Company beyond the provision for impairment of receivables already recorded.

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

Interest rate risk. The Company's operating profits and cash flows from operating activity are largely not dependent on the changes in market interest rates. The Company is only exposed to fair value interest rate risk as all of its borrowings are at fixed interest rates. The Company has no significant interest-bearing assets.

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

Note 26. Post balance sheet events

GDR program. In July 2007 the Company's shareholders approved GDR underwriting agreement with Deutsche Bank and Troika Dialog. Under the contract the underwriters purchase or assist in sales of up to 12 billion ordinary shares of the Company with face value of 0.3627 RR.

Issue of bonds. In July 2007 OJSC OGK-2 made a public offering of ordinary documentary interest bearing non-convertible bonds, with a mandatory centralized custody. The number of issued bonds was 5,000,000 with a nominal value of RR 1,000 per each bond, maturing on day 1,096 from the date of placement. A 7.7 per cent per annum interest rate on the coupons was determined by a competitive bidding process on the date of the bond placement. All loans as at 30 June 2007 were repaid from the proceeds of the bonds.