RAO UES
Parent Company Separate IFRS Financial Statements
For the year ended 31 December 2006

PRICEWATERHOUSECOOPERS

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of RAO UES (that is, RAO UES as a parent company on a stand-alone basis, hereinafter referred to as the "Company") which comprise the balance sheet as of 31 December 2006 and the statement of operations, cash flow statement and 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 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 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.

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Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2006, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw your attention to Notes 1 and 4 to the accompanying financial statements. The Government of the Russian Federation has a controlling interest in RAO UES and Governmental economic and social policies affect the Company's financial position, results of operations and cash flows.

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
2 August 2007

RAO UES ("Parent company" stand-alone)
Balance Sheet as at 31 December 2006
(in millions of Russian Roubles)

	Note	31 December 2006	31 December 2005
ASSETS			
Non-current assets			
Property, plant and equipment	5	4,217	6,348
Investments in subsidiaries and associates	6	272,706	234,313
Deferred income tax assets	13	-	1,234
Loans issued	7	4,096	4,188
Other non-current assets	8	31,778	32,268
Total non-current assets		**312,797**	**278,351**
Current assets			
Cash and cash equivalents	9	7,212	4,831
Accounts receivable and prepayments	10	7,129	10,373
Current income tax prepayments		1,859	2,573
Inventories		145	244
Loans issued	7	1,303	2,576
Other current assets	11	10,888	5,362
Total current assets		**28,536**	**25,959**
TOTAL ASSETS		**341,333**	**304,310**
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital			
Ordinary shares (nominal value RR 20,521 million)		147,439	147,439
Preference shares (nominal value RR 1,038 million)		7,667	7,667
		155,106	155,106
Retained earnings and other reserves		172,102	140,576
Total equity	12	**327,208**	**295,682**
Non-current liabilities			
Deferred income tax liabilities	13	3,364	-
Non-current debt	14	346	314
Other non-current liabilities		389	469
Total non-current liabilities		**4,099**	**783**
Current liabilities			
Current debt and current portion of non-current debt	15	7,672	3,823
Accounts payable and accrued charges	16	1,522	1,716
Current income tax payable		209	1,306
Other taxes payable	17	623	1,000
Total current liabilities		**10,026**	**7,845**
Total liabilities		**14,125**	**8,628**
TOTAL EQUITY AND LIABILITIES		**341,333**	**304,310**

Chairman of the Management Board — Chubais A.B.

Financial Director — Dubinin S.K.

2 August 2007

The accompanying notes are an integral part of these financial statements

RAO UES ("Parent company" stand-alone)
Income Statement for the year ended 31 December 2006
(in millions of Russian Roubles)

	Note	Year ended 31 December 2006	Year ended 31 December 2005
Revenues			
Subscription fee		30,818	26,723
Dividend income		9,872	4,845
Other revenues	18	224	1,252
Gain on sale of subsidiaries	6	7,676	-
Other operating income	18	684	2,334
Total revenues and other income		**49,274**	**35,154**
Operating costs			
Wages, benefits and payroll taxes		2,342	2,814
Consulting, legal and information services		2,583	1,280
Other operating expenses	19	6,274	5,887
Total costs and other deductions		**11,199**	**9,981**
Operating profit		**38,075**	**25,173**
Finance income	21	4,399	3,932
Finance costs	21	(547)	(2,196)
Profit before income tax		**41,927**	**26,909**
Current income tax	13	(9,245)	(5,903)
Deferred income tax	13	(3,909)	(1,207)
Profit for the year		**28,773**	**19,799**
Earnings per ordinary share – basic and diluted (in Russian Roubles)	20	**0.66**	**0.45**
Earnings per preference share – basic and diluted (in Russian Roubles)	20	**0.80**	**0.62**

Chairman of the Management Board — Chubais A.B.

Financial Director — Dubinin S.K.

2 August 2007

RAO UES ("Parent company" stand-alone)
Statement of Cash Flows for the year ended 31 December 2006
(in millions of Russian Roubles)

	Note	Year ended 31 December 2006	Year ended 31 December 2005
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before tax		**41,927**	**26,909**
Adjustments to reconcile net profit before income tax to net cash provided by operations:			
Depreciation	5	174	532
Impairment of property, plant and equipment	5	-	967
Finance income	21	(4,399)	(3,932)
Finance costs	21	547	2,196
Decrease in allowance for doubtful debtors	10	(521)	(1,545)
(Gain)/loss on disposal of property, plant and equipment		(153)	102
(Gain)/loss on disposal of investments and other assets	6	(7,237)	188
Dividends receivable and received		(9,872)	(4,845)
Accrual of Share Option Plan	4	100	271
Other accruals		-	334
Operating cash flows before working capital changes and income tax paid		**20,566**	**21,177**
Working capital changes and income tax:			
Decrease/(increase) in accounts receivables and prepayments, gross		977	(139)
Decrease in current portion of loans issued		1,804	1,895
Decrease/(increase) in non-current portion of loans issued		115	(1,038)
Increase in other current assets		(5,062)	(3,923)
Decrease/(increase) in inventories		99	(22)
Decrease in accounts payable and accrued charges		(69)	(533)
Decrease in taxes payable other than income tax		(1,076)	(16)
Decrease in other non-current liabilities		(92)	(277)
Income tax paid		(8,961)	(5,384)
Net cash generated by operating activities		**8,301**	**11,740**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	5	(303)	(980)
Proceeds from sales of property, plant and equipment		2,430	1,332
Purchase of investments	6	(42,005)	(12,307)
Proceeds from sales of investments	6	7,715	-
Cancellation of shares purchased	6	6,387	(6,387)
Purchases of other non-current assets		(5,106)	(7,713)
Proceeds from sale of other non-current assets		12,906	3,640
Dividends received		9,907	5,087
Interest received		1,198	847
Net cash used for investing activities		**(6,871)**	**(16,481)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of current debt		12,562	4,832
Proceeds from issuance of non-current debt		139	167
Repayment of debt		(8,663)	(4,718)
Interest paid		(246)	(492)
Dividends paid		(2,841)	(2,708)
Net cash from /(used in) financing activities		**951**	**(2,919)**
Net increase/(decrease) in cash and cash equivalents		**2,381**	**(7,660)**
Cash and cash equivalents at the beginning of the year		**4,831**	**12,491**
Cash and cash equivalents at the end of the year	9	**7,212**	**4,831**

Chairman of the Management Board — Chubais A.B.

Financial Director — Dubinin S.K.

2 August 2007

RAO UES ("Parent company" stand-alone)
Statement of Changes in Equity for the year ended 31 December 2006
(in millions of Russian Roubles)

	Ordinary share capital	Preference share capital	Retained earnings	Other reserves	Total equity
At 31 December 2004	**147,439**	**7,667**	**120,992**	**1,956**	**278,054**
Change in fair value of available-for-sale investments (Note 12)	-	-	-	316	316
Profit for the year	-	-	19,799	-	19,799
Total recognised income for the period	-	-	19,799	316	20,115
Dividends (Note 12)	-	-	(2,758)	-	(2,758)
Employee share-option plan (Note 4)	-	-	271	-	271
At 31 December 2005	**147,439**	**7,667**	**138,304**	**2,272**	**295,682**
Change in fair value of available-for-sale investments (Note 12)	-	-	-	5,411	5,411
Profit for the year	-	-	28,773	-	28,773
Total recognised income for the period	-	-	28,773	5,411	34,184
Dividends (Note 12)	-	-	(2,758)	-	(2,758)
Employee share-option plan (Note 4)	-	-	100	-	100
At 31 December 2006	**147,439**	**7,667**	**164,419**	**7,683**	**327,208**

Chairman of the Management Board Chubais A.B.

Financial Director Dubinin S.K.

2 August 2007

Note 1: The Company and its operations

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

The RAO UES Group (the "Group") consists of RAO UES (the "Company") and its related subsidiaries.

The Company's principal assets are made up as follows:

Energo companies: Prior to 2006 RAO UES had ownership interests in more than 70 regional vertically integrated power companies ("Energo") responsible for the generation, distribution and sales of heat and electricity. These ownership interests range from 47 percent to 100 percent. During the sector restructuring most of the Energo companies were split into generating, distribution, transmission grid and retailing companies. As at 31 December 2006 the Company has ownership interests in more than 10 Energo companies.

Generating companies: The Company has ownership interests in more than 40 regional generating companies. In addition, the Company has ownership interests in a number of stand-alone hydro and thermal generating companies.

Transmission companies: The Company has ownership interests in more than 4 transmission grid companies.

Distribution companies: The Company has ownership interests in more than 50 distribution companies.

Retailing companies: The Company has ownership interests in more than 15 regional retailing companies.

Other: In addition, RAO UES has ownership interests in a number of other utility-related enterprises and construction companies.

Those companies are further referred to altogether as "Group companies". The ownership interests in the Company's principal subsidiaries are disclosed in Note 4.

The Company is required to organize the operation and running of the unified energy system. The Company receives subscription fees from Group companies which are used to finance either further investment in the industry or to cover expenses relating to the operation of the unified energy system.

The Company is responsible for coordinating and ensuring sufficient generation capacity in the sector. The construction of generation and distribution assets is primarily being undertaken by subsidiaries and is accounted for within advances for equity in subsidiaries and joint investment activity.

At 31 December 2006 and at 31 December 2005, the number of employees of the Company was approximately 1,182 and 1,220 respectively.

The Company's registered office is located at bld. 3, 101 Vernadskogo prospect, 119526, 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 in practice 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.

Note 1: The Company and its operations (continued)

Relations with the State and current regulation. At 31 December 2006, the Government of the Russian Federation owned 52.7 percent of RAO UES, which represents 55.0 percent of the ordinary shares issued. As discussed in Note 12, only ordinary shares have voting rights. The Group companies' customer base includes a large number of entities controlled by, or related to, the state. Furthermore, the state controls a number of the Company's and Group companies fuel and other suppliers (see Note 4).

The government of the Russian Federation directly affects the Company's operations through:

- participation of its representatives in the Board of Directors of RAO UES, as parent Company;
- its tariff regulation in respect of subscription fee;
- its control over and approval for the Company's investment program;
- its antimonopoly regulation.

Investment programme of the Company is subject to approval by state regulatory bodies. Approval of the investment programme of the Company is within the competence of the Ministry of Industry and Electricity, the Ministry of Economic Development and Trade of the Russian Federation and the Federal Service on Tariffs ("FST").

Regulatory issues and sector restructuring. The Russian electric utilities industry in general and the Company and its subsidiaries ("the Group") in particular are presently undergoing a reform process designed to introduce competition into the electricity sector and to create an environment in which the Group and its successor companies can raise the capital required to maintain and expand current capacity.

- The regulatory framework governing the process of reforming the Russian Federation electric utilities industry and the functioning of the industry, both during the transition period and subsequent to the completion of reforms, is set forth in the following legislation: Federal Law No.35-FZ of 26 March 2003 "On Electric Utilities" and Federal Law No.36-FZ of 26 March 2003 "On the Specifics of the Functioning of Electric Utilities During the Transition Period" and the Introduction of Amendments to Certain Russian Federation Legislative Acts and the Invalidation of Certain Russian Federation Legislative Acts in Connection with the Adoption of the Law "On the Electric Utilities of the Russian Federation" ("Federal Law No.36-FZ").
- In October 2003, the Russian Federation Government issued Resolution No. 643 "On the Rules for the Wholesale Electricity (Power) Market during the Transition Period". Since November 2003, the non-commercial partnership "Trade System Administrator of the Wholesale Electricity Market", in accordance with the rules for the wholesale electricity (power) market during the transition period, had been holding electricity bidding in the free trading sector in the European part of Russia and in the Urals. Starting from May 2005, the free trading sector was extended to Siberia, and starting from October 2005, a balancing market was put in operation.
- As at 29 May 2003, the Board of Directors of RAO UES approved a "Concept of RAO UES strategy for the period from 2003 through 2008" (further – the "Concept of RAO UES Strategy"). In February 2006 the Board of Directors approved Appendices to the Concept of RAO UES Strategy: "Territorial generating companies ("TGCs") being created on the basis of assets of the Holding Company RAO UES" and "Generating companies of the Wholesale Electricity Market ("WGCs")". These documents provide a detailed description of the major changes that are planned to take place in the Group during the electric utilities reform program.
- In October 2005 the Board of Directors of RAO UES cancelled the moratorium for disposal of core assets of the Group and determined rules on spending of proceeds from sale of property, plant and equipment and long-term investments.
- In accordance with the Concept of RAO UES strategy and considering the policies of the Russian Federation in respect of the process of reform of the electricity utility industry, RAO UES is developing the first stage of reorganization. At the extraordinary general meeting held 6 December 2006, RAO UES shareholders approved a resolution which assumes separation of 2 generating companies (WGC-5 and TGC-5) with proportional distribution of shares of the separated companies between the shareholders of RAO UES.

Note 1: The Company and its operations (continued)

- As at 2 March 2007, the Board of Directors of RAO UES has approved the basic structure for the second (final) phase of the Company's reorganization which assumes that in 2007-2008 the completion of the restructuring of RAO UES assets, including the spin off of all companies which will comprise the ultimate sector structure, following which RAO UES will cease its activity. The Board of Directors of RAO UES considered and approved a plan that envisages that the Group or successor entities raise funds for future capital expenditures by selling existing shares in the share capital of all the WGCs and TGKs, except for HydroWGC, WGC-5 and TGC-5, in the amount not exceeding the effective share of the Russian Federation in RAO UES.
- As at 25 May 2007, Board of Directors considered and approved a detailed restructuring budget for 2007-2008, which includes amounts set aside to cover expenses related to the second (final) phase of the Company's reorganization. Those expenses include certain mandatory payments to employees, the anticipated costs of financial and legal consulting services, costs in relation to necessary valuation exercises for assets and other costs. The total amount of the budget approved in respect of costs and other expenditure on restructuring might vary from RR 5,579 million and up to RR 15,463 million. The exact amount will depend on events which will occur in the future. Principal changes in the Group structure during the restructuring process are described in Note 4.

Note 2: Basis of preparation

Statement of compliance. The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"). They represent the results and financial position of RAO UES as a "parent company" on a stand-alone basis and, as such, subsidiaries and associates are presented as investments in the financial statements. These financial statements should be read in the conjunction with the consolidated accounts. Consolidated IFRS financial statements for the RAO UES Group are produced separately for the year ended 31 December 2006, and include the relevant financial information regarding the results and financial position of RAO UES and its subsidiaries on a consolidated basis and results of the Group's associates using the equity method of accounting.

The Company 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.

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. Refer to the "Critical accounting estimates and assumptions" section further in this note. Actual results could differ from these estimates.

Reclassifications. Certain reclassifications have been made to prior year data to conform to the current year presentation. The most significant reclassifications are the following:

Balance sheet

Current income tax prepayments and current income tax payable were presented separately. Those line items were presented within Accounts receivable and prepayments and Taxes payable line items correspondingly for the year ended 31 December 2005

Income statement

Exported electricity and Rental income have been included in Other revenues.

Current income tax and Deferred tax were presented separately. They were included within Total profit tax expense for the year ended 31 December 2005.

Finance income and Finance costs were presented separately. They were presented net for the year ended 31 December 2005.

(in millions of Russian Roubles)

Note 2: Basis of preparation (continued)

Gain recognised on disposal of other non-current assets and investments amounting to RR 566 million was reclassified from Finance Income to Loss on the disposal of other assets and was included in Other operating expenses.

Payments to state pension fund were reclassified from Wages, benefits and payroll taxes to Other expenses.

Statement of cash flows

Certain line items within the Cash flows from investing activities have been expanded and presented as Purchases of other non-current assets and Proceeds from sales of investments. Those items have been presented within one line Purchase of other non-current assets for the year ended 31 December 2005.

Gain on disposal on other non-current assets and investments amounting to RR 566 million was reclassified from Finance Income to Loss on the disposal of other assets was included in within Operating profit before working capital changes and income tax paid.

Statement of changes in equity

Other reserves were presented separately from Retained earnings . They were presented together for the year ended 31 December 2005.

Presentation of property plant and equipment

In prior periods the Company presented property, plant and equipment based on principle that the Company's assets were classified according to business segments recognised by the Company before 2005. During 2005 most of the assets classified as "Electricity generation" and Electricity transmission" were transferred to subsidiaries and majority of Company's assets under this presentation would be represented by "Construction in progress" and "Other" categories. Management considered that old presentation is no longer useful.

Effects from the reclassification of property, plant and equipment are disclosed in the table below:

Classification 2005 (adjusted)	31 December 2005 (adjusted)	Classification 2005	31 December 2005
Buildings	540	Electricity & heat generation	646
Machinery and equipment	966	Electricity distribution	2
CIP	4,430	CIP	4,430
Other	412	Other	1,270
Total	**6,348**	**Total**	**6,348**

The management of the Company believes that the revised presentation provides more relevant and meaningful information about the changes in the property, plant and equipment of the Company.

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

Accounting effect of hyperinflation. Prior to 1 January 2003 the adjustments and reclassifications made to the statutory records for the purpose of IFRS presentation included the restatement of balances and transactions for the changes in the general purchasing power of the Russian rouble ("RR") in accordance with IAS 29 ("Financial Reporting in Hyperinflationary Economies"). 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. As the characteristics of the economic environment of the Russian Federation indicate that hyperinflation has ceased, effective from 1 January 2003 the Company no longer

Note 2: Basis of preparation (continued)

applies the provisions of IAS 29. Accordingly, the amounts expressed in the measuring unit current at 31 December 2002 are treated as the basis for the carrying amounts in these financial statements.

New accounting developments. These financial statements have been prepared by applying the accounting policies consistent with those of the annual financial statements for the year ended 31 December 2005, except for those policies which were changed to comply with the new or amended standards and interpretation that became effective for the year beginning on 1 January 2006.

These new or amended standards and interpretations that became effective from 1 January 2006 and their impact on the current period or any prior period is described below:

- The "Actuarial gains and losses, group plans and disclosures" amendment to IAS 19, effective for annual periods beginning on or after 1 January 2006. This amendment did not have a material effect on the Company's financial statements;

- The "The fair value option" amendment to IAS 39, effective for annual periods beginning on or after 1 January 2006. This amendment did not have a material effect on the Company's financial statements;

- The "Net investment in a foreign operation" amendment to IAS 21, effective for annual periods beginning on or after 1 January 2006. This amendment did not have a material effect on the Company's financial statements;

- The "Cash flow hedge accounting of forecast intragroup transactions" amendment to IAS 39, effective for annual periods beginning on or after 1 January 2006. This amendment did not have a material effect on the Company's financial statements;

- The "Financial guarantee contracts" amendment to IAS 39 and IFRS 4, effective for annual periods beginning on or after 1 January 2006. This amendment did not have a material effect on the Company's financial statements;

- IFRS 6, "Exploration for and evaluation of mineral resources", effective for annual periods beginning on or after 1 January 2006. This standard did not have a material effect on the Company's financial statements;

- IFRIC 4, "Determining whether an arrangement contains a lease", effective for annual periods beginning on or after 1 January 2006. This amendment did not have a material effect on the Company's financial statements;

- IFRIC 5, "Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds", effective for annual periods beginning on or after 1 January 2006. This interpretation did not have a material effect on the Company's financial statements;

- IFRIC 6, "Liabilities arising from participating in a specific market – waste electrical and electronic equipment", effective for annual periods beginning on or after 1 December 2005. This interpretation did not have a material effect on the Company's financial statements.

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2006 and have not been early adopted:

- IFRIC 7, "Applying the Restatement Approach under IAS 29", effective for annual periods beginning on or after 1 March 2006. Management does not expect the interpretation to be relevant for the Company;

- IFRIC 8, "Scope of IFRS 2", effective for annual periods beginning on or after 1 May 2006. Management is currently assessing the impact of IFRIC 8 on the Company's operations;

- IFRIC 9, "Reassessment of Embedded Derivatives", effective for annual periods beginning on or after 1 June 2006. Management is currently assessing the impact of IFRIC 9 on the Company's operations;

Note 2: Basis of preparation (continued)

- IFRIC 10, "Interim financial reporting and impairment", effective for annual periods beginning on or after 1 November 2006. Management is currently assessing the impact of IFRIC 10 on the Company's operations;

- IFRIC 11, "IFRS 2 - Group and Treasury share transactions ", effective for annual periods beginning on or after 1 March 2007. Management is currently assessing the impact of IFRIC 11 on the Company's operations;

- IFRIC 12, "Service concession agreements", effective for annual periods beginning on or after 1 January 2008. Management is currently assessing the impact of IFRIC 12 on the Company's operations;

- IFRIC 13, "Customer Loyalty Programmes", effective for annual periods beginning on or after 1 July 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;

- IFRS 7, "Financial instruments: Disclosures", effective for annual periods beginning on or after 1 January 2007 and the "Capital disclosures" amendment to IAS 1, effective for annual periods beginning on or after 1 January 2007. The Company has assessed the impact of IFRS 7 and the amendment to IAS 1 and has concluded that the main additional disclosures will be the sensitivity analysis to market risk, the disclosures about credit risk and the capital disclosures required by the amendment of IAS 1. The Company will apply IFRS 7 and the amendment to IAS 1 for reporting periods beginning 1 January 2007;

- IFRS 8, "Operating segments", effective for annual periods beginning on or after 1 January 2009. Management is currently assessing the impact of IFRS 8 on disclosures of segment information.

- Amendment to IAS 23 "Borrowing Cost" effective for borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after 1 January 2009. The main change from the previous version is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale.

Unless otherwise described above, the analysis in respect of these new standards and interpretations has been carried out by the Company, and they are not expected to significantly affect the Company's financial statements.

Going concern. As discussed in Note 1 the Board of Directors has agreed the final phase of the Company's reorganisation. When the reorganisation is completed, which is envisaged by the middle of 2008, the RAO UES will cease its activity. All assets of the Company will continue to be operated until they are sold or distributed to shareholders and most of them are expected to be realised at an amount at least equal to their carrying amount. Accordingly, the directors consider it appropriate to prepare the financial statements on a going concern basis and no adjustments to the carrying value of assets and liabilities have been made to reflect the proposed reorganisation.

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 recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Note 2: Basis of preparation (continued)

Impairment provision for accounts receivable

The impairment provision for accounts receivable is based on the Company's assessment of the collectibility of specific customer accounts. If there is deterioration in a major customer's creditworthiness or actual defaults are higher than the estimates, the actual results could differ from these estimates (see Note 10).

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

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

Future cash flows in a group of accounts receivable that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently. If the expected collection of accounts receivable was delayed by three month , the Company would suffer an additional loss of RR 79 million (2005: RR 112 million), being the increase in bad debt provision recognised in income statement.

Impairment of non-financial assets

At each balance sheet date the Company assesses whether there is any indication that the recoverable amount of the Company's assets has declined below their carrying values. In conducting such assessment the management uses both externally and internally available information, including independent appraisals and business performance results. If such indications exist, the management conducts the analysis to determine whether the assets are impaired by making assessments of the recoverable amount, which is the higher of the fair value less cost to sell and the value in use.

For the years ended 31 December 2006 and 2005, the Company has recognised a provision in respect of certain construction-in-progress assets. The provision has been made based on the assumption that no cash flows are expected from certain assets located in regions with difficult operating conditions.

Available-for-sale investments

Management have considered whether the Company has significant influence over its 21.27% investment in Bashkirenergo (Note 8). This investment has been classified as available for sale rather than as an associate because past experience suggests that the Company is unable to participate in the financial and operating policy decisions of the investee. If the investment had been classified as an associate carried at cost, the change in fair value value recognised as income directly in equity would have been lower by RR 4,919 million (2005: RR 1,290 million), carrying value of other non-current assets would have been lower by RR 5,855 million (2005: RR 2,226 million) and investments in subsidiaries and associates would have been higher by RR 936 million (2005: RR 936 million). In addition, deferred tax liability of RR 506 million (2005: RR 179 million) would not have been recognised in revaluation reserve in equity.

Loans issued to subsidiaries

The Company issues loans to its subsidiaries. For the purposes of presentation in the cashflow statement, management views this activity as part of its operations in connection with its responsibility to maintain UES (see Note 1).

Note 2: Basis of preparation (continued)

Deferred tax

Except as explained in the paragraph below, the Company has not recognized a deferred tax liability in respect of temporary differences associated with investments in its subsidiaries because the reversal of the temporary differences is within the control of the Company and it is not probable that they would reverse. Refer to Note 13.

On 2 March 2007 the RAO UES Board of Directors approved a plan to sell certain of the existing shares in the share capital of all the WGCs and TGKs, except for HydroWGC, WGC-5 and TGC-5. The amount the Board agreed to sell is in the amount not exceeding the effective share of the Russian Federation in RAO UES. As a result, an additional deferred tax liability of RR 2,914 million was recognized as at 31 December 2006 in respect of these expected taxable events (31 December 2005 – RR 204 million). The remaining potential deferred tax liability has not been recognised because management continues to consider that it is not probable that it will reverse in the foreseeable future.

Exchange of non-monetary assets with parties under common control

In the course of its business the Company enters into transactions that involve exchange of non-monetary assets. Such transactions represent two categories: (i) transfers of the property, plant and equipment by the Company in exchange for additional shares issued by its subsidiaries; and (ii) transfers of shares in subsidiaries by the Company in exchange for subsidiaries issuing additional shares to the Company (see Note 6).

Management views such transactions as a re-structuring of the Company's operations and believes that such transactions have limited commercial substance. Management also believes that it is not possible to measure reliably the fair value of the assets exchanged by reference to the market due to limited history of trading of such assets. Management also believes that any alternative method of assessment of fair values of exchanged assets would be impracticable. Based on the above, and in accordance with applicable guidance, no gains or losses are recognized on such transactions and the shares obtained by the Company as a result of the exchange transaction are carried at the carrying value of related assets given up by the Company.

The application of fair value accounting to the exchange transactions could result in significant gains or losses representing the difference between the carrying value of such assets calculated in accordance with the above policy and the assessed fair value of such assets.

Note 3: Summary of significant accounting policies

Investments in subsidiaries and associates. Investments in subsidiaries, associates and joint activities are carried at historical cost and restated for the impact of inflation until 31 December 2002. Provision is made where, in the opinion of management, there has been impairment, such that the recoverable value has fallen below the carrying amount.

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

All purchases and sales of investments are recognised on the settlement date, which is the date that the investment is delivered to or by an enterprise. Available-for-sale investments are initially recognised at fair value plus transaction costs; the change in value between the commitment date and settlement date is recognised in equity. The available-for-sale investments are subsequently carried at fair value. Unrealised gains and losses arising from changes in the fair value of these investments are included in the fair value reserve in shareholders' equity in the period in which they arise. Realised gains and losses from the disposal of available for sale investments are included in the income statement in the period in which they arise.

Note 3: Summary of significant accounting policies (continued)

Loans issued. Loans issued are recognised when money is advanced to the borrowers. Initial recognition is made at the fair value of amounts due from the borrower, net of transaction costs incurred. Fair value is determined with reference to market interest rates applicable to the borrowers when the loans were issued. Loans issued by the Company are subsequently measured at amortised cost. Amortised cost is the amount at which the loan was measured at initial recognition minus principal repayments plus the cumulative amortisation of any difference between that initial amount and the maturity amount, and minus any write down for impairment.

Accounts receivable and prepayments. Trade and other receivables are carried at amortised cost using the effective interest method. A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognised in the income statement.

Derecognition of financial assets. The Company derecognises financial assets when (i) the assets are redeemed or the rights to cash flows from the assets have otherwise expired or (ii) the Company has transferred substantially all the risks and rewards of ownership of the assets.

Foreign currency. Monetary assets and liabilities which are held by the Company and denominated in foreign currencies at the balance sheet date, are translated into Russian Roubles 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 the income statement.

At 31 December 2006 the official rate of exchange, as determined by the Central Bank of the Russian Federation, between the Russian Rouble and the US Dollar ("USD") was RR 26.33: USD 1.00 (31 December 2005: RR 28.78: USD 1.00) between the Russian Rouble and Euro RR 34.70: EURO 1.00 (31 December 2005: RR 34.19: Euro 1.00).

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

Property, plant and equipment. Property, plant and equipment are stated at depreciated replacement cost as determined by third party valuation as of 31 December 1997, and adjusted for subsequent additions at cost, disposals and depreciation, and restated for the impact of inflation until 31 December 2002.

The third party valuation as of 31 December 1997 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 the 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. The change in carrying value arising from this valuation was recorded directly to retained earnings.

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.

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.

Depreciation on property, plant and equipment is calculated on straight-line basis over the estimated useful life of the asset when it is put into use. For the property, plant and equipment, which was subject to the third party valuation as at 31 December 1997, the depreciation rate applied is based on estimated remaining useful lives as at valuation date. The useful lives, in years, of assets by type of facility are as follows:

(in millions of Russian Roubles)

Note 3: Summary of significant accounting policies (continued)

Type of facility	Acquired prior to 31 December 1997	Acquired subsequent to 31 December 1997
Buildings	9	50
Machinery and equipment	4-19	20-50
Other	8-14	10-30

Leased assets. The Company leases certain assets to Group companies. Under the lease agreements all the risks and benefits of ownership are effectively retained by the Company, and so the leases are classified as operating leases. These assets are included in property, plant and equipment. Depreciation is calculated in accordance with the principles applicable to the respective assets. Revenue from leasing activities is recognised evenly over the lease term as revenue in the income statement.

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

Non-cash transactions have been excluded from the cash-flow statement, therefore investing activities, financing activities and the total of operating activities represent actual cash flows.

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

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

Deferred income taxes. Deferred income tax is provided for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes, except for temporary differences associated with investments in subsidiaries, where reversal of the temporary difference is within the control of the Company and is not expected in the foreseeable future. A deferred income tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized.

Accounts payable and accrued charges. Accounts payable are stated inclusive of value added tax. Trade payables are accrued when the counterparty performed its obligations under the contract and are carried at amortised cost using the effective interest 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, the original liability is derecognised and the restructured liability is recognised at its fair value. The fair value of the restructured payable is measured as the discounted present value of the cash flows under the restructured terms using market interest rates prevailing at the time of restructuring. The gain on derecognition of the original liability is credited to the income statement as a gain on restructuring. Non-current portion of the restructured payable, if any, is reclassified to other non-current liabilities. The difference, if any, between the fair value of the restructured payable on its initial recognition and the maturity amount is amortised over the period until maturity as an interest expense.

Debt. Debt is recognised initially at its fair value. Fair value is determined using the prevailing market rate of interest for a similar instrument, if significantly different from the transaction price. In subsequent periods, debt is stated at amortised cost using the effective interest rate method; any difference between the amount at initial recognition and the redemption amount is recognised in the income statement as an interest expense over the period of the debt obligation. All borrowing costs, including those on borrowings used to

Note 3: Summary of significant accounting policies (continued)

finance construction of property, plant and equipment are recognised as an expense in the period in which they are incurred.

Pension and post-employment benefits. The Company's mandatory contributions to the governmental pension scheme are expensed when incurred. Discretionary pension and other post-employment benefits are included in wages, benefits and payroll taxes in the income statement , however , separate disclosures are not provided as these costs are not material.

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

Revenue recognition. Revenue is recognised on the accrual basis. Monthly billings for subscription fees are based upon the monthly tariffs authorised and approved by the FST. Revenue figures are presented exclusive of value added taxes. Dividend income is recognised when dividends are declared and inflow of economic benefits is probable.

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

Treasury shares. Treasury shares are stated at weighted average cost. Any gains or losses arising on the disposal of treasury shares are recorded directly in shareholders' equity.

Segment information. The Company's management views its operations as one single business and geographical segment, being acted as a Russian holding company for the RAO UES Group.

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

Share-based payment transactions. The share option programme allows Company employees to acquire shares of the RAO UES. The fair value of the options is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options (vesting period). The fair value of the options is measured based on the Black-Scholes formula, taking into account the terms and conditions upon which the instruments were granted. However, the requirement to remain in employment is not included in the determination of the fair value, but estimates are made of the number of options which are expected to vest and for which the expense is recognised.

Financial guarantees. Financial guarantees are contracts that requires the Company to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantees are initially recognised at their fair value. This amount is amortised on a straight line basis over the life of the guarantee. At each balance sheet date, the guarantees are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the obligation at the balance sheet date.

Note 4: Related parties

Subsidiaries and associated investees of the Company are its principal related parties and are listed in the tables below. Ownership and voting percentages are disclosed including indirect holding. All subsidiaries and associates are incorporated in Russian Federation.

(in millions of Russian Roubles)

Note 4: Related parties (continued)

Principal subsidiaries.

The Company controls a number of entities in which the Company owns less than 50 percent of the voting shares. In these circumstances, control exists on the basis of a significant shareholding combined with other factors which allow the company to exercise control, namely: RAO UES has the majority in the Board of Directors, RAO UES is the dominant owner or RAO UES has major influence over the company operations through its ownership and operation of the Unified Energy System.

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

Energo companies.

As described in Note 1, during the sector restructuring which took place in 2005 and 2006 most of the Energo companies were split into generating, distribution, transmission grid and retailing companies.

As at 1 June 2007, the Board of Directors of RAO UES approved plans for reorganization of 71 Energo companies, and the reorganization of 66 Energo companies was completed. As a result of this reorganization 263 new entities were founded.

As at 31 December 2006 the significant Energo companies were:

Name	Ownership %	Voting %	Name	Ownership %	Voting %
Dalenergo	49.0	65.3	Khabarovskenergo	48.5	60.2
Amurenergo	50.6	57.8	Yakutskenergo	47.4	56.3
Kamchatskenergo	49.0	49.0	Altayenergo	54.7	72.2
Kolymaenergo	78.6	78.6			

As at 31 December 2005 the significant Energo companies were:

Name	Ownership %	Voting %	Name	Ownership %	Voting %
Dalenergo	49.0	65.3	Yakutskenergo	47.9	56.3
Amurenergo	50.6	57.8	Altayenergo	54.7	72.2
Kamchatskenergo	49.0	49.0	Kuzbassenergo	49.0	49.0
Kolymaenergo	83.7	83.7	Kubanenergo	49.0	49.0
Khabarovskenergo	48.5	60.2	Sulakenergo	99.2	99.2

Generating companies.

The wholesale generating companies (WGCs) have been established as subsidiaries of RAO UES with payment for their authorized capitals in shares of subsidiaries of RAO UES and RAO UES-owned property of power plants. Finally, WGCs will comprise power plants (generating companies) separated from the Energo companies in the process of their restructuring.

It was planned that the power plants would merge with and into the corresponding WGCs, which would became their parent companies. As at 31 December 2006 the mergers of the power plants with the WGCs, except for those belonged Hydro WGC, have already been completed.

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

(in millions of Russian Roubles)

Note 4: Related parties (continued)

As at 31 December 2006 the merger of the RGCs with TGC-3, TGC-4, TGC-5, TGC-7, TGC-9 and TGC-14 have already been completed. A detailed description of the major changes that were planned to take place to the wholesale generating companies (WGCs) and the territorial generating companies (TGCs) during the restructuring process was set out in the Appendixes to the Concept of RAO UES Strategy "Generating companies of the Wholesale Electricity Market" and "Territorial generating companies being created on the basis of assets of Holding Company RAO UES" approved by the Board of Directors of RAO UES in February 2006.

As at 31 December 2006 the significant generating companies were:

Name	Ownership %	Voting %	Name	Ownership %	Voting %
Mosenergo	50.9	50.9	Kaliningradskaya TETS	91.5	91.5
Wholesale generating company-1	91.7	91.7	Territorial generating company-9	50.0	50.0
Wholesale generating company-2	80.9	80.9	Territorial generating company-1	55.7	55.7
Wholesale Generating company-3	59.7	59.7	North-West Station	89.4	89.4
Wholesale generating company-4	89.6	89.6	Eniseiskaya territorial generating company-13	56.9	56.9
Wholesale generating company-5	75.0	75.0	Territorial generating company-5	64.8	64.8
Wholesale generating company-6	93.5	93.5	Territorial generating company-6	61.9	61.9
Federal hydro generating company	100.0	100.0	Territorial generating company-8	50.0	50.0
Tumenskaya regional generating company (TGK-10)	81.6	81.6	Geotherm	71.6	71.6
Bureyskaya GES	78.5	78.5	Sochinskaya TETS	100.0	100.0

As at 31 December 2005 the significant generating companies were:

Name	Ownership %	Voting %	Name	Ownership %	Voting %
Zagorskaya GAES	50.9	50.9	Federal hydro generating company	100.0	100.0
Mosenergo	50.9	50.9	Wholesale generating company-3	63.8	63.8
Saratovenergo	49.0	64.0	Bureyskaya GES	94.7	94.7
Territorial generating company-9	50.0	50.0	Geotherm	71.6	71.6
Kaliningradskaya TETS-2	87.6	87.6	Peterburgskaya generating company	56.0	67.1
Karelenergogeneraciya	100.0	100.0	North-West TETS	83.2	83.2
Sverdlovskaya generating company	49.0	65.3	Sochinskaya TETS	100.0	100.0
Chelyabinskaya generating company	49.0	58.1	Wholesale generating company-2	100.0	100.0
Surgutskaya GRES-1	100.0	100.0	Wholesale generating company-6	100.0	100.0
Surgutskaya GRES-2	100.0	100.0	Wholesale generating company-4	100.0	100.0
Tyumenskaya regional generating company	100.0	100.0	Wholesale generating company-5	90.3	90.3
Wholesale generating company-1	100.0	100.0	Permskaya generating company	49.0	64.4

(in millions of Russian Roubles)

Note 4: Related parties (continued)

Transmission companies.

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

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

As at 31 December 2006 and 31 December 2005 the significant transmission grid companies were:

Name	Ownership %	Voting %	Name	Ownership %	Voting %
FGC	100.0	100.0	SO CDU UES	100.0	100.0

Distribution companies.

As at 31 December 2006 4 Interregional Distribution Grid Companies ("IDGCs") had been established. On 27 April 2007 the Board of Directors has approved the creation of 7 more Interregional Distribution Grid Companies. It is planned that the shares of the distribution companies separated from the Energo companies as a result of the restructuring process will be exchanged for shares of the IDGCs.

As at 31 December 2006 and 31 December 2005 the significant distribution companies were:

Name	Ownership %	Voting %	Name	Ownership %	Voting %
Tyumenenergo	100.0	100.0	Sverdlovenergo	49.0	65.3
Volgogradenergo	49.3	61.5	Moskovskaya city power grid company	50.9	50.9
Vologdaenergo	49.0	49.0	Moskovskaya obyedinennaya power grid company	50.9	50.9
Krasnoyarskenergo	52.2	66.7	Kolenergo	49.3	65.5
Komienergo	50.1	50.3	Lenenergo	56.0	63.6
Rostovenergo	48.4	62.8	Kirovenergo	48.2	63.9
Stavropolenergo	55.1	71.9	Permenergo	49.0	49.0

Retailing companies.

As at 31 December 2006 the significant retailing companies were:

Name	Ownership %	Voting %	Name	Ownership %	Voting %
Krasnoyarskenergosbyt	51.8	51.8	Permskaya energy retail company	49.0	64.4
Mosenergosbyt	50.9	50.9	Sverdlovenergosbyt	49.0	65.3
Nizhegorodskaya retail company	49.0	62.3	Chelyabenergosbyt	49.0	58.1
Peterburgskaya retail company	49.0	57.4	Tyumenskaya energy retail company	100.0	100.0
Orenburgenergosbyt	100.0	100.0	Energy retail company Rostovenergo	48.4	62.8
Ulyanovskenergo	49.0	65.3	Chuvashskaya energy retail company	100.0	100.0
Saratovenergo	48.4	64.0	Volgogradenergosbyt	49.0	61.3
Samaraenergo	55.5	55.8			

(in millions of Russian Roubles)

Note 4: Related parties (continued)

As at 31 December 2005 the significant retailing companies were:

Name	Ownership %	Voting %	Name	Ownership %	Voting %
Volgogradenergosbyt	49.3	61.6	Kirovenergosbyt	48.2	63.9
Kaluzhskaya retail company	52.3	52.3	Permskaya energy retail company	49.0	64.4
Lipeckaya energy retail company	49.0	49.0	Sverdlovenergosbyt	49.0	65.3
Mosenergosbyt	50.9	50.9	Udmurtskaya energy retail company	49.0	55.4
Belgorodskaya retail company	49.0	65.3	Chelyabenergosbyt	49.0	58.1
Voronezhskaya energy retail company	49.0	65.4	Tyumenskaya energy retail company	100.0	100.0
Karelskaya energy retail company	100.0	100.0	Energy retail company Rostovenergo	48.4	62.8
Peterburgskaya retail company	56.0	67.1	Chuvashskaya energy retail company	100.0	100.0

Others.

As at 31 December 2006 and 31 December 2005 the significant other companies were

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

The Company controls the Centre for Assistance in Restructuring the Electricity Sector, a non-commercial partnership (CARES).

Principal associates.

The following is summarised financial information, in aggregate, in respect of the associates.

	Ownership, %	Voting, %	Assets	Liabilities
At 31 December 2005				
Power Machines	23.80	25.00	26,231	(13,125)
Kurganenergo	49.00	49.00	3,603	(1,438)
Heat and Power Company	25.00	28.20	3,095	(1,190)
Rossiyskie Kommunalnye Sistemy	25.00	25.00	8,796	(8,616)
At 31 December 2006				
Power Machines	23.80	25.00	24,983	(14, 981)
Norilsko-Taymyrskaya Power Company	49.00	49.00	2,384	(2,575)
Rossiyskie Kommunalnye Sistemy	25.00	25.00	12,450	(11,618)

(in millions of Russian Roubles)

Note 4: Related parties (continued)

	Revenues	Expenses	Profit / (Loss)
Year ended 31 December 2005			
Power Machines	18,872	(20,018)	(1,146)
Kurganenergo	4,688	(4,626)	62
Heat and Power Company	2,463	(2,121)	342
Rossiyskie Kommunalnye Sistemy	15,913	(16,098)	(185)
Year ended 31 December 2006			
Power Machines	16,384	(19,437)	(3,053)
Norilsko-Taymyrskaya Power Company	8,553	(8,986)	(433)
Rossiyskie Kommunalnye Sistemy	19,828	(19,259)	569

Significant balances with subsidiaries.

All balances with subsidiaries are denominated in Russian Roubles.

Short-term	Note	31 December 2006	31 December 2005
Trade and other accounts receivable		3,158	4,390
Loans issued	7	609	1,453
Promissory notes :effective interest rate 6-8.75 percent p.a. (included in other current assets)		525	2,780
Trade and other accounts payable		-	55

Long-term	Note	31 December 2006	31 December 2005
Investments in subsidiaries	6	269,451	230,963
Accounts receivable (effective interest rate 18% due 2008-2020)	10	776	974
Loans issued (effective interest rate: 12-24 percent, due 2017)	7	3,992	4,096
Advances for equity in subsidiaries	8	19,832	23,399
Joint investment activity		929	902
Promissory notes: Effective interest rate 11-13 p.a., due 2010) (included in other non-current assets)		276	2,554
Accounts payable		88	253

Significant transactions with subsidiaries.

	Note	Year ended 31 December 2006	Year ended 31 December 2005
Subscription fee		30,818	26,723
Dividend Income		9,872	4,845
Finance income	21	3,513	2,929
Rental income		224	408

(in millions of Russian Roubles)

Note 4: Related parties (continued)

	Note	Year ended 31 December 2006	Year ended 31 December 2005
Consulting, legal and information services		688	258
Rent		298	309
Finance costs	21	3	1,709
Management fee		173	-
Purchased power expenses		-	644
Other		240	306

Significant transactions and balances with associates.

Power Machines. In December 2005 RAO UES acquired 22.4 percent of the share capital of OAO Power Machines ("Power Machines"). The purchase consideration comprises cash paid of RR 2,939 million. In February 2006 pursuant to the share sales purchase agreement the Company signed a pledge agreement for 550,820,431 shares or 7.6 percent equity interest in Power Machines in total amount of RR 1,000 million with EBRD as a collateral for credit line facility issued to Power Machines on 1 March 2004 (see Note 6).

Rossiskiye kommunalniye sistemy (Note 7). As at 31 December 2005 the Company had outstanding receivables of RR 493 million in respect of rouble-denominated promissory notes of OAO "Rossiskiye kommunalniye sistemy" (RKS). The promissory notes have an effective interest rate 13 percent per annum. Promissory notes were re-deemed in 2006.

As at 31 December 2006 the Company had outstanding receivables of RR 591 million in respect of rouble-denominated promissory notes of OAO "Rossiskiye kommunalniye sistemy" (RKS). The promissory notes have an effective interest rate 11 percent per annum.

Guarantees issued.

The Company has issued guarantees to subsidiaries amounting to RR 2,816 million at 31 December 2006 (at 31 December 2005: RR 16,092 million).

The Company has issued guarantees to associates amounting to RR 1,000 million at 31 December 2006 (at 31 December 2005 no guarantees were issued to associates).

All guarantees were denominated in Russian Roubles. Guarantees were issued for the period of 2007-2009 (2005: for the period of 2006-2010).

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 FST and RST. Bank loans are provided on the basis of market rates. Taxes are accrued and settled in accordance with Russian tax legislation.

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

	Year ended 31 December 2006	Year ended 31 December 2005
Export sales	-	844
Subscription fee	558	182
Interest expense	253	25

	31 December 2006	31 December 2005
Accounts receivable and prepayments	304	76
Accounts payable and accrued charges	-	115
Loans from IBRD and Vnesheconobank (Note 14,15)	422	3,897

(in millions of Russian Roubles)

Note 4: Related parties (continued)

Tax balances are disclosed in the balance sheet and Note 17. Tax transactions are disclosed in the income statement.

Shares of RAO UES held by subsidiaries. As at 31 December 2006 450,328,437 (2005: 450,328,437) ordinary and 6,696,727 (2005: 6,696,727) preference shares of the Company are held by subsidiaries.

Directors' compensation. Compensation is paid to members of the Management Board of RAO UES for their services in full time management positions. The compensation is made up of a contractual salary, non-cash benefits, and a performance bonus depending on results for the year according to the Russian statutory financial statements of the Company. 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. Under the Russian legislation, fees, compensation or allowances to the members of the Board of Directors, being government employees, are transferred to the state.

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

	Year ended 31 December 2006	Year ended 31 December 2005
Salaries and bonuses	229	284
Other	63	37
Total	**292**	**321**

Other benefits include severance benefits, medical insurance and other.

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

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

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

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

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

Ordinary shares ultimately allocated under the Plan are allocated from treasury shares purchased by the for that purpose on the open market by a special-purpose entity, which is controlled by the Group. The treasury shares held for the purpose of the Plan will have no voting rights, unless otherwise decided by the Board of Directors.

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

The number of shares, which the Plan participants could purchase as part of implementation of the Plan, in the event that the Plan participant has terminated its employment with the Group entity before 25 June 2007, was to be calculated proportionally based on the number of days worked prior to terminating the employment. In case of breaching certain defined provisions of the labour agreement and termination of

(in millions of Russian Roubles)

Note 4: Related parties (continued)

employment at the initiative of the Group entity, the Plan participants will lose their right to purchase the shares.

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

One of the vesting terms of the share options is prepayment by the members of the Management Board (in the amount of 10 percent of the exercise price under the share option agreement) and by other key employees (in the amount of 0.2 percent of the exercise price under the share option agreement). In the event that realization of the share option lapses, the prepayment will be returned to the Plan participant in full. The Plan participant can exercise the share option at any time over the period from 25 June 2007 through 25 January 2008.

In 2004, the Group issued to the members of the Management Board non-interest bearing loans, which should be used by individuals to make prepayments under the share option agreements. The loans are issued for a period of 5 years. As at 31 December 2005 and 31 December 2006 the amount of loans issued to employees amounted to RR 155 million.

As at 31 December 2005, in the course of the Plan implementation the Company's subsidiaries had purchased 418,657,600 treasury shares. Their purchase cost was RR 3,571 million. No purchases were made up to 31 December 2006.

As at 31 December 2005 and 31 December 2006, the number of outstanding share options was 381,436,585. No new options were granted during the reporting period.

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

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

Volatility has been determined on the basis of the historical volatility of the share price over the most recent period (one year before grant date). For share options outstanding as at 31 December 2006 the range of exercise prices lies between USD 0.2827 per share and USD 0.2934 per share, and the weighted average remaining contractual life is 390 days.

During the reporting period the Company recognised an expense of RR 100 million related to the fair value of the options (for the year ended 31 December 2005 – RR 271 million).

(in millions of Russian Roubles)

Note 5: Property, plant and equipment

	Buildings	Machinery and equipment	Construction in progress	Other	Total
Gross book value					
Balance as at 31 December 2005	1,263	5,617	8,425	550	15,855
Additions	44	551	488	202	1,285
Transfers	21	1,329	(1,350)	-	-
Contributed to subsidiaries (Note 6)	(852)	(5,346)	(479)	(330)	(7,007)
Disposals	(68)	(178)	(644)	(71)	(961)
Balance as at 31 December 2006	408	1,973	6,440	351	9,172
Accumulated depreciation and impairment					
Balance as at 31 December 2005	(723)	(4,651)	(3,995)	(138)	(9,507)
Depreciation charge for the year 2006	(5)	(140)	-	(29)	(174)
Transfers	(7)	(378)	387	(2)	-
Contributed to subsidiaries (Note 6)	525	3,649	137	20	4,331
Disposals	43	133	185	34	395
Balance as at 31 December 2006	(167)	(1,387)	(3,286)	(115)	(4,955)
Net book value as at 31 December 2005	**540**	**966**	**4,430**	**412**	**6,348**
Net book value as at 31 December 2006	**241**	**586**	**3,154**	**236**	**4,217**

(in millions of Russian Roubles)

Note 5: Property, plant and equipment (continued)

	Buildings	Machinery and equipment	Construction in progress	Other	Total
Gross book value					
Balance as at 31 December 2004	5,247	15,244	12,087	1,081	33,659
Additions	6	417	187	370	980
Transfers	-	131	(149)	18	-
Contributed to subsidiaries (Note 6)	(3,052)	(7,810)	(457)	(376)	(11,695)
Disposals	(938)	(2,365)	(3,243)	(543)	(7,089)
Balance as at 31 December 2005	1,263	5,617	8,425	550	15,855
Accumulated depreciation and impairment					
Balance as at 31 December 2004	(3,105)	(12,464)	(4,743)	(746)	(21,058)
Depreciation charge for the year 2005	(79)	(375)	-	(78)	(532)
Impairment charge for the year 2005	-	-	(967)	-	(967)
Contributed to subsidiaries (Note 6)	1,807	6,301	21	289	8,418
Disposals	654	1.887	1.694	397	4,632
Balance as at 31 December 2005	(723)	(4,651)	(3,995)	(138)	(9,507)
Net book value as at 31 December 2004	**2.142**	**2,780**	**7,344**	**335**	**12,601**
Net book value as at 31 December 2005	**540**	**966**	**4,430**	**412**	**6,348**

Operating leases. The net book value of property, plant and equipment leased by the Company to Group companies under operating leases at the end of accounting period are provided in the table below. The figure for accumulated depreciation includes impairment provisions related to rented out power stations.

	31 December 2006	31 December 2005
Gross book value	1,331	5,806
Accumulated depreciation	(997)	(5,225)
Net book value	**334**	**581**

During 2005 the Company leased out two power stations to Group companies and also the assets of a coal mine under operating leases. During 2006 the Company leased out one power stations to Group company and also the assets of a coal mine under operating leases.

(in millions of Russian Roubles)

Note 5: Property, plant and equipment (continued)

Construction in progress represents the carrying value of property, plant and equipment that has not yet been put into production, primarily representing generating stations and high voltage network under construction. When construction projects are completed, the cost, together with any impairment, is transferred to other appropriate classifications of property, plant and equipment.

As at 31 December 2006 and 31 December 2005 construction in progress balance includes objects, which were at an advanced stage of completion. In the process of reorganization Company plans to transfer all of its construction in progress to subsidiaries or its successor entities.

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

Land on which the Company carries out its activities is the property of the state and, therefore, is not included in the balance sheet.

During 2006 RR 982 million of additions to property plant and equipment have been done through non – cash settlement (2005: all additions were settled in cash)

Proceeds from sale of property plant and equipment includes RR 1,711 million of cash received in 2006 as a settlement of accounts receivable (2005: RR 1,023 million)

During 2006 property, plant and equipment with a net book value of RR 2,676 million was exchanged for shares in the Company's subsidiaries; these are shown as contributed to subsidiaries in the table above (2005: RR 3,277 million).

Impairment. For the year ended 31 December 2005, management assessed the adequacy of the existing impairment provision and concluded that an additional impairment charge was needed due to changes in estimated future net cash flows related to certain construction in progress objects. An additional impairment provision of RR 967 million was recognized.

For the year ended 31 December 2006, no additional impairment provision was required.

Note 6: Investments in subsidiaries and associates

	31 December 2006	31 December 2005
Investments in subsidiaries	269,451	230,963
Investments in associates	3,255	3,350
	272,706	**234,313**

In December 2005 the Company acquired 22.4 percent of the share capital of OAO Power Machines Group ("Power Machines"). As at the acquisition date one of the Group entities held a further 2.6 percent of the share capital of Power Machines and, consequently, the Group has built a blocking stake (25 percent plus one share). The principal activity of Power Machines is the manufacture and supply of equipment for hydro, steam, gas and nuclear power plants. Carrying value of investment in Power machines is RR 3,005 million (2005: RR 3,005 million).

Fair value of the Company's investment in Power machines, based on the market price quoted by Russian Trading System ("RTS"), is RR 7,910 million (2005: RR 3,584 million).

(in millions of Russian Roubles)

Note 6: Investments in subsidiaries and associates (continued)

	2006	2005
Carrying value as at 1 January	234,313	205,985
Additions	42,005	18,759
Transfer from property, plant and equipment	2,676	3,277
Transfer from other assets	609	6,292
Disposals	(6,897)	-
Carrying value as at 31 December	**272,706**	**234,313**

As per the Presidential Decree № 1334 dated 5 November 1992, shares of most of the Company's subsidiaries and associates, except for the companies incorporated in the process of reform, can be sold by the Company, contributed to the charter capitals of the companies being established or disposed in any other way under the procedure or terms set by the Russian Federation Government.

Incorporation and subsequent reorganization of the new subsidiaries and associates of the Company are performed in compliance with the Russian Federation legislation on electric utilities reform (see Note 1).

In 2005-2006 the Company transferred most of its generation assets to charter capitals of OAO Federal Grid Company, OAO Federal hydro generating company, WGC-5, WGC-1, OAO North-West TETS, OAO Test desk of Ivanovskaya GRES and OAO SO-CDU.

As a part of restructuring, the Company transferred shares in subsidiaries in exchange for additional shares issued by other subsidiaries. Cost transferred between investments was RR 2,395 million (2005: RR 50,249 million).

In July 2006 the Company conducted tenders for the sale of 100.0 percent of shares of OJSC Taimyrenergo, an Energo, and 47.4 percent of shares of OJSC Yaroslavskaya retail company. The gains on the sale of OJSC Taimyrenergo (RR 7,251 million) and OJSC Yaroslavskaya retail company (RR 425 million) were included in the Company's income statement for the year ended 31 December 2006.

In 2005 the Company has purchased shares issued by Bureiskaya GES in amount of RR 6,387 million. Subsequentlly the shares issue was cancelled and money in full amount was returned to the Company.

Additions to subsidiary and associated investments of RR 42,005 million were financed through cash transactions (2005: RR 18,694 million of cash transactions, including payment for share issue cancelled in 2006).

For the year ended 31 December 2006 and 31 December 2005, management has re-assessed the adequacy of its existing impairment provision and concluded that no additional charge or reversal is required.

Note 7: Loans issued

Short-term loans

	Currency	Effective interest rate	31 December 2006	31 December 2005
Current portion of long-term loans issued to subsidiaries	RR	12%-24%	609	1,453
Loan to RKS (note 4)	RR	11%, 13%	591	493
Other loans issued	RR	14%	103	630
			1,303	**2,576**

(in millions of Russian Roubles)

Note 7: Loans issued (continued)

Long-term loans

	Currency	Effective interest rate	Due	31 December 2006	31 December 2005
Loan to Ulyanovskenergo	RR	12%	2007-2017	1,109	1,050
Loans to other subsidiaries	RR	20-24%	2007-2008	783	2,091
Less: current portion of loans issued to subsidiaries				(609)	(1,453)
Loan to ESOP	RR	12-13%	2008-2011	2,709	2,408
Loans to employees	RR	14%	2009	104	92
				4,096	**4,188**

Maturity table

	31 December 2006	31 December 2005
Due for re-payment		
Between one and two years	2,303	399
Between two and five years	1,425	2,933
Between five and twelve years	368	856
	4,096	**4,188**

All loans were issued at fixed rates of interest.

The loans to Group companies were issued by CARES and transferred to the Company in 2001.

The Ulyanovskenergo loan issued by CARES and transferred to the Company in 2001 was refinanced during 2005. The loan issued by CARES and due in 2007 was repaid early in 2005. The gain on early repayment amounting to RR 479 million has been included in finance income (see Note 21).

The Company has issued a new loan to Ulyanovskenergo with a nominal value of RR 1,766 million, which is due in 2017. The loan were issued at zero interest rate and is being amortized using the rate of 12 percent of interest, which is the market rate of the borrower as at the date of inception of the loan. The loss on initial recognition of the loan amounting to RR 717 million has been included in finance costs (see Note 21).

The loans to other subsidiaries were issued at zero or below market interest rates (with nominal rates 15-18 percent per annum); they are being amortized using the market rate of interest of the respective borrowers as at the date of inception of the loans. The effective rates of interest are between 20 percent to 24 percent, depending on the borrower and the timing of the relevant cash flows.

In 2004-2005, the Company acquired interest-free promissory notes of OOO ESOP with a nominal value of RR 3,493 million and maturity in 2008-2011. These promissory notes were acquired to finance the repurchase of the Company's treasury shares for the purpose of the Employee share option plan (see Note 4).

Loans issued to employees represent non-interest loans issued to the members of Management Board as a part of Employee share option plan (see Note 4). These loans were recognized at their fair value at the issuance date. Their fair value was determined using 14 percent discount rate.

Total imputed interest income recorded as a result of amortisation of the discount on the loans issued amounting to RR 563 million (2005 : RR 1,121 million) was included in the finance income (see Note 21).

(in millions of Russian Roubles)

Note 7: Loans issued (continued)

As at the balance sheet date, the estimated fair value of total loans issued (including the current portion) does not significantly differ from their carrying amount.

Note 8: Other non-current assets

	Effective interest	31 December 2006	31 December 2005
Joint investment activity		977	1,013
Advances for equity in subsidiaries		19,832	23,399
Available for sale investments		9,423	3,818
Restructured trade receivables (due 2008-2020) (net of allowance for doubtful accounts of RR 698 million for 2006 and RR 910 million for 2005)	18%	776	974
Other	11-13%	770	3,064
		31,778	**32,268**

Joint investment activity. The Company participates in construction projects with Group companies or third parties, each party contributing cash and assets to the project. These projects represent the construction of generation and distribution property, plant and equipment. Upon completion of these projects a legal entity is normally formed with ownership interests generally being established in proportion to the amounts contributed to the project. At this time the balance is transferred to investments.

Advances for equity in subsidiaries. The Company has agreements in place with some of the Group companies under which the Company advances cash and non-cash contributions for future issues of equity in the Group companies. The number of shares to be issued will be determined at a future point in time. These advances are utilized by the Group companies to fund the construction of generation and distribution property, plant and equipment. When the equity is issued, the balance is transferred to investments.

In 2006 the Company converted RR 59 million of these advances and joint investment activity into equity, which has been included in investments. (2005: RR 6,292 million).

Available for sale investments. Investments classified as available for sale mainly include investments in non-controlled and not significantly influenced entities and are stated at fair value, with any unrealised gain and loss being recognized in equity. Available-for-sale investments include non-marketable securities, which are not publicly traded or listed on the Russian stock exchange. The fair value of the available–for-sale assets has been established by reference to the net assets of the underlying businesses and to the extent reasonable, the quoted share prices.

Other. Other non-current assets include rouble–denominated promissory notes with due dates in 2008 - 2014, acquired from Group companies and third parties. Promissory notes were issued at zero interest rate; they are being amortized using the market rate of interest of the respective issuers as at the date of inception of the notes. The effective rates of interest are between 11 percent to 13 percent, depending on the issuer and the timing of the relevant cash flows.

During 2006, RR 2,345 million of promissory notes were repaid earlier than their original maturity date.

Gain on early repayment RR 1,625 million was included in finance income (see Note 21).

Total imputed interest income recorded as a result of amortisation of the discount of the other non-current assets amounting to RR 244 million (2005: RR 419 million) was included in the finance income (see Note 21).

(in millions of Russian Roubles)

Note 9: Cash and cash equivalents

	31 December 2006	31 December 2005
Cash at bank and in hand	3,050	1,933
Cash equivalents (interest rate: 1.5-5% p.a; 2005: 1.5-4.5 % p.a.)	4,144	2,880
Foreign currency accounts	18	18
	7,212	**4,831**

Cash equivalents comprise short-term investments in bank promissory notes and deposits.

Note 10: Accounts receivable and prepayments

	31 December 2006	31 December 2005
Trade receivables (net of allowance for doubtful accounts of RR 496 million for 2006 and RR 539 million for 2005)	3,326	3,939
Other receivables (net of allowance for doubtful accounts of RR 298 million for 2006 and RR 860 million for 2005)	2,516	4,198
Value added tax recoverable	398	748
Advances	528	1,091
Prepayments and accrued income	361	397
	7,129	**10,373**

Management has determined the allowances for doubtful debtors based on specific customer identification, customer payment trends, subsequent receipts and settlements and analyses of expected future cash flows. Based on the expected collection rate, discount rates of 12 – 19 percent have been used in the estimate of present value of future cash flows. The effects of discounting are reflected in the doubtful debtor allowance and expense. The management of the Company believes that it will be able to realise the net receivable amount through direct collections and other non-cash settlements.

Certain trade receivables have been restructured and as a result are due to be realised more than one year from the balance sheet date (see Note 8). The loss on restructuring is included in doubtful debtors expense.

During 2006 RR 550 million of other receivables were transferred to investments (2005: no such transaction occured).

During the year 2006 RR 521 million of impairment related to accounts receivable has been reversed due to the repayment of accounts receivable previously impaired. RR 8 million has been repaid by non-cash settlement.

During the year 2005 RR 1,545 million of impairment related to accounts receivable has been reversed due to the repayment of accounts receivable previously impaired. RR 865 million has been repaid by non-cash settlement.

(in millions of Russian Roubles)

Notel1: Other current assets

	31 December 2006	31 December 2005
Available for sale investment in mutual fund	3,934	3,000
Other	6,954	2,362
	10,888	**5,362**

Other current assets includes rouble-denominated third party's promissory notes and promissory notes issued by Group companies. Interest rate on those promissory notes is 6-8.75 percent per annum.

Note 12: Shareholders' equity

Share capital	Number of shares issued and fully paid	31 December 2006	31 December 2005
Ordinary shares	41,041,753,984	147,439	147,439
Preference shares	2,075,149,384	7,667	7,667
		155,106	**155,106**

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

Ordinary shares and preference shares. Preference shares have no right of conversion or redemption, but are entitled to a minimum annual dividend of 10 percent of the net statutory profit of the Company, subject to approval at the Annual Shareholders' meeting. In total the preference dividend may not be less than the ordinary dividend and is not cumulative. Preference shares carry no voting rights except when dividends on preference shares have not been declared fully at the Annual Shareholders' meeting. At liquidation, preference shareholders are first paid any declared unpaid dividends and then the nominal value of the shares ("liquidation value"). Following this, preference shareholders then participate equally in the distribution of remaining assets with ordinary shareholders.

Dividends: The annual statutory accounts of the Company are the basis for the annual profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the net profit for the year. For 2006, the statutory profit for the Company, as reported in the published statutory reporting forms, was RR 745,088 million (for 2005: 20,897 million). This increase was the result of a revaluation of investments in subsidiaries in the amount of RR 717,656 million recognised in Russian statutory accounts. 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 be not appropriate to disclose an amount for the distributable reserves in these Financial Statements.

A dividend was declared in 2006 in respect of the year ended 31 December 2005 of RR 0.0574 per ordinary share and RR 0.1939 per preference share.

Treasury shares. Treasury shares as at 31 December 2006 represent 57,809 (2005: 57,809) ordinary and 2,767 (2005: 2,767) preference shares purchased and held by the Company. The carrying value of treasury shares is less than RR 1 million, so they have not been disclosed in Statements of Changes in Equity for the year ended 31 December 2006. There were no operations with treasury shares during 2005 and 2006.

Other reserves. Other reserves includes changes in the fair value of available for sale investments.

(in millions of Russian Roubles)

Note 13: Income tax expense

	Year ended 31 December 2006	Year ended 31 December 2005
Current income tax expense	(9,245)	(5,903)
Deferred income tax expense	(3,909)	(1,207)
Total income tax expense	**(13,154)**	**(7,110)**

The Company accrues income taxes at the rate of 24 percent on taxable profits computed in accordance with the Russian tax legislation. Profit before tax for financial reporting purposes is reconciled to tax expenses as follows:

	Year ended 31 December 2006	Year ended 31 December 2005
Profit before tax	41,927	26,909
Theoretical tax charge at a statutory rate of 24 percent (2005: 24 percent)	(10,063)	(6,458)
Dividend income taxed at different rate	1,380	1,163
Tax interest and penalties release	28	241
Expenses non-deductible for income tax purposes	(1,845)	(1,224)
Effect of change in taxable base	325	(322)
Investments in subsidiaries (Note 3)	(2,914)	(204)
Other	(65)	(306)
Total income tax expense	**(13,154)**	**(7,110)**

Dividends received are presented net of withholding tax of RR 669million (2005: RR 436 million) in the cashflow statement. This withholding was included as income tax in the income statement.

Current income tax is payable to different taxation authorities, including federal and municipal budgets. Current tax prepayments and liabilities have been offset only to the extent that there is a legal right to set off the recognised amounts and the Company intends to settle the amounts on a net basis.

The effect of changes in the taxable base mainly relates to certain temporary differences on property, plant and equipment which are no longer recognised due to the use of the property, plant and equipment as a means of payment for shares in newly established subsidiaries as a result of restructuring.

(in millions of Russian Roubles)

Note 13: 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 profit tax purposes. Deferred profit tax assets and liabilities are measured at 24 percent.

	31 December 2006	Movement for the year: Income statement	Movement for the year: Shareholders' equity	31 December 2005
Tax effect of deductible/(taxable) temporary differences				
Property, plant and equipment	(107)	(322)	-	215
ST loans issued	12	12	-	-
LT loans issued	421	(135)	-	556
Trade receivables	242	(198)	-	440
Other non-current assets	87	(280)	-	367
Tax payable	(4)	-	-	(4)
Current debt	(31)	(31)	-	-
Accounts payable	38	(41)	-	79
Investments in subsidiaries and associates	(3,118)	(2,914)	-	(204)
Other current assets	(224)	-	(224)	-
Other non-current assets	(680)	-	(465)	(215)
Deferred income tax (liability)/asset	**(3,364)**	**(3,909)**	**(689)**	**1,234**

	31 December 2005	Movement for the year: Income statement	Movement for the year: Shareholders' equity	31 December 2004
Tax effect of deductible/(taxable) temporary differences				
Property, plant and equipment	215	(884)	-	1,099
LT loans issued	556	(158)	-	714
Trade receivables	440	(139)	-	579
Other non-current assets	367	(110)	-	477
Tax payable	(4)	184	-	(188)
Accounts payable	79	57	-	22
Investments in subsidiaries	(204)	(204)	-	-
Other non-current assets	(215)	47	(96)	(166)
Deferred income tax asset	**1,234**	**(1,207)**	**(96)**	**2,537**

As at 31 December 2006 and 31 December 2005 the Company has not recognized a deferred tax liability in respect of the temporary differences associated with investments in all its subsidiaries that may crystallize depending on how the RAO UES restructuring is effected in the future. The Company is able to control the timing of the reversal of these temporary differences as it intends to perform the restructuring in a manner that would substantially avoid crystallizing any additional tax liabilities and therefore it is probable that the temporary differences will not reverse in the foreseeable future. Potential deferred tax liability in respect of the temporary differences could vary from zero to RR 25 billion depending on the specific methods used to complete the RAO UES restructuring.

(in millions of Russian Roubles)

Note 13: Income tax expense (continued)

At a meeting of the RAO UES Board of Directors held on 2 March 2007, the Board of Directors considered and approved a plan that envisages that the Company raise funds for future capital expenditures by selling existing shares in the share capital of all the WGCs and TGKs, except for HydroWGC, WGC-5 and TGC-5, in the amount not exceeding the effective share of the Russian Federation in RAO UES. Management considered this decision as a triggering event for the recognition as an adjusting post balance sheet event of an element of the previously unrecognised deferred tax liability. Calculation of deferred tax was performed on the basis of the effective ownership percentage of the Russian Federation in RAO UES as at the reporting date. In the period to 31 December 2006 an additional deferred tax liability of RR 2,914 million was recognized in respect of such taxable events. As at 31 December 2006 the total amount of deferred tax liability recognised in respect of the potential reversal of the temporary differences associated with investments in subsidiaries was RR 3,118 million (as at 31 December 2005 – RR 204 million).

Note 14: Non-current debt

	Currency	Effective interest rate	Due	31 December 2006	31 December 2005
IBRD loan	US$	4.7%	2007-2012	422	397
				422	397
Less: current portion of non-current debt				(76)	(83)
				346	**314**

Maturity table	31 December 2006	31 December 2005
Due for re-payment		
Between one and two years	76	83
Between two and five years	270	231
	346	**314**

IBRD: In September 2000 the Company obtained a USD denominated loan from the International Bank of Reconstruction and Development (IBRD) through the Federal Center of Project Financing (Ministry of Finance) in order to finance a project of assistance to energy sector reform. The interest rate on this loan is variable and represents IBRD base rate plus a margin. The interest rate equaled to 4.7 percent as at 31 December 2006. Interest and a portion of the principal are repayable semi-annually up to the expiry of the loan in 2012.

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

	Currency	31 December 2006	31 December 2005
Short term debt	RR	7,596	3,740
Current portion of non-current debt	$US	76	83
		7,672	**3,823**

Loan from Vnesheconombank. Short term debt as at 31 December 2005 includes a loan from Vneshekonombank in the amount of RR 3,500 million which was obtained to finance the acquisition of 22.4 percent of the share capital of OAO Power Machines ("Power Machines") and interest–free promissory notes in amount of RR 240 million issued by the Company. Interest rate on the loan was 9.5 percent per annum. The loan and promissory notes have been repaid in 2006.

(in millions of Russian Roubles)

Note 15: Current debt and current portion of non-current debt (continued)

Promissory notes. Short term debt as at 31 December 2006 includes interest-free promissory notes issued by the Company. Promissory notes have been discounted using 10% effective rate of interest. Gain on initial recognition RR 348 million and amortisation of discount of RR 218 million have been included in Finance Income and Finance Costs respectively (see Note 21).

As at 31 December 2005 and 31 December 2006 the current portion of long-term debt, contains the current element of the loan from IBRD.

Note 16: Accounts payable and accrued charges

	31 December 2006	31 December 2005
Accrued liabilities and other creditors	1,153	1,206
Trade payables	232	290
Dividends payable	137	220
	1,522	**1,716**

Note 17: Other taxes payable

Taxes payable consists of the following:

	31 December 2006	31 December 2005
Value Added Tax	564	908
Fines and interest	9	43
Property tax	11	23
Other taxes	31	19
Employee taxes	8	7
	623	**1,000**

Included in the payable for value added tax is RR 564 million which only becomes payable to the tax authorities when the underlying receivable balance is either recovered or written off (31 December 2005: RR 908 million).

The principal tax liabilities past due, excluding the amounts which have been restructured, accrue interest each day at one three hundredth of the current refinancing rate of the Central Bank of the Russian Federation. As at 31 December 2006 and 31 December 2005 the refinancing rate was 11 and 12 percent respectively. Interest does not accrue on tax fines and interest.

Note 18: Other revenues and other operating income

	Year ended 31 December 2006	Year ended 31 December 2005
Other revenues		
Rental income	224	408
Exported electricity	-	844
	224	**1,252**
Other operating income		
Reversal of debtors provision	521	1,545
Other income	163	789
	684	**2,334**

(in millions of Russian Roubles)

Note 19: Operating expenses

	Year ended 31 December 2006	Year ended 31 December 2005
Expenses associated with flooding of water storage reservoir of Bureyskaya GES	1,261	-
Taxes other than income tax	987	450
Charity expenses	684	560
Loss on disposal of other assets	613	313
Payments to state pension fund	382	122
Rent	298	309
Depreciation	174	532
Management fee	173	-
Business trip expenses	149	169
Research and development	143	136
Security	136	83
Entertainment cost	120	70
Postal services	91	80
Impairment of property, plant and equipment	-	967
Purchased power	-	644
(Gain)/loss on the disposal of property, plant and equipment	(153)	102
Other	1,216	1,350
	6,274	**5,887**

Wages, benefits and payroll taxes include payroll taxes of RR 385 million (2005: RR 341 million).

(in millions of Russian Roubles)

Note 20: Earnings per share

Taking into account the effect of the unequal dividends paid in the period (refer to Note 12), and based on the weighted average numbers of preference and ordinary shares outstanding, the earnings per share for the two classes of shares were as follows:

	Year ended 31 December 2006	Year ended 31 December 2005
Weighted average number of ordinary shares issued (thousands)	41,041,754	41,041,754
Adjustment for weighted average number of ordinary treasury shares (thousands)	(58)	(58)
Weighted average number of ordinary shares outstanding (thousands)	41,041,696	41,041,696
Weighted average number of preference shares issued (thousands)	2,075,149	2,075,149
Adjustment for weighted average number of preference treasury shares (thousands)	(3)	(3)
Weighted average number of preference shares outstanding (thousands)	2,075,146	2,075,146
Dividends to ordinary shares outstanding	2,356	2,295
Dividends to preference shares outstanding	402	463
Total dividends	2,758	2,758
Total Profit attributable to ordinary equity holders less dividends paid	26,015	17,041
- attributable to ordinary shareholders	24,763	16,221
- attributable to preference shareholders	1,252	820
Total earnings attributable to the ordinary shareholders	27,119	18,515
Total earnings attributable to the preference shareholders	1,654	1,284
Earnings per ordinary share – basic and diluted (in RR)	**0.66**	**0.45**
Earnings per preference share – basic and diluted (in RR)	**0.80**	**0.62**

The basic profit per share above is for the Company as a parent company on a stand-alone basis. The earnings per share for the Group is disclosed in the 2006 Group consolidated financial statements.

(in millions of Russian Roubles)

Note 21: Finance income and costs

Finance income.

	Note	Year ended 31 December 2006	Year ended 31 December 2005
Interest income		1,081	910
Gain on initial recognition of interest free debt	15	348	-
Foreign exchange gain		421	-
Imputed interest income	7,8	807	1,540
Income on tax interest and penalties release		117	1,003
Gain on early repayment of loan	7,8	1,625	479
		4,399	**3,932**

Finance costs.

	Note	Year ended 31 December 2006	Year ended 31 December 2005
Loss on initial recognition of interest free loans issued	7	-	(942)
Imputed interest expense	15	(218)	-
Interest expense		(326)	(380)
Foreign exchange gain loss		-	(107)
Discounting effect on the restructured payable amounts		(3)	(767)
		(547)	**(2,196)**

Discounting effect on the restructured payable amounts. The discounting of the restructured payable amounts gives rise to a gain. Subsequent to its initial recognition, the discount is amortized over the period of the restructuring as an expense; RR 3 million of such amortization was included in net finance costs for the year ended 31 December 2006 (year ended 31 December 2005: RR 767 million).

Income on tax interest and penalties release. In accordance with Government Resolution No. 1002 dated 3 September 1999 the Company had restructured taxes including fines and interest over a period of up to 10 years. Non-adherence to certain payment schedules could result in the gross amount of taxes payable including fines and interest becoming due on demand. Based on the contractual dates of repayment, discount rates of 21 – 25 percent have been used in the estimate of the fair value of these liabilities.

In accordance with Moscow government Resolution No. 30 dated 15 January 2002, in 2002 the Company had restructured additional taxes initially due to be paid in that year. Non-adherence to certain payment schedules could result in the tax payables becoming due on demand. Based on the contractual dates of repayment, discount rates of 21 – 25 percent have been used in the estimate of the fair value of these liabilities.

Prior to 31 December 2006 the Company repaid early most of the restructured taxes payable. Consequently, in accordance with Government Resolution No 269 dated 24 April 2002 , RR 117 million of tax interest and penalties were written–off by tax authorities in 2006 (year ended 31 December 2005 – RR 1,003 million of tax interest and penalties were written-off).

Note 22: Commitments

Guarantees. As discussed in Note 4, The Company has issued guarantees to its subsidiaries and associates.

Note 23: 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 Russia.

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

Legal proceedings. The 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 financial position of the Company.

Tax contingencies. 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 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. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances review may cover longer periods.

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

As at 31 December 2006 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.

Environmental matters. The 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. The Company periodically evaluates its 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 24: Financial instruments and financial risk factors

Financial risk factors. The Company'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 Company does not have a risk policy in order to hedge its financial exposures.

Credit risk. Financial assets which potentially subject Company to concentrations of credit risk consist principally of trade receivables, loans issued and promissory notes . As disclosed in Notes 4 and 7 and 8, most of these assets are due from Group companies. The Company has policies in place to ensure that promissory notes are purchased from parties with an appropriate credit history.

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 allowance for doubtful debtors already recorded.

The carrying amount of loans issued, promissory notes and accounts receivable, net of provision for impairment, represents the maximum amount exposed to credit risk.

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

Note 24: Financial instruments and financial risk factors (continued)

Foreign exchange risk. The Company primarily operates within the Russian Federation, with limited exports of electricity. The majority of the Company's purchases are denominated in Russian Roubles. The major concentration of foreign exchange risk is in relation to US$ denominated debt, as disclosed in Note 14.

Interest rate risk. The Company's income and operating cash flows are substantially independent of changes in market interest rates. The Company is exposed to interest rate risk through market value fluctuations of interest-bearing long-term borrowings. The majority of interest rates on long term borrowings are fixed, these are disclosed in Note 14. The Company has no significant interest-bearing assets.

Fair values. Management believes that the fair value of financial assets and financial liabilities is not significantly different from their carrying amounts.

Note 25: Subsequent events

On 15 March 2007 an auction was held to sell 93.35 percent of the Company's shares of OJSC Zapadno-Sibirskaya TEZ (representing 22.97% interest in OJSC Zapadno-Sibirskaya TEZ) and OJSC SUEK. The bid price for the transaction reached RR 5.9 billion.

On 29 March 2007 an auction was held to sell 93.35 percent of the Company's shares of OJSC Yuzhno-Kuzbasskaya GRES (representing 22.97% interest in OJSC Yuzhno-Kuzbasskaya GRES) and OJSC SUEK. The bid price for the transaction reached RR 6.9 billion.

In March 2007 OJSC WGC-3 issued 18 billion ordinary shares, with the par value of RR 1 each, thereby increasing its outstanding share capital from RR 29.49 billion to RR 47.49 billion. The issue, representing 37.9 percent of the share capital of OJSC WGC-3 post issue, was fully acquired by third parties for the amount of US$ 3,084 million (RR 80,909 million based at the exchange rate at the date of transaction). The effective interest of the Company in OJSC WGC-3 reduced from 59.7 percent to 37.1 percent.

On 21-23 May 2007 several auctions were held to sell 49 percent of the shares in OJSC Kuban Energy Retail Company, OJSC Sverdlovenergosbyt, OJSC Nizhny Novgorod Retail Company, OJSC Kuzbass Energy Retail Company, OJSC Belgorod Retail Company and OJSC Vologda Retail Company and 100 percent of the shares in OJSC Orenburgenergosbyt. All those companies operate in the Retailing segment. The sale of retailing companies is conducted in accordance with the plan approved by the Board of Directors of RAO UES in February 2007. The total bid price for the transactions reached RR 7.47 billion.

In June 2007 RAO UES held an auction to sell a 25.03 percent stake in OJSC WGC-5. The stake was sold to Enel Investment Holding B.V. for an amount of RR 39.2 billion. The Company's effective interest in WGC-5 was reduced from 75.03% to 50.00%.

On 26 June 2007 the Annual General Meeting has approved the proposal of the Board of Directors not to pay dividends for 2006 due to the necessity of significant expenditures attributable to realization of investment programs of the Group companies.