

OJSC MOESK

**Financial Statements for the year ended
31 December 2006**

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KPMG Limited
11 Gogolevsky Boulevard
Moscow 119019
Russia

Telephone +7 (495) 937 4477
Fax +7 (495) 937 4400/99
Internet www.kpmg.ru

Independent Auditors' Report

To the management of OJSC MOESK

Report on the Financial Statements

We have audited the accompanying financial statements of OJSC MOESK (the "Company"), which comprise the balance sheet as at 31 December 2006, and the income statement, statement of changes in equity and statement of cash flows 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 misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Except as described in the Basis for Qualified Opinion paragraph, we conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of 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 principles 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 opinion.

Basis for Qualified Opinion

We did not observe the counting of inventories stated at 644 487 thousand Russian Roubles as at 31 December 2005 because we were engaged as auditors of the Company only after that date. It was impracticable to satisfy ourselves as to those inventory quantities by other audit procedures. Accordingly, we were unable to determine whether any adjustments might be necessary to cost of sales, taxation and net profit for year ended 31 December 2006 and to cost of sales, taxation, net profit, inventories and retained earnings for the year ended 31 December 2005.

Qualified Opinion

In our opinion, except for the effects of such adjustments, if any, that might have been determined to be necessary had it been practicable to obtain sufficient appropriate audit evidence as described in the Basis for Qualified Opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2006, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



KPMG Limited

23 August 2007

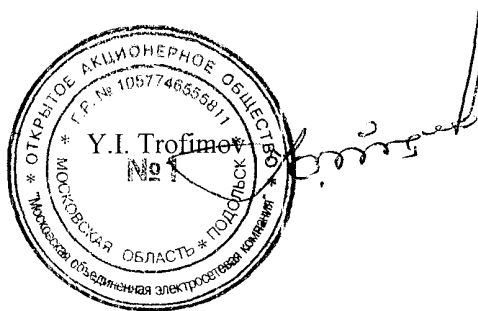
OJSC MOESK
Income Statement for the year ended 31 December 2006

	Note	12 months ended 31 December 2006 '000 RUR	9 months ended 31 December 2005 '000 RUR
Revenue	4	25 469 571	12 259 082
Operating expenses	0	(21 576 731)	(11 776 057)
Other operating income		<u>264 256</u>	<u>175 474</u>
Operating income		4 157 096	658 499
Financial income	7	33 563	75 500
Financial expenses	7	<u>(209 160)</u>	<u>(125 033)</u>
Income before income tax		3 981 499	608 966
Income tax expense	8	<u>(1 141 985)</u>	<u>(257 120)</u>
Net income for the period		<u>2 839 514</u>	<u>351 846</u>
Earnings per ordinary share for income attributable to the shareholders of OJSC MOESK – basic and diluted (in Russian Roubles)	19	0,101	0,012

The financial statements were approved on 23 August 2007:

General Director

Chief Accountant



L.A. Sklyarova

	Note	31 December 2006 '000 RUR	31 December 2005 '000 RUR
ASSETS			
Non-current assets			
Property, plant and equipment	9	64 099 033	56 165 001
Other non-current assets	10	1 959 279	304 112
		66 058 312	56 469 113
Current assets			
Inventories	12	1 153 396	644 487
Income tax receivable		724 468	194 989
Trade and other receivables	13	5 051 281	2 763 346
Cash and cash equivalents	14	2 021 925	237 992
		8 951 070	3 840 814
Total assets		75 009 382	60 309 927
EQUITY AND LIABILITIES			
Equity			
	15		
Share capital		14 124 680	14 124 680
Additional paid in capital		22 453 124	22 453 124
Revaluation reserve		8 270 005	8 270 005
Retained earnings		3 141 359	351 846
Total equity		47 989 168	45 199 655
Non-current liabilities			
Loans and borrowings	16	6 970 510	184 638
Employee benefits	17	320 970	469 769
Deferred tax liabilities	11	9 018 121	9 346 708
Advances received	21	2 048 931	-
		18 358 532	10 001 115
Current liabilities			
Loans and borrowings	16	460 199	1 273 450
Taxes payable	22	72 609	447 429
Trade and other payables	20	7 992 344	3 108 350
Provisions	18	136 530	279 928
		8 661 682	5 109 157
Total equity and liabilities		75 009 382	60 309 927

The balance sheet is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 9 to 34.

	12 months ended 31 December 2006	9 months ended 31 December 2005
	'000 RUR	'000 RUR
OPERATING ACTIVITIES		
Income before income tax	3 981 499	608 966
Adjustments for:		
Depreciation	3 184 519	1 823 417
Loss/(gain) on disposal of property, plant and equipment	129 829	(120 730)
Provisions	(143 398)	209 546
Deficit on revaluation of property, plant and equipment	-	78 647
Interest income	-	(75 500)
Interest expense	209 160	125 033
Bad debt provision	(3 090)	40 691
Other non-cash items	(28 676)	7 353
Operating profit before changes in working capital	7 329 843	2 697 423
Increase in inventories	(506 734)	(69 107)
Increase in trade and other receivables	(2 284 845)	(1 609 767)
Increase in trade and other payables, advances received	6 932 925	2 320 442
Increase in taxes payable, other than income tax	(374 820)	438 323
Cash flows from operations before income taxes and interest paid	11 096 369	3 777 314
Income taxes paid	(2 000 051)	(773 233)
Cash flows from operating activities	9 096 318	3 004 081
INVESTING ACTIVITIES		
Proceeds from disposal of property, plant and equipment	55	25 814
Acquisition of property, plant and equipment	(11 747 055)	(2 888 903)
Cash flows utilised by investing activities	(11 747 000)	(2 863 089)
FINANCING ACTIVITIES		
Proceeds from borrowings	11 527 259	5 267 469
Repayment of borrowings	(6 770 341)	(5 266 234)
Payment of finance lease liabilities	(117 836)	(47 802)
Dividends paid	(50 001)	-
Interest paid	(154 466)	(90 673)
Cash flows utilised by financing activities	4 434 615	(137 240)
Net increase in cash and cash equivalents	1 783 933	3 752
Cash and cash equivalents at beginning of period	237 992	234 240
Cash and cash equivalents at end of period (note 14)	2 021 925	237 992

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 9 to 34.

OJSC MOESK
Statement of Changes in Equity for the year ended 31 December 2006

'000 RUR	Share capital	Additional paid in capital	Revaluation reserve	Retained earnings	Total equity
At 1 April 2005	14 124 680	22 453 124	-	-	36 577 804
Income for the period	-	-	-	351 846	351 846
Revaluation of property, plant and equipment	-	-	8 270 005	-	8 270 005
At 31 December 2005	14 124 680	22 453 124	8 270 005	351 846	45 199 655
Net income for the period	-	-	-	2 839 514	2 839 514
Dividends to shareholders	-	-	-	(50 001)	(50 001)
At 31 December 2006	14 124 680	22 453 124	8 270 005	3 141 359	47 989 168

1 Background

(a) Organisation and operations

Open Joint-Stock Company "Moskovskaya Ob'edinennaya Electrosetevaya Kompaniya" (before 14 September 2006 Open Joint-Stock Company "Moskovskaya Oblastnaya Electrosetevaya Kompaniya") was established on 1 April 2005 by transferring assets and activities related to the electricity transmission of OJSC Mosenergo, a subsidiary of RAO UES, within the framework of Russian electricity sector restructuring in accordance with the Resolution No. 1 adopted by shareholders of OJSC "Mosenergo" on 29 June 2004.

The Company's registered office is at building 27, Ordgonikidze street, Podol'sk, Moscow Region, 142100, Russian Federation.

The actual address is building 3/2, 2nd Paveletskiy proezd, Moscow, 115114, Russian Federation.

The Company's principal activity is electricity transmission by means of electrical networks located in Moscow Region and the parts of Moscow.

As at 31 December 2006 the Company includes the 18 branches. The list of the branches is stated below:

- Vostochnie electrical networks;
- Ujnie electrical networks;
- Oktyabr'skie electrical networks;
- Zapadnie electrical networks;
- Severnie electrical networks;
- Noginskie electrical networks;
- Podol'skie electrical networks;
- Kolomenskie electrical networks;
- Shaturskie electrical networks;
- Kashirskie electrical networks;
- Mojayskie electrical networks;
- Dmitrovskie electrical networks;
- Volokolamskie electrical networks;
- Visokovol'tnie cable networks;
- Moskabel'set'montaj;
- Moskabel'energoremont;
- Executive office;
- Repair of electrical and technical equipment plant.

The Company business is the natural monopoly which is under pressure and supported by the Russian government. As at 31 December 2006 the Russian Federation owns 52,7% of RAO UES of Russia, which in its turn owned 50,9% of OJSC "MOESK".

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

The government of Russian Federation directly affects the Company's operation through the state tariffs. The state tariff regulation is set forth in the following legislation:

- Federal Law No. 41-FZ of 14 April 1995 "On the State Regulation of Electricity and Heat Tariffs in the Russian Federation";
- Federal Law No. 35-FZ of 26 March 2003 "On the Electric Utilities";
- Federal Law No. 36-FZ of 26 March 2003 "On the Specifics of the Functioning of Electric Utilities During the Transition Period";
- Resolution of Russian Federation Government No. 109 of 26 February 2004 "On the Pricing related Electricity and Heat in the Russian Federation";
- Resolution of Russian Federation Government No. 332 of 30 June 2004 "On Assertion of the Regulations about the Federal Service on Tariffs";
- Resolution of the Government of Moscow No. 239-PP of 13 April 2004 "On Assertion of the Regulations about Regional Energy Commission of Moscow" and Resolution of the Government of Moscow No. 963-PP of 12 December 2006 "On Assertion of the Regulations about Regional Energy Commission of Moscow (with Department Rights)";
- Resolution of the Government of Moscow Region No. 387/24 of 3 July 2003 "On the Reorganization of the Energy Commission of Moscow Region", Resolution of the Government of Moscow Region No. 657/38 of 13 November 2003 "On the Energy Committee of Moscow Region", Resolution of the Government of Moscow Region No. 404/24 of 27 June 2005 "On the Energy Committee of Moscow Region" and Resolution of the Government of Moscow Region No. 224/11 of 27 March 2006 "On the Forming of the Fuel and Energy Committee of Moscow Region".

In accordance with legislation the Company's tariffs are controlled by the Federal Service on Tariffs, the Regional Energy Commission of Moscow and the Energy Committee of Moscow Region.

(b) Russian business environment

The Russian Federation has been experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks that typically do not exist in other markets. Furthermore, the tax, currency and customs legislation within the Russian Federation is a subject to varying interpretations and changes, which can occur frequently. The accompanying financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Company. The future business environment may differ from management's assessment.

2 Basis of preparation

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

(b) Basis of measurement

The financial statements are prepared on the historical cost basis except that financial assets and liabilities, property, plant and equipment are stated at fair value.

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble (“RUR”), which is the Company’s functional currency and the currency in which these financial statements are presented. All financial information presented in RUR has been rounded to the nearest thousand.

(d) Use of judgements, estimates and assumptions

Management has made a number of judgments, estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with IFRSs. Actual results may differ from those estimates.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies are described in the following notes:

- Note 18 – Provisions;
- Note 26 – Contingencies.

3 Significant accounting policies

The following significant accounting policies have been applied in the preparation of the financial statements.

(a) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs, except as described below. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Company’s contractual rights to the cash flows from the financial assets expire or if the Company transfers the financial asset to another

party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Company commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Company's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Accounting for finance expenses is discussed in note 3(j).

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

(b) Property, plant and equipment

(i) Recognition and measurement

Property, plant and equipment are stated at fair value, based on periodic revaluations by external independent valuers.

The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

Borrowing costs on qualifying assets are capitalised as part of the cost of such assets.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Revaluation

A revaluation increase on an item of property, plant and equipment is recognised directly in equity except to the extent that it reverses a previous revaluation decrease recognised in the income statement, in which case it is recognised in the income statement. A revaluation decrease on an item of property, plant and equipment is recognised in the income statement except to the extent that it reverses a previous revaluation increase recognised directly in equity, in which case it is recognised directly in equity.

(iv) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

- buildings - 20 to 40 years
- transmission networks - 18 years
- transformers and transformer substations - 13 to 16 years
- other – 8 years.

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

(c) Leased assets

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Company's balance sheet.

(d) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average principle, and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(e) Impairment

(i) Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

(ii) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

In respect of non-financial assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(f) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans, including Russia's State pension fund, are recognised as an expense in profit or loss when they are due.

(ii) Defined benefit plans

The Company's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and any unrecognised past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Company's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

When the calculation results in a benefit to the Company, the recognised asset is limited to the net total of any unrecognised past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in profit or loss.

(iii) Other long-term employee benefits

The Company's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Company's obligations. The calculation is performed using the projected unit credit method. Any actuarial gains or losses are recognised in profit or loss in the period in which they arise.

(iv) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short-term cash bonus if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(g) Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(h) Revenue

Revenue from electricity transmission is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer, consideration is probable and the amount can be estimated reliably. The tariffs for energy transmission are approved by Federal Tariff Agency or Regional Energy Commission.

(i) Other expenses

(i) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

(ii) Social expenditure

To the extent that the Company's contributions to social programs benefit the community at large and are not restricted to the Company's employees, they are recognised in the income statement as incurred.

(j) Finance income and expenses

Financial income comprises interest income on cash balances. Interest income is recognised as it accrues, using the effective interest method.

Financial expenses comprise interest expense on borrowings, employee benefits, finance lease.

All borrowing costs are recognised in profit or loss using the effective interest method, except for borrowing costs related to qualifying assets which are recognised as part of the cost of such assets.

(k) Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The temporary differences are not provided for initial recognition of assets or liabilities that affect neither accounting nor taxable profit. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(l) Earnings per share

The Company presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

(m) Segment reporting

The Company operates predominantly in a single geographical area and industry, the transmission of electric power in the Moscow and Moscow region.

(n) New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2006, and have not been applied in preparing these financial statements. Of these

pronouncements, potentially the following will have an impact on the Company's operations. The Company plans to adopt these pronouncements when they become effective. The Company has not yet analysed the likely impact of the new Standards on its financial position or performance.

- IFRS 7 *Financial Instruments: Disclosures* and the *Amendment to IAS 1 Presentation of Financial Statements: Capital Disclosures* require extensive disclosures about the significance of financial instruments for an entity's financial position and performance, and qualitative and quantitative disclosures on the nature and extent of risks. IFRS 7 and amended IAS 1, which become mandatory for the Company's 2007 financial statements, will require extensive additional disclosures with respect to Company's financial instruments and share capital.
- IFRS 8 *Operating Segments*, which is effective for annual periods beginning on or after 1 January 2009. The Standard introduces the "management approach" to segment reporting.

4 Revenue

	12 months ended 31 December 2006	9 months ended 31 December 2005
	'000 RUR	'000 RUR
Electricity transmission	22 890 596	11 375 343
Other revenues	2 578 975	883 739
	25 469 571	12 259 082

Other revenues are comprised of rental income and income from repair and installation services.

5 Operating expenses

	12 months ended 31 December 2006	9 months ended 31 December 2005
	'000 RUR	'000 RUR
Electricity transmission	(6 088 623)	(3 548 137)
Employee benefits	(3 935 769)	(2 214 560)
Depreciation	(3 184 519)	(1 823 417)
Repairs and maintenance	(3 087 972)	(1 786 165)
Installation services	(1 476 130)	-
Raw materials and supplies	(989 712)	(658 655)
Consulting, legal, audit services including professional training	(667 126)	(253 655)
Insurance	(383 607)	(311 059)
Rent	(308 471)	(111 502)
Taxes other than income tax	(182 275)	(128 464)
Telecommunication services	(181 978)	(116 765)
Security services	(162 493)	(126 471)
Deficit on revaluation of property plant and equipment	-	(78 647)
Other expenses	(928 056)	(618 560)
	(21 576 731)	(11 776 057)

6 Total personnel costs

	12 months ended 31 December 2006	9 months ended 31 December 2005
	'000 RUR	'000 RUR
Salaries and wages	(3 215 544)	(1 774 525)
Contribution to state pension fund	(543 832)	(327 474)
Financial aid to employees and pensioners	(137 599)	(71 485)
Expense in respect of post employment benefits (see note 17)	(32 419)	(32 201)
Expense in respect of long-term employee benefits provided	(6 375)	(8 875)
	(3 935 769)	(2 214 560)

The average number of employees during 2006 was 10 290 (including production and non production staff) (in 2005 – 10 172).

7 Financial income and expense

	12 months ended 31 December 2006	9 months ended 31 December 2005
	'000 RUR	'000 RUR
Financial income		
Interest income	33 563	75 500
	33 563	75 500
Financial expense		
Interest expense	(166 566)	(86 184)
Interest on employee benefits obligation, net	(17 550)	(23 496)
Interest on finance lease	(25 044)	(15 353)
	(209 160)	(125 033)

8 Income tax expense

	12 months ended 31 December 2006	9 months ended 31 December 2005
	'000 RUR	'000 RUR
Current tax expense	(1 470 572)	(578 246)
Deferred tax benefit	328 587	321 126
	(1 141 985)	(257 120)

The Group's applicable tax rate is the corporate income tax rate of 24% (2005: 24%).

Reconciliation of effective tax rate:

	12 months ended 31 December 2006		9 months ended 31 December 2005	
	'000 RUR	%	'000 RUR	%
Income before income tax	3 981 499	100	608 966	100
Income expense at applicable tax rate	(955 560)	(24)	(146 152)	(24)
<i>Tax effect of items which are not deductible or assessable for taxation purposes:</i>				
Other non-deductible and non-taxable items, net	(186 425)	(5)	(110 968)	(18)
	(1 141 985)	(29)	(257 120)	(42)

9 Property, plant and equipment

	Land and buildings	Transmission networks	Transformers and transformer substations	Other	Construction in progress	Total
Revalued amount						
At 1 April 2005	7 866 974	27 698 129	2 062 718	1 942 571	4 450 127	44 020 519
Additions	306 353	626 338	168 659	667 891	1 584 577	3 353 818
Disposals	(29 418)	(125 336)	(6 615)	(27 264)	(4 747)	(193 380)
Transfers	701 989	1 435 219	226 163	1 508 859	(3 872 230)	-
Revaluation	2 498 247	7 519 744	411 659	(78 647)	451 936	10 802 939
At 31 December 2005	<u>11 344 145</u>	<u>37 154 094</u>	<u>2 862 584</u>	<u>4 013 410</u>	<u>2 609 663</u>	<u>57 983 896</u>
Depreciation						
At 1 April 2005	-	-	-	-	-	-
Depreciation charge	(250 018)	(1 163 482)	(126 146)	(283 771)	-	(1 823 417)
Disposals	436	2 555	192	1 339	-	4 522
At 31 December 2005	<u>(249 582)</u>	<u>(1 160 927)</u>	<u>(125 954)</u>	<u>(282 432)</u>	<u>-</u>	<u>(1 818 895)</u>
Net book value						
At 1 April 2005	<u>7 866 974</u>	<u>27 698 129</u>	<u>2 062 718</u>	<u>1 942 571</u>	<u>4 450 127</u>	<u>44 020 519</u>
At 31 December 2005	<u>11 094 563</u>	<u>35 993 167</u>	<u>2 736 630</u>	<u>3 730 978</u>	<u>2 609 663</u>	<u>56 165 001</u>
Net book value had no revaluations taken place						
At 1 April 2005	<u>7 866 974</u>	<u>27 698 129</u>	<u>2 062 718</u>	<u>1 942 571</u>	<u>4 450 127</u>	<u>44 020 519</u>
At 31 December 2005	<u>8 596 316</u>	<u>28 473 423</u>	<u>2 324 971</u>	<u>3 809 625</u>	<u>2 157 727</u>	<u>45 362 062</u>

'000 RUR	Land and buildings	Transmission net-works	Transformers and transformer substations	Other	Construction in progress	Total
At 1 January 2006	11 344 145	37 154 094	2 862 584	4 013 410	2 609 663	57 983 896
Additions	149 581	202 451	1 050 938	916 103	8 955 659	11 274 732
Disposals	(13 692)	(34 624)	(12 158)	(36 212)	(63 287)	(159 973)
Transfers	597 953	809 301	229 515	3 068 287	(4 705 056)	-
Revaluation	-	-	-	-	-	-
At 31 December 2006	<u>12 077 987</u>	<u>38 131 222</u>	<u>4 130 879</u>	<u>7 961 588</u>	<u>6 796 979</u>	<u>69 098 655</u>
Depreciation						
At 1 January 2006	(249 582)	(1 160 927)	(125 954)	(282 432)	-	(1 818 895)
Depreciation charge	(490 516)	(1 718 467)	(270 960)	(704 576)	-	(3 184 519)
Disposals	246	816	451	2 279	-	3 792
At 31 December 2006	<u>(739 852)</u>	<u>(2 878 578)</u>	<u>(396 463)</u>	<u>(984 729)</u>	-	<u>(4 999 622)</u>
Net book value						
At 1 January 2006	<u>11 094 563</u>	<u>35 993 167</u>	<u>2 736 630</u>	<u>3 730 978</u>	<u>2 609 663</u>	<u>56 165 001</u>
At 31 December 2006	<u>11 338 135</u>	<u>35 252 644</u>	<u>3 734 416</u>	<u>6 976 859</u>	<u>6 796 979</u>	<u>64 099 033</u>

(a) Revaluation

The Company did not revalue property, plant and equipment as at 31 December 2006. The last revaluation of property, plant and equipment was conducted as at 31 December 2005 by CJSC "HLB Vneshaudit".

(b) Leased plant and machinery

The Company leases production equipment under a number of finance lease agreements. At the end of each of the leases the Company has the option to purchase the equipment at a beneficial price. At 31 December 2006 the net book value of leased plant and machinery was RUR 1 126 792 thousand (as at 31 December 2005 - RUR 89 022 thousand). The leased equipment secures lease obligations.

(c) Capitalised interest

The amount of capitalised interest for 2006 was RUR 162 149 thousand.

10 Other non-current assets

Other non-current assets represent advances given to the construction companies to acquire production assets in amount of RUR 1 959 279 thousand and RUR 304 112 thousand as at 31 December 2006 and 31 December 2005, respectively.

11 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following items:

'000 RUR	Assets		Liabilities		Net	
	31 December 2006	31 December 2005	31 December 2006	31 December 2005	31 December 2006	31 December 2005
Property, plant and equipment	-	-	(9 408 321)	(9 443 096)	(9 408 321)	(9 443 096)
Trade and other payables	280 953	22 141	-	-	280 953	22 141
Trade and other receivables	65 025	42 052	-	(2 774)	65 025	39 278
Employee benefits	29 965	25 589	-	-	29 965	25 589
Inventories	14 257	9 380	-	-	14 257	9 380
Tax assets/(liabilities)	390 200	99 162	(9 408 321)	(9 445 870)	(9 018 121)	(9 346 708)
Net tax assets/(liabilities)	390 200	99 162	(9 408 321)	(9 445 870)	(9 018 121)	(9 346 708)

(b) Movement in temporary differences during the year

'000 RUR	31 December 2005	Recognised in income	31 December 2006
Property, plant and equipment	(9 443 096)	34 775	(9 408 321)
Trade and other receivables	39 278	25 747	65 025
Employee benefits	25 589	4 376	29 965
Trade and other payables	22 141	258 812	280 953
Inventories	9 380	4 877	14 257
	(9 346 708)	328 587	(9 018 121)

12 Inventories

	31 December 2006	31 December 2005
	'000 RUR	'000 RUR
Raw materials and consumables	1 126 586	640 772
Other	28 277	7 357
Write-down of inventories in the current period	(1 467)	(3 642)
	1 153 396	644 487

13 Trade and other receivables

	31 December 2006	31 December 2005
	'000 RUR	'000 RUR
Value added tax recoverable	836 406	1 165 602
Trade receivables	2 048 206	1 090 887
Advances to suppliers	1 029 034	395 936
VAT receivable	1 174 224	82 565
Other receivables	13 117	81 152
Provision for doubtful debtors	(49 706)	(52 796)
	5 051 281	2 763 346

14 Cash and cash equivalents

	31 December 2006	31 December 2005
	'000 RUR	'000 RUR
Petty cash	8 619	2 981
Current accounts	2 013 306	235 011
Cash and cash equivalents	2 021 925	237 992

15 Equity

(a) Share capital

Share capital

	Ordinary shares	Ordinary shares
	31 December 2006	31 December 2005
Issued shares, fully paid	28 249 359 700	28 249 359 700
Par value (in RUR)	0,5	0,5

(b) Dividends

In accordance with Russian legislation the Company's distributable reserves are limited to the balance of accumulated retained earnings as recorded in the Company's statutory financial statements prepared in accordance with Russian Accounting Principles. As at 31 December 2006 the Company had cumulative retained earnings, including the profit for the current year, of RUR 7 463 361 thousand.

16 Loans and borrowings

This note provides information about the contractual terms of the Company's loans and borrowings. For more information about the Company's exposure to interest rate risk, see note 23.

	31 December 2006	31 December 2005
	'000 RUR	'000 RUR
Non-current		
Unsecured bond issues	6 000 000	-
Finance lease liability	765 531	1 985
Promissory notes	204 979	182 653
	6 970 510	184 638
Current		
Current portion of finance lease liability	314 637	25 831
Current portion of bond issues	145 562	-
Unsecured bank facility	-	1 247 619
	460 199	1 273 450

Finance lease liabilities are payable as follows:

'000 RUR	31 December 2006		
	Payments	Interest	Principal
Less than one year	505 349	190 712	314 637
Between one and five years	1 038 122	272 601	765 521
More than five years	10	-	10
	1 543 481	463 313	1 080 168

17 Employee benefits

(i) *Post employment benefits*

The amounts recognised in the balance sheet are as follows:

	31 December 2006	31 December 2005
	'000 RUR	'000 RUR
Present value of unfunded obligations	4 708	4 337
Present value of funded obligations	336 968	327 935
Fair value of plan assets	(227 620)	(30 672)
Deficit in plan	114 056	301 600
Net actuarial gains not recognised in the balance sheet	60 681	24 179
Net liability in balance sheet	174 737	325 779

The amounts recognised in profit or loss are as follows:

	12 months ended 31 December 2006	9 months ended 31 December 2005
	'000 RUR	'000 RUR
Current service costs	32 419	32 201
Interest cost	23 259	16 256
Recognised actuarial losses	(15 788)	-
Total	39 890	48 457

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

	12 months ended 31 December 2006	9 months ended 31 December 2005
	'000 RUR	'000 RUR
Defined benefit obligation at start of year	332 272	309 647
Current service cost	32 419	32 201
Interest cost	23 259	16 256
Actuarial gains	(41 608)	(24 159)
Benefits paid	(4 666)	(1 673)
Defined benefit obligation at end of year	341 676	332 272

Changes in the fair value of plan assets are as follows:

	12 months ended 31 December 2006	9 months ended 31 December 2005
	'000 RUR	'000 RUR
Fair value of the plan assets at start of year	30 672	-
Expected return on plan assets	15 788	-
Actuarial (losses) / gains	(5 106)	20
Contributions by the employer	190 932	32 325
Benefits paid	(4 666)	(1 673)
Fair value of the plan assets at end of year	227 620	30 672

The company expects to contribute RUR 337 000 thousand to the pension plan in 2007.

The fair value of plan assets in each category:

	31 December 2006	31 December 2005
Equity instruments	23,7%	19,6%
Debt instruments	63,1%	61,6%
Other	13,2%	18,8%

Expected average remaining working lives of the employees are 13,3 years.

The long term rate of return on plan assets is estimated 12% by Non-State Pension Fund of Electric Power Industry.

Amounts for the current and previous periods are as follows:

	31 December 2006	31 December 2005	1 April 2005
	'000 RUR	'000 RUR	'000 RUR
Defined benefit obligation	(341 676)	(332 272)	(309 647)
Plan assets	227 620	30 672	-
Deficit	(114 056)	(301 600)	(309 647)
Experience gains on plan liabilities	41 608	24 159	-
Experience gains (losses) on plan assets	(5 106)	20	-

(ii) *Other long-term employee benefits*

The amounts recognised in the balance sheet are as follows:

	31 December 2006	31 December 2005
	'000 RUR	'000 RUR
Present value of obligations	146 233	143 990

Movements in the net liability recognised in the balance sheet:

	12 months ended	9 months ended
	31 December 2006	31 December 2005
	'000 RUR	'000 RUR
Net liability at start of year	143 990	137 904
Contributions received	(14 211)	(10 029)
Expense recognised in the income statement	16 454	16 115
Net liability at end of year	146 233	143 990

The amounts recognised in income statement are as follows:

	12 months ended	9 months ended
	31 December 2006	31 December 2005
	'000 RUR	'000 RUR
Interest on obligation	10 079	7 240
Current service costs	4 892	4 714
Recognised actuarial losses	1 483	4 161
	16 454	16 115

Principal actuarial assumptions for both Post employment benefits and Other long-term employee benefits:

	<u>31 December 2006</u>	<u>31 December 2005</u>
Discount rate	7%	7%
Rate of salary increases	7%	7%
Rate of pension increases	7%	7%
Annualised expected return on plan assets for the year ended	12%	12%

	<u>31 December 2006</u>	<u>31 December 2005</u>
Retirement age for male	60 years	60 years
Retirement age for female	55 years	55 years
Life expectancy after retirement for male	13,07 years	13,07 years
Life expectancy after retirement for female	22,15 years	22,15 years

The expense is recognised in the following line items in the income statement:

	2006		
	Post employment benefits	Other long-term employee benefits	Total
	'000 RUR	'000 RUR	'000 RUR
Operating expenses	32 419	6 375	38 794
Finance expenses	23 259	10 079	33 338
Actual return on plan assets	(15 788)	-	(15 788)
	39 890	16 454	56 344

18 Provisions

'000 RUR	Legal claims	Unused vacation	Total
Balance at 1 April 2005	70 382	-	70 382
Provisions raised during the period	167 042	42 504	209 546
Balance at 31 December 2005	237 424	42 504	279 928
Provisions raised during the period	-	90 472	90 472
Provisions used during the year	(191 366)	(42 504)	(233 870)
Balance at 31 December 2006	46 058	90 472	136 530

(a) Legal claims

Provision for legal claims relates to the claims brought against the Company within the ordinary course of business. The balance of the provision at 31 December 2006 is expected to be utilised by the end of 2007. The management believes, after taking appropriate legal advice, that the outcome of current legal claims will not give rise to any significant loss beyond the accrued amounts.

19 Earnings per share

The calculation of earnings per share is the net profit for the year divided by the weighted average number of ordinary shares outstanding during the year. The Group has no dilutive potential ordinary shares.

<i>Number of shares unless otherwise stated</i>	Ordinary shares 31 December 2006	Ordinary shares 31 December 2005
Authorised shares	28 249 359 700	28 249 359 700
Par value	RUR 0,50	RUR 0,50
On issue at beginning of year	28 249 359 700	28 249 359 700
On issue at end of year, fully paid	28 249 359 700	28 249 359 700
Weighted average number of shares	<u>28 249 359 700</u>	<u>28 249 359 700</u>

Earning per share

The calculation of basic earning per share for 2006 was as follows:

	12 months ended 31.12.2006	9 months ended 31.12.2005
Net income for the period, '000 RUR	2 839 514	351 846
Number of outstanding ordinary shares	28 249 359 700	28 249 359 700
Earning per share in Russian Roubles	0,101	0,012

20 Trade and other payables

	31 December 2006 '000 RUR	31 December 2005 '000 RUR
Accounts payable -- trade	4 698 532	2 283 063
Advances received	3 164 035	540 475
Other payables and accrued expenses	129 777	284 812
	<u>7 992 344</u>	<u>3 108 350</u>

21 Advances received

Advances received represent long-term advances obtained by the Company for connection to the electricity network in amount of RUR 2 048 931 thousand as at 31 December 2006 (at 31 December 2005 - none).

22 Taxes payable

	31 December 2006	31 December 2005
	'000 RUR	'000 RUR
Value added tax	3 602	289 735
Employee taxes	31 448	72 307
Property tax	22 707	34 907
Other taxes	14 852	50 480
	<u>72 609</u>	<u>447 429</u>

23 Financial instruments and financial risks

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

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

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

Interest rate risk. The Company's operating profits and cash flows from operating activity are largely not dependent on the changes in market interest rates. The Company is only exposed to fair value interest rate risk as all of its borrowings are at fixed interest rates.

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

The following table shows the period in which interest-bearing financial liabilities reprice.

RUR	Average interest rate		6-12 months	1 - 5 years	Over 5 years	Total
	Contract	Effective				
'000						
Liabilities						
Unsecured borrowings:						
RUR	8,05%	8,05%	145 562	6 000 000	-	6 145 562
Unsecured borrowings:						
RUR	0%	11,70%	-	204 979	-	204 979
Finance lease liabilities:						
RUR	-	12,12%	314 637	765 521	10	1 080 168
			460 199	6 970 500	10	7 430 709

24 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	12 months ended 31 December 2006	9 months ended 31 December 2005
	'000 RUR	'000 RUR
Less than one year	103 072	106 783
Between one and five years	329 232	350 269
More than five years	2 281 447	2 260 713
	2 713 751	2 717 765

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

The lots of land leased by the Company are the areas where the Company' electricity network, transformer substations and other assets are located. Lease payments are reviewed regularly to reflect market rentals.

25 Commitments

Sales commitments. The Company has entered into contracts to carry out electricity transmission services to OJSC "Mosenergosbyt" for RUR 25 095 million (without VAT), to LLC "Rusenergosbyt" for RUR 568 million (without VAT) and to LLC "Rusenergosbyt M" for 133 million (without VAT) in 2007 year.

The Company has entered into contracts to carry out connection to the electricity network for RUR 2 399 million in 2007.

Capital commitments. Future capital expenditures for which contracts have been signed as at 31 December 2006 amount to RUR 28 160 million, including finance leasing in amount of RUR 12 680 million.

26 Contingencies

(a) Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Company does not have full coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Company property or relating to Company operations. Until the Company obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Company's operations and financial position.

(b) Litigation

The Company is party to certain legal proceedings arising in the ordinary course of business. The management does not believe that these matters will have a material adverse effect on the Company's operating results, except as described in note 18.

(c) Taxation contingencies

The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

27 Related party transactions

(a) Control relationships

The Company's parent is RAO UES of Russia. The party with ultimate control over the Company is the Russian Federation, which holds the majority of the voting rights of RAO UES.

(b) Transactions with management and close family members

There are no transactions or balances with key management and close family members except their remuneration in the form of salary and bonuses.

(i) *Management remuneration*

Total remuneration in the form of salary and bonuses paid to the members of the Board of Directors for the year ended 31 December 2006 was RUR 2 274 thousand (in 2005 – RUR 1 437 thousand).

(c) Transactions with other related parties

(i) *Revenue*

'000 RUR	Transaction value	Outstanding balance	Transaction value	Outstanding balance
	12 months ended 31 December 2006	31 December 2006	9 months ended 31 December 2005	31 December 2005
Electricity transmission				
Parent's subsidiaries	22 282 966	736 603	11 365 550	785 529
Other revenues:				
Parent's subsidiaries	216 348	296 662	267 903	202 861
	22 499 314	1 033 265	11 633 453	988 390

(ii) Expenses

'000 RUR	Transaction value	Outstanding balance	Transaction value	Outstanding balance
	12 months ended 31 December 2006	31 December 2006	9 months ended 31 December 2005	31 December 2005
Electricity transmission:				
Entities under common control of the parent	(3 358 463)	(10 778)	(2 491 431)	(225 204)
Electricity transmission:				
Other state controlled entities	(2 730 160)	-	(718 293)	(81 582)
Other expenses:				
Entities under common control of the parent	(909 265)	(370 369)	(67 247)	(332 602)
Other state controlled entities	(392 848)	(430 747)	(59 888)	(53)
	(7 390 736)	(811 894)	(3 336 859)	(639 441)

All outstanding balances with related parties are to be settled in cash within six months of the balance sheet date. None of the balances are secured.

(iii) Loans

'000 RUR	Amount loaned	Outstanding balance	Amount loaned	Outstanding balance
	12 months ended 31 December 2006	31 December 2006	9 months ended 31 December 2005	31 December 2005
Loans received:				
State controlled entities	3 251 829	-	4 409 316	1 247 619
	3 251 829	-	4 409 316	1 247 619

Loans are received under the market interest rate (see note 23).

28 Events subsequent to the balance sheet date

In May 2007 the management of the Company concluded contract on the issuance of loan participation notes, totalling up to RUR 10 billion in the international capital markets.

In March 2007 the Company purchased 50% shares of OAO "Energotsentr", totalling RUR 500 million.

In June 2007 dividends of RUR 0,00212 per ordinary share, totalling RUR 60 million for 2006 were approved for distribution by Shareholders.

In July 2007 the Board of Directors of the parent company, RAO UES of Russia, approved additional issue of 23 693 011 361 ordinary nominal shares with par value of RUR 0,5 per share.